

## Notes to the Financial Statements

*For the year ended December 31, 2000*

### 1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company's shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Yugang International Limited ("Yugang"), a company which is also incorporated in Bermuda with its shares listed on the Stock Exchange.

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 36.

### 2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention as modified for the revaluation of investment properties, leasehold properties and construction in progress, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

#### **Basis of consolidation**

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date of each accounting period.

The results of the subsidiaries acquired or disposed of during the year/period 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 or capital reserve**

Goodwill or capital reserve arising from the acquisition of subsidiaries, which represents the difference between the purchase consideration and the fair value ascribed to the Group's share of the separable net assets at the date of acquisition, is eliminated against or credited to reserves respectively in the year/period of acquisition.

Upon disposal of subsidiaries, the attributable amount of goodwill or capital reserve previously eliminated against or credited to reserves is included in the determination of profit and loss on disposal of the subsidiaries.

*Notes to the Financial Statements**For the year ended December 31, 2000***2. SIGNIFICANT ACCOUNTING POLICIES**(continued)**Revenue recognition**

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

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

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

**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 a professional valuation at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequent arises, this surplus is credited to the income statement to the extent of the deficit 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.

Depreciation and amortisation are not provided for investment properties which are held on leases with an unexpired term, including the renewable period, of more than twenty years.

**Property, plant and equipment**

Property, plant and equipment and construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation at the balance sheet date. 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 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 property, plant and equipment, the expenditure is capitalised as an additional cost of the property, plant and equipment.

*Notes to the Financial Statements**For the year ended December 31, 2000***2. SIGNIFICANT ACCOUNTING POLICIES**(continued)**Property, plant and equipment** (continued)

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.

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.

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit 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 surplus, 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 accumulated profits.

Leasehold properties are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing state at the date of revaluation less any subsequent accumulated depreciation and amortisation. 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.

Construction in progress is stated in the balance sheet at its revalued amount, being the fair value on the basis of its existing state at the date of revaluation. Construction in progress is not depreciated or amortised. On completion, the carrying value of construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation and amortisation are 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	Over the unexpired terms of the leases
Buildings	2% or over the unexpired terms of the leases, if less than 50 years
Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Plant and machinery	10%
Furniture, fixtures and equipment	10%
Moulds	15%
Motor vehicles	25%

*Notes to the Financial Statements**For the year ended December 31, 2000***2. SIGNIFICANT ACCOUNTING POLICIES**(continued)**Capitalisation of borrowing costs**

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

**Interest in properties**

Interest in properties is stated at cost less accumulated amortisation at the balance sheet date. Amortisation is provided to write off the cost of interest in properties on a straight line basis over the unexpired lease terms.

Where the recoverable amount of the interest in properties has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value.

**Club membership**

Costs incurred in the acquisition of club membership are capitalised and amortised on a straight-line basis over their estimated useful lives.

**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 stated at cost as reduced by any decline in the value of the subsidiary that is other than temporary. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

**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 weighted average 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.

## *Notes to the Financial Statements*

*For the year ended December 31, 2000*

### **2. SIGNIFICANT ACCOUNTING POLICIES(continued)**

#### **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 translation are dealt with in the income statement.

#### **Taxation**

The charge for taxation is based on the results for the year/period after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes 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.

#### **Convertible notes**

Convertible notes are separately disclosed and regarded as liabilities unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible notes, including the premium payable upon the final redemption of the convertible notes, is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible notes for each accounting period.

The costs incurred in connection with the issue of convertible notes are deferred and amortised on a straight-line basis over the lives of the convertible notes from the date of issue of the notes to their final redemption date. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

#### **Operating leases**

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

#### **Retirement benefit scheme**

The pension costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

#### **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.

*Notes to the Financial Statements**For the year ended December 31, 2000***3. TURNOVER**

Turnover represents the amounts received and receivable for goods sold, less returns and discounts, to outside parties and rental income received and receivable from outside parties during the year/period and is analysed as follows:

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
By principal activities:		
Sales of goods	276,798	199,027
Property rental	178	132
	<b>276,976</b>	<b>199,159</b>
By geographical markets:		
North and South America	92,059	78,079
Hong Kong	84,142	53,426
Europe	81,663	53,375
Others	19,112	14,279
	<b>276,976</b>	<b>199,159</b>

The ratio of contribution to profit before taxation to turnover for each individual geographical market is substantially in line with the overall group ratio.

