

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST DECEMBER, 2000

1. GENERAL

The Company is a public listed company incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the design, manufacture and sales of toys.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and investments in securities.

The principal accounting policies which have been adopted in preparing these financial statements and which conform with accounting principles generally accepted in Hong Kong are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement 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 have been eliminated on consolidation.

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration, is credited to reserves.

On disposal of a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a decrease, in which case the excess of the decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment, other than properties under development, are stated at cost or valuation less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Land and buildings in the course of development for production, rental or administrative purposes are carried at cost, less any impairment loss. Cost includes professional fees and borrowing costs capitalised, where appropriate. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

Land and buildings held for own use are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing use at the date of revaluation less any subsequent accumulated depreciation. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date. Any increase arising on revaluation of land and buildings is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case this increase is credited to the income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation increase is transferred to retained profits.

Where the recoverable amounts of property, plant and equipment have declined below their carrying amounts, the carrying amounts are reduced to reflect the decline in value. In determining the recoverable amount of such assets, expected cash flows are not discounted to their present values.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Depreciation is provided to write off the cost or valuation of property, plant and equipment over their estimated useful lives using the straight-line method as follows:

Category of assets	Estimated useful lives
Leasehold land and land use rights	Over the remaining term of the lease
Buildings	20 to 25 years or over the term of the land leases, if shorter
Plant and machinery	5 years
Moulds and tools	3 years
Other tangible fixed assets	4 to 5 years

Research and development costs

Expenditure on research and development is charged to the income statement in the year in which it is incurred except where a major project is undertaken and it is reasonably anticipated that development costs will be recovered through future commercial activity. Such development costs are deferred and written off over the life of the project from the date of commencement of commercial operation.

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. Any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Other securities, being securities acquired for dealing purposes are measured at fair value with unrealised gains and losses included in net profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

2. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

Operating leases are leases whereby substantially all the risks and rewards of ownership of the assets remain with the lessors. Rentals payable (receivable) under operating leases are charged (credited) to the income statement on a straight line basis over the relevant lease terms.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollars are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation, if any, are dealt with in reserves.

Cash equivalents

Cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired; less advances from banks repayable within three months from the date of the advance.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Sales of investments are recognised when the sales agreements become unconditional and it is probable that the economic benefits associated with the sales will flow to the Group.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Rental income in respect of properties is recognised on a straight line basis over the term of the lease.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

3. TURNOVER AND CONTRIBUTION

Turnover represents the net amounts received and receivable for goods sold by the Group to outside customers during the year.

The Group's turnover and operating profit were derived principally from the design, manufacture and sale of toys.

An analysis of the Group's turnover by geographical location is set out below:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
North America	242,306	191,118
Europe	203,758	211,236
Asia and other locations	104,632	100,588
	<u>550,696</u>	<u>502,942</u>

The contribution to operating results from each geographical location is substantially in line with the overall ratio of profit to turnover.

4. OTHER REVENUE

Included in other revenue is income from investments as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank deposits	6,806	8,877
Yield on held-to-maturity securities	1,839	1,014
Dividends from listed securities	63	49
Rental from investment properties	308	356
Net realised gains on dealing securities	571	671
	<u>571</u>	<u>671</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

5. PROFIT FROM OPERATIONS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit from operations has been arrived at after charging (crediting):		
Auditors' remuneration	764	680
Depreciation of property, plant and equipment	31,792	38,178
Research and development costs	7,799	6,849
Operating lease rentals in respect of land and buildings	3,269	1,334
Staff costs including directors' remunerations	88,233	76,253
Net unrealised holding losses on dealing securities	75	443
Net foreign exchange gains	<u>(2,230)</u>	<u>(1,224)</u>

6. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank overdrafts	<u>543</u>	<u>65</u>

7. SURPLUS ON REVALUATION OF PROPERTIES

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Surplus on revaluation of properties for own use	<u>4,587</u>	<u>—</u>

Surplus arising on the revaluation of property for own use has been credited to income statement to the extent that it represents reversal of the deficit charged to the income statement in prior year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2000 HK\$'000	1999 HK\$'000
Directors' fees	693	689
Other emoluments		
Basic salaries, allowances and benefits-in-kind	4,993	4,974
Performance related incentive payments	4,130	3,970
Retirement scheme contributions	256	245
Total emoluments	<u>10,072</u>	<u>9,878</u>

The amounts disclosed above include directors' fees of HK\$200,000 (1999: HK\$200,000) and HK\$493,000 (1999: HK\$489,000) paid or payable to two (1999: two) independent non-executive directors and three (1999: three) non-executive directors respectively.

