1. GENERAL

The Company was incorporated in Bermuda on 24th November, 1993 as an exempted company under the Companies Act 1981 of Bermuda (as amended). The Company is a public limited company and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Suncorp Investments Group Limited ("Suncorp"), a company incorporated in the British Virgin Islands. The Company had been resumed for trading on the Stock Exchange on 3rd May, 2000.

The principal activities of the Company are investment holding and those of its principal subsidiaries are set out in note 14 to the financial statements.

2. CORPORATE RESTRUCTURING AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS

(a) On 21st December, 1999, the Company entered into a settlement deed with Mental Resources Limited ("MRL"), Oilpro (Asia) Limited ("Oilpro") and financial creditors. MRL is beneficially owned as to 87.5% by Oilpro and 12.5% by Mr. Wong Chak Hung, James ("Mr. Wong"), the former chairman of the Company. Oilpro is beneficially and wholly owned by Mr. Low Nyap Heng, the former director. Under the settlement terms, the Company paid the financial creditors an aggregate sum of HK$14 million in cash and issued them convertible loan stock in the aggregate sum also of HK$14 million, such amount constituting full and final settlement of the amounts due to these financial creditors of approximately HK$155,564,000.

On 22nd December, 1999, the Company entered into another settlement deed with the liquidators of Matrix Industries Limited ("MIL") under which the Company paid approximately HK$6,345,000 in full and final settlement of the amounts due to MIL in the sum of approximately HK$68,222,000.

On 22nd December, 1999, the Company entered into a subscription agreement with MRL under which MRL agreed to subscribe in cash for 100,000,000 subscription shares and convertible loan stock of HK$30,000,000 which can be converted into 300,000,000 conversion shares at 30th April, 2000. The total consideration for the subscription shares and the convertible loan stock is HK$40,000,000 in aggregate. The convertible loan stock bears interest at 5% per annum on the principal amount outstanding from time to time and shall be payable annually in arrears. The convertible loan stock is unsecured and can be converted into new shares by the holder at a predetermined fixed price of HK$0.10 per share commencing from the third year after the date of issue. At the end of its five years term, all the outstanding amount of the convertible loan stock must be converted into new shares at a predetermined fixed price of HK$0.10 per share.

Following the completion of the agreements referred to above and the reactivation of the Group's gift and novelties manufacturing and trading operations, the financial statements have been prepared on a going concern basis.

2. CORPORATE RESTRUCTURING AND BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(b) During the year the directors became aware that in October 1999, there was a court judgment regarding the ownership of Matrix Plastic Manufacturing (Zhongshan) Co., Ltd. ("MPMZ"), an indirect wholly-owned major subsidiary of the Company, in connection with a claim by a trade creditor which has subsequently been settled. The Company is in the process of making an application for a judicial review of the judgment regarding the ownership of MPMZ. The directors have sought independent legal advice and are of the opinion that the aforesaid judgment can be overruled and will have no material impact on the financial position and operations of the Group.

(c) Part of the restructuring cost amounting to HK$4,654,000 represents amount reimbursed to the former shareholders through the former Company's lawyer. The directors of the Company have requested the former Company's lawyer to provide the supporting documentation regarding such payment, however, up to the date of approval of the financial statements, such documentation had not been made available.

(d) In view of the extent of the missing documentation relating to transactions entered into by the Group during the year ended 31st December, 1999, the directors have been unable to satisfy themselves that the comparative figures to the consolidated income statement on page 17 are free from material misstatement.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of certain properties.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on consolidation, which represents the excess of the purchase consideration over the fair value ascribed to the separable net assets at the date of acquisition of a subsidiary, is written off to reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the separable net assets at the date of acquisition 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 a company 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 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost 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.

Turnover

Turnover represents the amounts received and receivable for goods sold, less returns, to outside customers during the year.

Revenue recognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than leasehold land and buildings and plant and machinery are stated at cost 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 the assets 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.