**4. OTHER OPERATING EXPENSES**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Deficit on revaluation of an investment property	(100)	(100)
Deficit on revaluation of leasehold properties	(236)	(247)
	<b>(336)</b>	<b>(347)</b>

*Notes to the Financial Statements**For the year ended December 31, 2000***5. PROFIT FROM OPERATIONS**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration		
– Current year/period	550	374
– Underprovision in prior period	129	–
Depreciation and amortisation	3,951	2,748
Loss on disposals of property, plant and equipment	–	963
Operating lease rentals in respect of land and buildings	4,863	3,099
Staff costs (excluding directors' remuneration which is set out in note 7)	8,037	5,972
and after crediting:		
Interest earned on bank deposits	10,722	2,349
Rental income less outgoings of approximately HK\$10,000 (4.1.1999 to 12.31.1999: HK\$9,000)	168	123

**6. FINANCE COSTS**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Interest in respect of:		
– Convertible note payable	(4,002)	–
– Bank overdraft	(1)	(1)
	<b>(4,003)</b>	<b>(1)</b>

*Notes to the Financial Statements**For the year ended December 31, 2000***7. DIRECTORS' REMUNERATION**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	200	150
Other emoluments (executive directors):		
Salaries and other benefits	5,768	4,876
Performance related incentive payments	2,400	1,710
Retirement benefit scheme contributions	60	52
Payment for loss of office to a former director	300	–
<b>Total directors' remuneration</b>	<b>8,728</b>	<b>6,788</b>

Emoluments of the directors were within the following bands:

	<b>Number of directors</b>	<b>Number of directors</b>
HK\$Nil to HK\$1,000,000	9	12
HK\$1,000,001 to HK\$1,500,000	2	–
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$4,500,001 to HK\$5,000,000	1	–

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group during the year/period. No directors have waived any emoluments during the year/period.

**8. EMPLOYEES' REMUNERATION**

The five highest paid individuals in the Group for the year ended December 31, 2000 included four executive directors of the Company, whose emoluments are included in note 7. The emoluments of all the five highest paid individuals are analysed as follows:

	<i>HK\$'000</i>
Salaries and other benefits	6,040
Performance related incentive payments	2,420
Retirement benefit scheme contributions	81
	<b>8,541</b>



*Notes to the Financial Statements**For the year ended December 31, 2000***8. EMPLOYEES' REMUNERATION** (continued)

Emoluments of the five highest paid individuals were within the following bands:

	<b>Number of individuals</b>
HK\$Nil to HK\$1,000,000	2
HK\$1,000,001 to HK\$1,500,000	2
HK\$4,500,001 to HK\$5,000,000	1
	<b>5</b>

The five highest paid individuals in the Group for the period ended December 31, 1999 are all directors of the Company and details of their emoluments are included in note 7.

**9. TAXATION**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year/period	<b>(4,607)</b>	(3,399)
Overprovision in prior period	<b>207</b>	-
	<b>(4,400)</b>	(3,399)
Deferred taxation ( <i>Note 21</i> )	<b>-</b>	(206)
	<b>(4,400)</b>	(3,605)

Hong Kong Profits Tax is calculated at 16% of the assessable profits for the year/period.

In the opinion of the directors, profits of certain subsidiaries neither arise in, nor are derived from Hong Kong, and are not subject to taxation in any of the jurisdictions in which they operate. Accordingly, no provision for taxation has been made on profits of those subsidiaries.

Also, certain subsidiaries are in discussion with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. The IRD is presently requesting further information and explanations from these subsidiaries. The directors believe that the prior year tax computations of these subsidiaries were prepared on a proper basis.

Pursuant to the Deed of Indemnity dated April 14, 1999 made between Chuang Hing Limited ("CHL"), China United Holdings Limited ("CUHL") and the Company as set out in the paragraph headed "Other Information" in Appendix 5 of the prospectus dated April 15, 1999 issued by the Company, CHL and CUHL agreed with the Company and its subsidiaries (together the "Companies") that CHL and CUHL will jointly and severally indemnify each of the Companies against taxation falling on any of the Companies resulting from profits or gains earned or accrued on or before April 27, 1999.

*Notes to the Financial Statements**For the year ended December 31, 2000***9. TAXATION (continued)**

After taking into consideration of the above-mentioned matters, no provision for additional tax liabilities is considered necessary by the directors.