The emoluments of the directors were within the following bands:

HK\$	2000 Number of directors	1999 Number of directors
4,500,001 - 5,000,000	1	1
1,000,001 - 1,500,000	3	3
Nil - 1,000,000	<u>8</u>	<u>8</u>

(b) Employees' emoluments

The emoluments of the five highest paid employees which included four (1999: four) directors are set out below:

	2000 HK\$'000	1999 HK\$'000
Basic salaries, allowances and other benefits-in-kind	5,286	5,325
Performance related incentive payments	4,864	4,848
Retirement scheme contributions	216	208
	<u>10,366</u>	<u>10,381</u>

Their emoluments were within the following bands:

HK\$	2000 Number of employees	1999 Number of employees
4,500,001 - 5,000,000	1	1
2,000,001 - 2,500,000	—	1
1,500,001 - 2,000,000	1	—
1,000,001 - 1,500,000	<u>3</u>	<u>3</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

9. TAXATION

	2000 HK\$'000	1999 HK\$'000
Tax on profit for the year		
Hong Kong	7,058	6,813
Other regions in the People's Republic of China (the "PRC")	4,558	6,452
Other jurisdictions	—	6
	<u>11,616</u>	<u>13,271</u>
Prior years' overprovision		
Hong Kong	(1,722)	—
Other regions in the PRC	(1,000)	—
	<u>(2,722)</u>	<u>—</u>
Deferred taxation (Note 22)	653	(1,275)
Taxation attributable to the Group	9,547	11,996
Share of Hong Kong Profits Tax of associates	—	192
	<u>9,547</u>	<u>12,188</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

Taxation arising in the PRC and other jurisdictions are calculated at the applicable rates prevailing in the relevant jurisdictions.

10. NET PROFIT FOR THE YEAR

Of the Group's net profit for the year, a profit of HK\$58,644,000 (1999: HK\$54,493,000) has been dealt with in the income statement of the Company.

11. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim, paid: 5 cents (1999: 5 cents) per ordinary share	16,511	16,803
Final, proposed: 10 cents (1999: 10 cents) per ordinary share	32,919	33,339
	<u>49,430</u>	<u>50,142</u>

The amount of final dividend proposed is calculated based on the number of shares in issue as at the date of approval of these financial statements. In addition, the directors propose to make a bonus issue of shares of HK\$0.10 each on the basis of one bonus share for every ten shares held by shareholders.

The final dividend of HK 10 cents per ordinary share and the bonus issue proposed by the directors are subject to approval by the shareholders at the forthcoming Annual General Meeting.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$88,299,000 (1999: HK\$96,709,000) and on the weighted average number of 331,536,828 (1999: 337,818,365) ordinary shares in issue during the year.

No diluted earnings per share figures have been presented because the exercise price of the share options granted by the Company was higher than the average market price for the shares for both years presented.

13. PROPERTY, PLANT AND EQUIPMENT

THE GROUP

	Land and buildings		Plant and machinery HK\$'000	Moulds and tools HK\$'000	Leasehold improvements, furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
	For own use HK\$'000	Under development HK\$'000					
COST OR VALUATION							
At 1st January, 2000	116,265	26,618	75,628	74,172	37,899	5,726	336,308
Additions	12,282	5,804	15,298	9,200	7,920	202	50,706
Reclassifications	21,853	(28,914)	—	—	7,061	—	—
Revaluation increase	7,200	—	—	—	—	—	7,200
Disposals/write-offs	—	—	(180)	(2)	(3,090)	—	(3,272)
At 31st December, 2000	157,600	3,508	90,746	83,370	49,790	5,928	390,942
Comprising:							
At cost	—	3,508	90,746	83,370	49,790	5,928	233,342
At 2000 valuation	157,600	—	—	—	—	—	157,600
	157,600	3,508	90,746	83,370	49,790	5,928	390,942
DEPRECIATION							
At 1st January, 2000	—	—	49,102	62,818	28,362	4,214	144,496
Provided for the year	6,106	—	10,373	12,589	2,000	724	31,792
Eliminated on revaluation	(6,106)	—	—	—	—	—	(6,106)
Eliminated on disposals/write-offs	—	—	(100)	(2)	(3,090)	—	(3,192)
At 31st December, 2000	—	—	59,375	75,405	27,272	4,938	166,990
NET BOOK VALUES							
At 31st December, 2000	157,600	3,508	31,371	7,965	22,518	990	223,952
At 31st December, 1999	116,265	26,618	26,526	11,354	9,537	1,512	191,812

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The net book value of the Group's properties comprises land and buildings situated in:

	For own use		Under development	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Hong Kong				
on long lease	41,000	39,700	—	—
on medium-term lease	1,100	1,640	—	—
Outside Hong Kong				
on medium-term lease	115,500	74,925	3,508	26,618
	<u>157,600</u>	<u>116,265</u>	<u>3,508</u>	<u>26,618</u>

The Group's land and buildings for own use are carried at their open market value, on an existing use basis, on 31st December, 2000 as valued by RHL Appraisal Ltd., a firm of independent property valuers. The increase arising on revaluation of these properties amounted to HK\$13,306,000 of which HK\$8,719,000 has been credited to the asset revaluation reserve and the balance of HK\$4,587,000 has been credited to the income statement.