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

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Leasehold land and buildings and plant and machinery 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 surplus arising on revaluation of leasehold land and buildings and plant and machinery is credited to the other 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 surplus is credited to the income statement to the extent of the deficit 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 surplus is transferred to retained profits.

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, at the following rates per annum:

Leasehold land	2% or over the lease term, if shorter
Buildings	2% – 4% or over the lease term, if shorter
Plant and machinery	20%
Furniture and equipment	10% – 20%

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as owned assets.

Assets held under finance leases are depreciated over their estimated useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

Foreign currencies

The books of account of the companies comprising the Group are maintained in Hong Kong dollars. 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.

Operating leases

Rentals receivable and payable under operating leases are credited and charged respectively to the income statement on a straight line basis over the relevant lease term.

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 the resulting timing differences, computed under 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.

4. SEGMENTAL INFORMATION

The Group's turnover derived from the business of manufacture and sale of gifts and novelties analysed by geographical market is as follows:

	2000	1999
	HK$'000	*HK$'000*
North America	**50**	1,717
Hong Kong	**33,881**	–
Asia other than Hong Kong	**1,541**	–
	35,472	1,717

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group ratio of profit to turnover.

5. OTHER REVENUE

Other revenue includes interest income of HK$24,000 (1999: HK$2,000) earned during the year and reversal of accruals over-provided in previous years of HK$3,655,000 (1999: Nil).

6. PROFIT (LOSS) FROM OPERATIONS

	2000	1999
	HK$'000	*HK$'000*
Profit (loss) from operations has been arrived at after charging (crediting):		
Auditors' remuneration		
– current year	**350**	200
– underprovision in previous year	**102**	–
Depreciation	**5,015**	6,275
Exchange loss	**5**	–
Operating lease rentals in respect of rented premises	**164**	2,501
Provident fund scheme contributions, net of forfeited contributions of nil (1999: nil)	**–**	(70)
Staff costs (including directors' remuneration)	**14,010**	19,768
Exchange gain	**–**	(136)

7. FINANCE COSTS

	2000	1999
	HK$'000	HK$'000
Interest on:		
Bank borrowings wholly repayable within five years	–	2,477
Convertible loan stock	1,467	–
	1,467	2,477

No interest was capitalised during the two years ended 31st December, 2000.

8. RESTRUCTURING COSTS

The amount represents expenses incurred as a result of the agreements explained in note 2 (a).

9. DIRECTORS' EMOLUMENTS AND HIGHEST PAID EMPLOYEES

Directors' emoluments

The directors' emoluments are analysed as follows:

	2000	1999
	HK$'000	HK$'000
Fees		
Independent non-executive directors	520	–
Other emoluments (executive directors)		
Salaries and allowances	225	–
	745	–

Highest paid employees

The five highest paid individuals included one (1999: Nil) director, details of whose emoluments are set out above. The emoluments of the remaining four highest paid individuals are as follows:

	2000	1999
	HK$'000	HK$'000
Salaries and allowances	1,064	–

The aggregate emoluments of each of the five highest paid individuals during the relevant periods were within the emoluments band ranging from nil to HK$1,000,000.

10. TAXATION

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

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

11. NET PROFIT (LOSS) FOR THE YEAR

Of the Group's net profit for the year of HK$190,738,000 (1999: loss of HK$60,079,000), a net profit of HK$176,876,000 (1999: loss of HK$152,389,000) has been dealt with in the financial statements of the Company.

12. EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share is based on the following data:

Earnings (loss)

	2000	1999
	HK$'000	*HK$'000*
Earnings (loss) for the purposes of basic earnings (loss) per share	**190,738**	(60,079)
Effect of dilutive potential ordinary shares		
Interest on convertible loan stock	**1,467**	
Earnings for the purpose of diluted earnings per share	**192,205**	

Number of shares

	2000	1999
	'000	*'000*
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	**111,386**	44,720
Effect of dilutive potential ordinary shares		
Convertible loan stock	**295,738**	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**407,124**	

The number of ordinary shares adopted for the purpose of calculating the loss per share for the year ended 31st December, 1999 has been adjusted to take account of the share consolidation effected in April 2000.