Details of the movement of deferred taxation are set out in note 21.

**10. NET PROFIT FOR THE YEAR/PERIOD**

Of the Group's net profit for the year of approximately HK\$48,585,000 (4.1.1999 to 12.31.1999: HK\$34,198,000), a profit of approximately HK\$37,089,000 (4.1.1999 to 12.31.1999: HK\$33,187,000) has been dealt with in the financial statements of the Company.

**11. DIVIDENDS**

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Final dividend of HK\$0.005 per share (4.1.1999 to 12.31.1999: HK\$0.005 ( <i>Note</i> ))	<b>10,379</b>	9,715
Underprovision in prior period as a result of new shares issued subsequent to the approval of last period's financial statements	<b>193</b>	-
	<b>10,572</b>	9,715

*Note:* The dividend per share for the period ended December 31, 1999 has been adjusted to take into account of the subdivision of shares which took place on June 13, 2000 to present dividend per share on a comparable basis with that for the year ended December 31, 2000.

**12. EARNINGS PER SHARE**

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$48,585,000 (4.1.1999 to 12.31.1999: HK\$34,198,000) and on the weighted average of 1,927,948,011 (4.1.1999 to 12.31.1999: 1,571,158,980) shares in issue during the year.

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders of approximately HK\$52,587,000 after adjusting for interest saving from convertible note and on the weighted average number of 2,987,319,374 shares, adjusted for the effect of dilutive potential shares arrived from outstanding share options, warrants and convertible note during the year.

The earnings per share for the period from April 1, 1999 to December 31, 1999 had been adjusted to take into account the effect of the subdivision of every share of HK\$0.10 each into ten new shares of HK\$0.01 each during the year.

*Notes to the Financial Statements**For the year ended December 31, 2000***12. EARNINGS PER SHARE (continued)**

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

	<b>1.1.2000 to 12.31.2000 HK\$'000</b>	4.1.1999 to 12.31.1999 HK\$'000
Net profit for the year/period	<b>48,585</b>	34,198
Effect of dilutive potential shares:		
Interest saving on convertible note	<b>4,002</b>	–
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Earnings for the purpose of diluted earnings per share	<b>52,587</b>	34,198
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Weighted average number of shares for the purposes of basic earnings per share	<b>1,927,948,011</b>	1,571,158,980
Effect of dilutive potential shares:		
Options	<b>5,006,239</b>	4,261,900
Warrants	<b>77,842,153</b>	–
Convertible note	<b>976,522,971</b>	–
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Weighted average number of shares for the purposes of diluted earnings per share	<b>2,987,319,374</b>	1,575,420,880

**13. INVESTMENT PROPERTY**

	<b>THE GROUP HK\$'000</b>
At January 1, 2000	1,200
Deficit on revaluation	(100)
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At December 31, 2000	1,100

The investment property was revalued at December 31, 2000 by Vigers Hong Kong Limited, a firm of international property consultants, on an open market value existing state basis.

The Group's investment property is situated in Hong Kong and held under a medium-term lease. The investment property is rented out under an operating lease. The deficit arising on revaluation amounting to HK\$100,000 has been charged to the income statement.

*Notes to the Financial Statements**For the year ended December 31, 2000***14. PROPERTY, PLANT AND EQUIPMENT**

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
<b>THE GROUP</b>								
COST OR VALUATION								
At January 1, 2000	3,200	3,857	17,863	9,013	3,576	906	63,000	101,415
Additions	-	-	641	552	1,268	1,089	4,447	7,997
Deficit on revaluation	(300)	-	-	-	-	-	-	(300)
At December 31, 2000	2,900	3,857	18,504	9,565	4,844	1,995	67,447	109,112
Comprising:								
At cost	-	3,857	18,504	9,565	4,844	1,995	3,806	42,571
At valuation - 2000	2,900	-	-	-	-	-	63,641	66,541
	2,900	3,857	18,504	9,565	4,844	1,995	67,447	109,112
DEPRECIATION AND AMORTISATION								
At January 1, 2000	-	3,857	8,014	2,975	1,309	687	-	16,842
Provided for the year	64	-	1,831	878	651	261	-	3,685
Written back on revaluation	(64)	-	-	-	-	-	-	(64)
At December 31, 2000	-	3,857	9,845	3,853	1,960	948	-	20,463
NET BOOK VALUES								
At December 31, 2000	2,900	-	8,659	5,712	2,884	1,047	67,447	88,649
At December 31, 1999	3,200	-	9,849	6,038	2,267	219	63,000	84,573

The leasehold properties and construction in progress were revalued at December 31, 2000 by Vigers Hong Kong Limited, a firm of international property consultants, on an open market value existing state basis.