At 31st December, 2000, had the Group's land and buildings for own use been carried at cost less accumulated depreciation, the carrying amount of such assets included in the financial statements would have been HK\$162,458,000 (1999: HK\$135,899,000).

14. INVESTMENT PROPERTIES

THE GROUP	Land and buildings in Hong Kong on long lease	
	2000 HK\$'000	1999 HK\$'000
VALUATION		
At 1st January and 31st December	<u>4,600</u>	<u>4,600</u>

The Group's investment properties are carried at their open market value on 31st December, 2000 as valued by RHL Appraisal Ltd., a firm of independent property valuers.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000 HK\$'000	1999 HK\$'000
Unlisted shares	107,136	107,136
Amount due from a subsidiary	152,556	171,546
	<u>259,692</u>	<u>278,682</u>

The amount due from a subsidiary is unsecured, interest free and is not repayable within twelve months from the balance sheet date.

The carrying value of the unlisted shares is based on the book value of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group under the group reorganisation implemented in 1995, less dividends distributed from pre-reorganisation reserves of the subsidiaries.

The table below lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Details of the principal subsidiaries at 31st December, 2000 which are operating in the place in which they are incorporated or registered unless otherwise indicated, are as follows:—

Name of subsidiary	Place/country of incorporation or registration	Paid-up issued/ registered capital	Principal activities
Wholly-owned subsidiary directly held:			
RBI International Investment Limited (i)	British Virgin Islands	Ordinary US\$30,000	Investment holding and trading of securities
Wholly-owned subsidiaries indirectly held:			
Dongguan Tai Fat Toy Factory Ltd. (iii)	PRC	Registered HK\$22,510,780	Manufacture and sales of toys
Dongguan Tungfat Toy Factory Co. Ltd. (iii)	PRC	Registered HK\$31,000,000	Manufacture and sales of toys
Hung Fat Toy Factory Limited (ii)	Hong Kong	Ordinary HK\$1,000,000	Manufacture and sales of toys
Motormax Toy Factory Limited	Hong Kong	Ordinary HK\$100,000	Trading of toys
RBI Industries (Shenzhen) Co. Ltd. (iii)	PRC	Registered HK\$33,172,805	Manufacture and sales of toys

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

15. INTERESTS IN SUBSIDIARIES (Cont'd)

Name of subsidiary	Place/country of incorporation or registration	Paid-up issued/ registered capital	Principal activities
RBI Toys Inc.	United States of America	Ordinary US\$1,000	Trading of toys
RBI Distributors Ltd.	United Kingdom	Ordinary £2	Trading of toys
Red Box Toy Factory Limited	Hong Kong	Ordinary HK\$1,000 Non-voting deferred (iv) HK\$12,000,000	Design, trading and marketing of toys and investment holding
Tai Fat Toy Factory (China) Limited (ii)	Hong Kong	Ordinary HK\$2,900,000 Non-voting deferred (iv) HK\$5,100,000	Manufacture and sales of toys

(i) Operating principally in Hong Kong.

(ii) Operating principally in the PRC.

(iii) Wholly foreign owned enterprise established in the PRC.

(iv) The non-voting deferred shares, which are held by RBI International Investment Limited, practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the respective companies or to participate in any distributions on winding up.

None of the subsidiaries had any loan capital outstanding at the end of the year.

16. INVESTMENTS IN SECURITIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Held-to-maturity securities, unlisted	20,029	30,024
Dealing equity securities listed in Hong Kong	1,191	3,553
	21,220	33,577
Less: securities included in current assets	(10,815)	(13,533)
	10,405	20,044
Market value of listed dealing equity securities	1,191	3,553

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

17. INVENTORIES

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Raw materials	29,559	31,468
Work in progress	30,566	23,110
Finished goods	42,480	23,318
	<u>102,605</u>	<u>77,896</u>

18. TRADE AND OTHER RECEIVABLES

The Group normally allows credit periods ranging from 30 to 90 days to its trade customers.