The Group's leasehold properties are situated in Hong Kong and held under medium-term leases. The deficit arising on revaluation amounting to approximately HK\$236,000 has been charged to the income statement.

The construction in progress comprises factory buildings and staff quarters and is situated in the People's Republic of China (the "PRC") for which the land use rights for a period of 50 years up to 2047 have been granted to the Group. No borrowing costs were capitalised for the construction in progress during the year.

Had the leasehold properties and construction in progress, as stated at revalued amounts, been carried at cost less accumulated depreciation and amortisation, the carrying value of these assets would have been stated at approximately HK\$68,715,000 (1999: HK\$68,211,000).

*Notes to the Financial Statements**For the year ended December 31, 2000***15. INTEREST IN PROPERTIES**

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Expenditure incurred, at cost	<b>10,701</b>	10,701
Accumulated amortisation	<b>(1,223)</b>	(1,060)
	<b>9,478</b>	9,641
Less: Provision for diminution in value	<b>(2,347)</b>	(2,347)
	<b>7,131</b>	7,294

Pursuant to respective lease agreements entered into by the Group with relevant parties of the PRC in 1991, the Group has leased, for a period of 50 years up to 2042, the leasehold properties which are erected on land designated to the relevant PRC parties, who had the rights to sub-let the leasehold properties during the terms of the leases. These leasehold properties are used by the Group for the processing of the Group's products.

The consideration for entering the respective lease agreements are capitalised as interest in properties. These amounts and the construction costs incurred subsequently are amortised to the income statement on a straight line basis over the unexpired lease terms.

**16. CLUB MEMBERSHIP**

	<b>THE GROUP</b> <i>HK\$'000</i>
<b>COST</b>	
Acquisition during the year and balance at December 31, 2000	620
<b>AMORTISATION</b>	
Provided for the year and balance at December 31, 2000	(103)
<b>NET BOOK VALUE</b>	
At December 31, 2000	517

**17. INVESTMENT IN SUBSIDIARIES**

	<b>THE COMPANY</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Unlisted shares, at cost to the Company	<b>159,531</b>	159,531

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the group reorganisation which took place on April 9, 1999 (the "Group Reorganisation").

Particulars of the Company's subsidiaries are set out in note 36.

*Notes to the Financial Statements**For the year ended December 31, 2000***18. INVENTORIES**

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Raw materials	21,922	18,605
Work in progress	8,447	7,826
Finished goods	9,654	10,632
	<b>40,023</b>	37,063

**19. TRADE AND OTHER RECEIVABLES**

The Group allows an average credit period of 60 days to its trade customers.

Included in trade and other receivables are trade receivables of approximately HK\$38,362,000 (1999: HK\$35,515,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
0 to 30 days	19,880	13,630
31 to 60 days	5,451	11,131
Over 60 days	13,031	10,754
	<b>38,362</b>	35,515

**20. TRADE AND OTHER PAYABLES**

Included in trade and other payables are trade payables of approximately HK\$16,855,000 (1999: HK\$15,699,000). The aged analysis of trade payables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
0 to 30 days	6,843	4,797
31 to 60 days	4,540	6,402
Over 60 days	5,472	4,500
	<b>16,855</b>	15,699

*Notes to the Financial Statements**For the year ended December 31, 2000***21. DEFERRED TAXATION**

	<b>THE GROUP</b>	
	<b>1.1.2000</b>	4.1.1999
	to	to
	<b>12.31.2000</b>	12.31.1999
	<b>HK\$'000</b>	HK\$'000
Balance at the beginning of the year/period	<b>541</b>	335
Charge for the year/period (Note 9)	–	206
	<b>541</b>	541

At the balance sheet date, the major components of the deferred taxation liability of the Group are analysed as follows:

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Tax effect of timing differences attributable to excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	<b>480</b>	480
Other timing differences	<b>61</b>	61
	<b>541</b>	541

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

Deferred taxation has not been provided on the surplus or deficit arising on revaluation of property, plant and equipment as profits or losses arising on the disposals of these assets would not be subject to taxation or tax deduction. Accordingly, the revaluation does not constitute a timing difference for deferred tax purposes.