The following is an aged analysis of accounts receivables outstanding at the balance sheet date:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
0 - 30 days	16,498	16,918
31 - 60 days	10,095	12,644
61 - 90 days	18,098	14,861
> 90 days	1,598	13,371
	<u>46,289</u>	<u>57,794</u>

19. TRADE AND OTHER PAYABLES

The following is an aged analysis of accounts payables outstanding at the balance sheet date:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
0 - 30 days	48,114	36,136
31 - 60 days	2,860	1,300
61 - 90 days	241	245
> 90 days	745	395
	<u>51,960</u>	<u>38,076</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

20. SHARE CAPITAL

	THE GROUP & THE COMPANY			
	Number of shares		Nominal value	
	2000 '000	1999 '000	2000 HK\$'000	1999 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised	<u>800,000</u>	<u>800,000</u>	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:				
At beginning of the year	334,909	340,061	33,491	34,006
Shares repurchased and cancelled	(4,830)	(5,152)	(483)	(515)
At end of the year	<u>330,079</u>	<u>334,909</u>	<u>33,008</u>	<u>33,491</u>

During the year, the Company repurchased 4,830,000 ordinary shares of the Company on the Stock Exchange, all of which have been cancelled, as follows:

Month	Number of ordinary shares of HK\$0.10 each	Purchase price		Total consideration paid HK\$'000
		Highest HK\$	Lowest HK\$	
2000				
January	570,000	1.17	1.15	665
February	444,000	1.23	1.12	519
March	504,000	1.33	1.27	654
April	1,168,000	1.28	1.21	1,461
May	1,212,000	1.30	1.18	1,520
June	500,000	1.33	1.22	638
July	282,000	1.32	1.30	368
December	150,000	1.35	1.33	201
	<u>4,830,000</u>			<u>6,026</u>

These repurchases were effected by the directors pursuant to the mandate from shareholders, with a view to benefiting shareholders as a whole by the enhancement of the earnings per share of the Company.

None of the Company's subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

20. SHARE CAPITAL (Cont'd)

Share Option Scheme

Under the terms of the Share Option Scheme adopted by the Company, the board of directors of the Company may offer to any director (excluding non-executive directors) or full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

In 1997, options for 6,400,000 shares were granted at no consideration to a director of the Company under the Share Option Scheme which are exercisable during the period from 11th August, 1997 to 10th August, 2007 at the price of HK\$1.50 per share. These options remained outstanding at the balance sheet date. No options were granted under the scheme during the year.

21. RESERVES

THE GROUP

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Asset re- valuation reserve HK\$'000	Capital reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1999	135,751	859	—	5,101	158,731	300,442
Goodwill on acquisition of subsidiaries	—	—	—	(414)	—	(414)
Repurchase of shares	(4,820)	515	—	—	(1,530)	(5,835)
Net profit for the year	—	—	—	—	96,709	96,709
Dividends	—	—	—	—	(50,142)	(50,142)
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At 31st December, 1999	130,931	1,374	—	4,687	203,768	340,760
Repurchase of shares	(4,520)	483	—	—	(1,506)	(5,543)
Revaluation increase	—	—	8,719	—	—	8,719
Net profit for the year	—	—	—	—	88,299	88,299
Dividends	—	—	—	—	(49,430)	(49,430)
Other appropriation	—	—	—	4,726	(4,726)	—
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31st December, 2000	<u>126,411</u>	<u>1,857</u>	<u>8,719</u>	<u>9,413</u>	<u>236,405</u>	<u>382,805</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

21. RESERVES (Cont'd)

THE COMPANY

	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January, 1999	135,751	859	100,635	9,206	246,451
Repurchase of shares	(4,820)	515	—	(1,530)	(5,835)
Net profit for the year	—	—	—	54,493	54,493
Dividends	—	—	—	(50,142)	(50,142)
At 31st December, 1999	130,931	1,374	100,635	12,027	244,967
Repurchase of shares	(4,520)	483	—	(1,506)	(5,543)
Net profit for the year	—	—	—	58,644	58,644
Dividends	—	—	—	(49,430)	(49,430)
At 31st December, 2000	<u>126,411</u>	<u>1,857</u>	<u>100,635</u>	<u>19,735</u>	<u>248,638</u>

Notes:

Capital reserve includes enterprise reserve fund in respect of PRC subsidiaries appropriated from retained profits.

Contributed surplus represents the excess value of the subsidiaries acquired over the nominal value of the Company's shares issued which, under the Companies Act 1981 of Bermuda (as amended), is available for distribution to the shareholders of the Company. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if

- (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the directors, as at 31st December, 2000, the Company's reserves available for distribution consisted of contributed surplus of HK\$100,635,000 (1999: HK\$100,635,000) and retained profits of HK\$19,735,000 (1999: HK\$12,027,000).