**22. CONVERTIBLE NOTE PAYABLE**

On June 22, 2000, the Company issued a convertible note ("the Note") of HK\$150,000,000 to Faircom Limited, a wholly owned subsidiary of Yugang. The Note is unsecured and bears interest at 5% per annum, accrued on a daily basis and payable every six months in arrears, at an issue price of 100% of the principal amount.

*Notes to the Financial Statements**For the year ended December 31, 2000***22. CONVERTIBLE NOTE PAYABLE (continued)**

The outstanding principal amount of the Note may be converted into shares of the Company in amounts not less than HK\$1,000,000 at an initial conversion price of HK\$0.81 per share, subject to adjustment, for three years from the date of issue of the Note. The conversion price has been adjusted to HK\$0.081 per share after the subdivision of shares which became effective on June 13, 2000. To the extent not previously converted or redeemed, the Note will be redeemed at its face value on June 21, 2003.

No Note was converted or redeemed during the year.

**23. SHARE CAPITAL**

	Notes	Number of shares '000	Amount HK\$'000
Shares of HK\$0.10 each for the period from April 1, 1999 to June 12, 2000 or HK\$0.01 each for the period from June 13, 2000 to December 31, 2000			
<b>Authorised share capital:</b>			
Incorporation of the Company		1,000	100
Increase during the period		999,000	99,900
At December 31, 1999		1,000,000	100,000
Increase of shares resulted from subdivision of shares	<i>(iii)</i>	9,000,000	-
At December 31, 2000		10,000,000	100,000
<b>Issued and fully paid:</b>			
Issue of shares at nil paid		1,000	-
Issue of shares under the Group Reorganisation		11,000	1,200
Issue of shares resulted from capitalisation of share premium account		108,000	10,800
Issue of shares to the public ("New Issue")		40,000	4,000
Issue of shares resulted from exercise of share options		1,000	100
Balance at December 31, 1999		161,000	16,100
Issue of shares resulted from exercise of share options	<i>(i)</i>	5,150	515
Issue of shares pursuant to a subscription agreement	<i>(ii)</i>	32,000	3,200
Issue of shares resulted from subdivision of shares	<i>(iii)</i>	1,783,350	-
Issue of shares resulted from exercise of the Company's warrants	<i>(iv)</i>	89,320	893
Balance at December 31, 2000		2,070,820	20,708



*Notes to the Financial Statements*

*For the year ended December 31, 2000*

**23. SHARE CAPITAL (continued)**

Changes in the Company's share capital during the year ended December 31, 2000 are as follows:

- (i) During the period from January 1, 2000 to June 12, 2000, 5,150,000 shares of HK\$0.10 each were allotted and issued at a price of HK\$0.64 per share as a result of exercise of share options.
- (ii) On March 27, 2000, arrangements were made for a private placement to independent unconnected parties of 15,700,000 shares of HK\$0.10 each in the Company at a price of HK\$0.78 per share held by Regulator Holdings Limited ("Regulator"), a substantial shareholder of the Company.

Pursuant to a subscription agreement entered into on the same date, Regulator agreed to subscribe for 32,000,000 new shares of HK\$0.10 each in the Company at a price of HK\$0.78 per share.

The net proceeds from the subscription were used for general working capital purposes.

- (iii) On June 12, 2000, a resolution was passed at a special general meeting of the Company pursuant to which the shares of HK\$0.10 each in the capital of the Company were subdivided into ten shares of HK\$0.01 each.
- (iv) During the period from June 13, 2000 to December 31, 2000, 89,320,060 shares of HK\$0.01 each were allotted and issued at a price of HK\$0.065 per share as a result of exercise of the Company's warrants.

The new shares allotted and issued as set out above rank pari passu in all respects with the then existing shares.

**24. SHARE OPTIONS**

The Company has adopted a share option scheme (the "Scheme") which was approved at a special general meeting of the Company held on April 9, 1999. Pursuant to the Scheme the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 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 grant of the options or the nominal value of the shares, whichever is the higher.

*Notes to the Financial Statements**For the year ended December 31, 2000***24. SHARE OPTIONS (continued)**

The maximum number of shares in respect of which options may be granted under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

Movements of the share options within the following exercisable periods are as follows:

Exercisable periods	Exercise price HK\$	At 1.1.2000	Number of share options			At 12.31.2000
			Granted during the year	Exercised during the year	Cancelled during the year	
June 1, 1999 to April 8, 2009	0.64	5,650,000	-	(5,150,000)	(500,000)	-

The options were exercised before June 13, 2000, the date of which the subdivision of shares became effective.

**25. WARRANTS**

Pursuant to a bonus issue proposal approved by the Company on June 12, 2000, an amount of warrants of HK\$25,759,500 was issued to the shareholders whose name appeared on the register of members of the Company on June 12, 2000 on the basis of one warrant for every five shares held on that day. The warrants entitle the holders to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at an initial subscription price of HK\$0.065 per share, subject to adjustment, from the date of issue thereof until June 11, 2002.

During the period from June 13, 2000 to December 31, 2000, an amount of warrants of HK\$5,805,804 was exercised at the subscription price of HK\$0.065 per share, resulting in the issue by the Company of 89,320,060 shares of HK\$0.01 each in the Company.

At December 31, 2000, the Company had an amount of outstanding warrants of HK\$19,953,696.10 entitling the holders thereof to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065, subject to adjustment, on or before June 11, 2002. Exercise in full of these outstanding warrants would, under the present capital structure, result in receipt by the Company of HK\$19,953,696.10 in subscription monies and the issue of 306,979,940 additional shares of HK\$0.01 each in the Company.

*Notes to the Financial Statements**For the year ended December 31, 2000***26. SHARE PREMIUM AND RESERVES**

	Share premium HK\$'000	Surplus account HK\$'000	Asset revaluation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE GROUP</b>					
Balance at April 1, 1999	-	90,554	1,000	66,703	158,257
Premium arising on issue of shares					
pursuant to the New Issue	39,200	-	-	-	39,200
Capitalised for issue of shares	(10,800)	-	-	-	(10,800)
Expenses incurred in connection					
with issue of shares pursuant					
to the New Issue	(9,357)	-	-	-	(9,357)
Issue of shares resulted from					
exercise of share options	540	-	-	-	540
Net profit for the period	-	-	-	34,198	34,198
Dividends	-	-	-	(9,715)	(9,715)
Balance at December 31, 1999	19,583	90,554	1,000	91,186	202,323
Issue of shares resulted from exercise					
of share options	2,781	-	-	-	2,781
Premium arising on issue of shares					
pursuant to a subscription agreement	21,760	-	-	-	21,760
Expenses incurred in connection					
with issue of shares pursuant					
to a subscription agreement	(353)	-	-	-	(353)
Issue of shares resulted from exercise					
of warrants	4,913	-	-	-	4,913
Net profit for the year	-	-	-	48,585	48,585
Dividends	-	-	-	(10,572)	(10,572)
Balance at December 31, 2000	48,684	90,554	1,000	129,199	269,437

The surplus account represents the aggregate of reserves other than accumulated profits of the subsidiaries as at April 1, 1998 and the excess of the nominal value of the shares issued and issuable by the Company over the nominal value of the issued share capital of the subsidiaries acquired pursuant to the Group Reorganisation.

*Notes to the Financial Statements**For the year ended December 31, 2000***26. SHARE PREMIUM AND RESERVES (continued)**

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
<b>THE COMPANY</b>				
Balance at April 1, 1999	–	158,331	(74)	158,257
Premium arising on issue of shares pursuant to the New Issue	39,200	–	–	39,200
Capitalised for issue of shares	(10,800)	–	–	(10,800)
Expenses incurred in connection with issue of shares pursuant to the New Issue	(9,357)	–	–	(9,357)
Issue of shares on exercise of share options	540	–	–	540
Net profit for the period	–	–	33,187	33,187
Dividends	–	–	(9,715)	(9,715)
Balance at December 31, 1999	19,583	158,331	23,398	201,312
Issue of shares on exercise of share options	2,781	–	–	2,781
Premium arising on issue of shares pursuant to a subscription agreement	21,760	–	–	21,760
Expenses incurred in connection with issue of shares pursuant to a subscription agreement	(353)	–	–	(353)
Issue of shares on exercise of warrants	4,913	–	–	4,913
Net profit for the year	–	–	37,089	37,089
Dividends	–	–	(10,572)	(10,572)
Balance at December 31, 2000	48,684	158,331	49,915	256,930

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Qualipak Development Limited at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued and issuable for the acquisition.