22. DEFERRED TAX LIABILITIES

	2000 HK\$'000	1999 HK\$'000
THE GROUP		
At 1st January	2,225	3,500
Charge (credit) for the year	653	(1,275)
At 31st December	<u>2,878</u>	<u>2,225</u>

The deferred tax liabilities at the balance sheet date were attributable to excess of tax allowances over depreciation charged on property, plant and equipment.

Neither the Group nor the Company had any material unprovided deferred tax liabilities for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

23. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2000 HK\$'000	1999 HK\$'000
Profit before taxation	97,846	108,897
Surplus on revaluation of properties	(4,587)	—
Share of profits of associates	—	(1,156)
Dividend income	(63)	(49)
Interest on bank deposits	(6,806)	(8,877)
Yield on held-to-maturity securities	(1,839)	(1,014)
Interest expenses	543	65
Depreciation of property, plant and equipment	31,792	38,178
Net realised gains on dealing securities	(571)	(671)
Net unrealised holding losses on dealing securities	75	443
Loss on disposals/write-offs of property, plant and equipment	80	8
Increase in inventories	(24,709)	(18,991)
Decrease (increase) in trade and other receivables	11,096	(21,948)
Decrease (increase) in bills receivable	3,061	(8,539)
(Increase) decrease in deposits and prepayments	(3,885)	517
Increase in trade and other payables	13,884	3,552
(Decrease) increase in deposits and accruals	(2,341)	4,992
Increase (decrease) in provisions for product liabilities and long service payments	571	(337)
Decrease in trade balances due to associates	—	(542)
NET CASH INFLOW FROM OPERATING ACTIVITIES	<u>114,147</u>	<u>94,528</u>

24. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000
Balance at 1st January, 1999	169,757
Repurchase of shares	<u>(5,335)</u>
Balance at 31st December, 1999	164,422
Repurchase of shares	<u>(5,003)</u>
Balance at 31st December, 2000	<u>159,419</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

25. PURCHASE OF SUBSIDIARIES

In 1999, the Group acquired the remaining 50% equity interest in a former associate, Leeds Fat Precision Engineering Limited, not held by the Group at a cash consideration of HK\$1,750,000.

	<i>HK\$'000</i>
Net assets acquired	
Property, plant and equipment	1,894
Other assets	2,464
Trade payables and other liabilities	<u>(1,685)</u>
	2,673
Goodwill on consolidation	<u>414</u>
	<u><u>3,087</u></u>
	<i>HK\$'000</i>
Net cash outflow arising on acquisition:	
Cash consideration	1,750
Bank overdrafts acquired	<u>722</u>
	<u><u>2,472</u></u>

The contribution of the subsidiaries acquired in 1999 to the Group's turnover, profit from operations, net operating cash flows, net returns on investments and servicing of finance, taxation, investing activities and financing activities for that year were insignificant.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

FOR THE YEAR ENDED 31ST DECEMBER, 2000

26. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted but not provided for	<u>14,474</u>	<u>17,133</u>

At 31st December, 2000 and 1999, the Company had no significant capital commitments.

27. LEASE COMMITMENTS

At 31st December, 2000, the Group had annual commitments under non-cancellable operating leases in respect of land and buildings as follows:

	2000	1999
	HK\$'000	HK\$'000
Operating leases which expire:		
In the second to fifth years inclusive	2,109	2,116
Over five years	<u>958</u>	<u>500</u>
	<u>3,067</u>	<u>2,616</u>

At 31st December, 2000 and 1999, the Company had no significant commitments under non-cancellable operating leases.

28. CONTINGENCIES

The Company has given guarantees to banks amounting to approximately HK\$38,500,000 (1999: HK\$54,500,000) in respect of general banking facilities granted to the Group. Such facilities had been utilised by the Group to the extent of HK\$213,000 at 31st December, 2000 (1999: Nil).

29. PLEDGE OF ASSETS

The Group has pledged its land and buildings having a net book value of HK\$24,100,000 (1999: HK\$24,540,000) to secure general banking facilities granted to the Group.

30. RELATED PARTY TRANSACTIONS

During the year, the Group made sales of goods amounting to HK\$262,800 (1999: HK\$679,000) to a former subsidiary which has become an associate of a substantial shareholder during the year. The amount owed by this company at 31st December, 2000 was approximately HK\$98,600 (1999: HK\$29,000) and has been included in trade receivables.

The above transactions were carried out at cost plus a percentage mark-up.