*Notes to the Financial Statements**For the year ended December 31, 2000***26. SHARE PREMIUM AND RESERVES (continued)**

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) 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.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	<b>2000</b> <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Accumulated profits	49,915	23,398
Contributed surplus	158,331	158,331
	<b>208,246</b>	181,729

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

	<b>1.1.2000</b> to <b>12.31.2000</b> <i>HK\$'000</i>	4.1.1999 to 12.31.1999 <i>HK\$'000</i>
Profit before taxation	52,985	37,803
Interest income	(10,722)	(2,349)
Interest expenses	4,003	1
Depreciation and amortisation	3,951	2,748
Loss on disposals of property, plant and equipment	–	963
Deficit on revaluation of an investment property	100	100
Deficit on revaluation of leasehold properties	236	247
(Increase) decrease in inventories	(2,960)	389
Increase in trade and other receivables	(10,506)	(5,053)
Increase in trade and other payables	4,915	5,707
Net cash inflow from operating activities	<b>42,002</b>	40,556

*Notes to the Financial Statements**For the year ended December 31, 2000***28. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR/PERIOD**

	<b>Share capital and premium HK\$'000</b>	<b>Convertible note HK\$'000</b>
Balance at April 1, 1999	1,200	–
Proceeds from issue of shares pursuant to the New Issue, net of expenses	33,843	–
Proceeds from issue of shares resulted from exercise of share options	640	–
Balance at December 31, 1999	35,683	–
Proceeds from issue of convertible note	–	150,000
Proceeds from issue of shares pursuant to a subscription agreement, net of expenses	24,607	–
Proceeds from issue of shares resulted from exercise of warrants	5,806	–
Proceeds from issue of shares resulted from exercise of share options	3,296	–
Balance at December 31, 2000	69,392	150,000

**29. PLEDGE OF ASSETS**

At December 31, 2000, the Group pledged its leasehold properties and investment property with an aggregate carrying value of approximately HK\$4,000,000 (1999: HK\$4,400,000) as securities for general banking facilities granted to the Group.

The Company had not pledged any of its assets at December 31, 2000 and 1999.

**30. CAPITAL COMMITMENTS**

	<b>THE GROUP</b>	
	<b>2000 HK\$'000</b>	1999 HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment, other than the construction of factory premises	<b>1,084</b>	458

*Notes to the Financial Statements**For the year ended December 31, 2000***30. CAPITAL COMMITMENTS (continued)**

In respect of the construction of factory premises, the directors are of the opinion that the estimated development costs which will be further incurred by the Group amounted to approximately HK\$10,521,000 (1999: HK\$15,494,000), of which approximately HK\$8,646,000 (1999: HK\$2,410,000) were contracted for but not provided in the financial statements at December 31, 2000.

The Company did not have any outstanding capital commitments at December 31, 2000 and 1999.

**31. OPERATING LEASE COMMITMENTS**

At the balance sheet date, the Group had commitments under non-cancellable operating leases in respect of land and buildings. The portion of such commitments which is payable within the next year is as follows:

	<b>THE GROUP</b>	
	<b>2000</b>	1999
	<b>HK\$'000</b>	HK\$'000
Operating leases which expire:		
Within one year	<b>2,276</b>	1,929
In the second to fifth year inclusive	<b>1,639</b>	2,940
	<b>3,915</b>	4,869

The Company did not have any commitments under non-cancellable operating leases at December 31, 2000 and 1999.

**32. CONTINGENT LIABILITIES****THE COMPANY**

At December 31, 2000, the Company executed guarantees amounting to HK\$30,500,000 (1999: HK\$30,500,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at December 31, 2000.

*Notes to the Financial Statements**For the year ended December 31, 2000***33. RETIREMENT BENEFIT SCHEME**

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefit scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully at the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

In light of the introduction of the Mandatory Provident Fund ("MPF") Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the retirement benefit scheme and participated in an approved MPF scheme with the HSBC Life (International) Limited effective December 1, 2000 to provide scheme choice to existing employees. All new employees are required to participate in the MPF Scheme. Mandatory benefits are being provided under the MPF Scheme.

The details of retirement benefit scheme contributions for the Company's directors and the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	<b>THE GROUP</b>	
	<b>1.1.2000</b>	4.1.1999
	<b>to</b>	to
	<b>12.31.2000</b>	12.31.1999
	<b>HK\$'000</b>	HK\$'000
Gross retirement benefit scheme contributions	<b>432</b>	326
Less: Forfeited contributions utilised to offset contributions	<b>(148)</b>	(99)
<b>Net retirement benefit scheme contributions</b>	<b>284</b>	227

There were forfeited contributions of approximately HK\$20,000 (1999: nil) which were available to offset future employers' contributions to the scheme at December 31, 2000.



*Notes to the Financial Statements**For the year ended December 31, 2000***34. RELATED PARTY TRANSACTIONS**

	<b>THE GROUP</b>	
	<b>1.1.2000</b>	4.1.1999
	<b>to</b>	to
	<b>12.31.2000</b>	12.31.1999
	<b>HK\$'000</b>	<b>HK\$'000</b>
During the year/period, the Group had the following significant transactions with the following related companies:		
Issue of convertible note to Faircom Limited	<b>150,000</b>	–
Interest in respect of convertible note paid to Faircom Limited	<b>4,002</b>	–
Rental expenses paid to:		
– Great Gains International Limited (“Great Gains”)	–	943
– New Sheen Limited (“New Sheen”)	–	24

Faircom Limited is a wholly owned subsidiary of Yugang, the ultimate holding company of the Company.

Great Gains and New Sheen are subsidiaries of China United Holdings Limited which was a former substantial shareholder of the Company.

In the opinion of the Company’s directors, the above related party transactions were carried out at the prevailing market price, or where no market price was available, at terms agreed by both parties.

**35. SUBSEQUENT EVENT**

Subsequent to December 31, 2000, the Group purchased a convertible note of HK\$28,000,000 issued by a company listed on the Stock Exchange.

*Notes to the Financial Statements**For the year ended December 31, 2000***36. PARTICULARS OF SUBSIDIARIES**

Particulars of the Company's subsidiaries at December 31, 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Gainwin Packaging Limited	Hong Kong	Ordinary HK\$2	Inactive
Permate Production Inc.	British Virgin Islands/PRC	Ordinary US\$20	Manufacture of gift boxes and spectacles cases
Qualipak Development Limited (Note a)	British Virgin Islands	Ordinary US\$10,000	Investment holding
Qualipak Enterprises Limited	Republic of Mauritius	Ordinary US\$1,000	Inactive
Qualipak Finance Limited	Hong Kong	Ordinary HK\$2	Inactive
Qualipak Fortune Inc.	British Virgin Islands/PRC	Ordinary US\$10,000	Inactive
Qualipak Manufacturing (China) Limited	British Virgin Islands	Ordinary US\$1	Investment holding
Qualipak Manufacturing Limited (Note b)	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$22,303,857	Trading of watch boxes, gift boxes, spectacles cases and stationery
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.	PRC	Registered HK\$16,000,000	Inactive
Qualipak Nominees Limited	British Virgin Islands	Ordinary US\$1	Provision of nominee services
Qualipak Production Inc.	British Virgin Islands/PRC	Ordinary US\$10,000	Manufacture of watch boxes and gift boxes

*Notes to the Financial Statements**For the year ended December 31, 2000***36. PARTICULARS OF SUBSIDIARIES (continued)**

<b>Name of subsidiary</b>	<b>Place of incorporation/ registration and operation</b>	<b>Issued and fully paid share capital/ registered capital</b>	<b>Principal activities</b>
Qualipak Vision Inc.	British Virgin Islands/PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes and spectacles cases
Qualipak Wonder Inc.	British Virgin Islands/PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes, spectacles cases and stationery
Winning Hand Management Limited	British Virgin Islands/PRC	Ordinary US\$1	Property holding
Wisdom Way Limited	Hong Kong	Ordinary HK\$2	Property holding
Worthwell Investments Limited	British Virgin Islands	Ordinary US\$50,000	Inactive

*Note:*

- (a) The Company directly holds the entire interest in Qualipak Development Limited. The entire interests of all other companies are indirectly held by the Company.
- (b) The non-voting deferred shares have restricted rights on distribution of profits, capital and voting.

None of the subsidiaries had any loan capital outstanding at December 31, 2000 or at any time during the year.