



Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2000

1. GENERAL

The Company was 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 manufacture and sale of wooden products.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

These financial statements have been prepared on a going concern basis notwithstanding the capital deficiency and net current liabilities of US\$15,373,000 and US\$55,394,000, respectively, sustained by the Group at 31 December 2000 because following the successful completion of the restructuring of the Group's borrowings with certain of the Group's bankers and the liquidator of a financial institution in Hong Kong (the "Creditors"), and the injection of new equity finance into the Group subsequent to the balance sheet date, the directors are of the opinion that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and 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 31 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, where appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 subsidiary that is other than temporary.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions.

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates.

When the Group transacts with its associates, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associates, except where unrealised losses provide evidence of an impairment of the asset transferred.

In the Company's balance sheet, investments in associates are stated at cost, as reduced by any decline in the value of the associate that is other than temporary.

Investments in securities

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

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.



Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2000

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income recognition

Income derived from sales of goods is recognised at the time when goods are delivered and title has passed.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has 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 on the 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.

Depreciation is calculated to write off the cost of property, plant and equipment, less estimated residual value, on a straight line basis over their estimated useful lives.



Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The principal annual rates of depreciation used are as follows:

	Rate per annum (%)
Land and buildings under short term leases in the People's Republic of China, excluding Hong Kong (the "PRC")	5 to 10
Land and buildings under medium term leases in Hong Kong	4
Plant and equipment and furniture and fittings	10
Motor vehicles	20

Construction in progress

Construction in progress is stated at cost. Cost includes all direct and attributable costs incurred relating to the acquisition and construction of property, plant and equipment as well as interest expenses capitalised in accordance with the Group's accounting policy.

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 cost 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.

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight-line basis over the period of the relevant lease.



Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2000

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 an asset will crystallise in the foreseeable future.

Foreign currencies

Transactions in currencies other than United States dollar are translated at the rates ruling on the dates of transactions.

Monetary assets and liabilities denominated in currencies other than United States dollar are re-translated at the rates of exchange ruling on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

For consolidation purposes, financial statements of foreign subsidiaries and associates are translated into United States dollars at the rates of exchange ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

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 recognised as an expense in the period in which they are incurred.

Retirement benefits

Contributions to retirement benefits scheme are charged to the income statement as incurred.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash equivalents

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

4. TURNOVER AND SEGMENTAL INFORMATION

Turnover represents the net invoiced value of goods sold, less discounts, returns and turnover tax during the year.

The turnover and the loss from operations of the principal activities of the Group, as analysed by major products and geographical market are as follows:

	Turnover		Loss from operations	
	2000 US\$'000	1999 US\$'000	2000 US\$'000	1999 US\$'000
By product:				
Blockboard	37,889	37,295	(1,323)	(4,890)
Particle board	13,902	8,520	798	(1,073)
Furniture	13,898	14,907	(374)	(2,314)
Plywood-based products	4,401	20,258	(1,794)	(9,143)
Others	4,443	17,557	(137)	(6,284)
	<u>74,533</u>	<u>98,537</u>	<u>(2,830)</u>	<u>(23,704)</u>
By geographical market:				
Within the PRC	60,734	68,761	(2,281)	(14,493)
United States of America	13,597	23,964	(548)	(8,109)
Others	202	5,812	(1)	(1,102)
	<u>74,533</u>	<u>98,537</u>	<u>(2,830)</u>	<u>(23,704)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

5. COST OF SALES

Included in cost of sales is an amount of US\$572,000 (1999: US\$6,049,000) in respect of write-down of finished goods and raw materials.

6. OTHER REVENUE

Other revenue comprises:

	2000	1999
	US\$'000	US\$'000
Interest income	88	99
Value added tax refund (<i>note</i>)	3,663	1,158
Other operating income	217	1,428
	<hr/> 3,968 <hr/>	<hr/> 2,685 <hr/>

Note: Certain subsidiaries established in the PRC are involved in the production of wooden products which require the use of the raw materials that are environmental friendly. Pursuant to the relevant rules and regulations governing the value added tax ("VAT") treatment of such subsidiaries, during the year ended 31 December 2000, VAT refund totalling US\$3,663,000 (1999: US\$1,158,000) were obtained by those subsidiaries.

7. ADMINISTRATIVE EXPENSES

Included in administrative expenses is provision for bad and doubtful debts amounting to US\$4,664,000 (1999:US\$9,034,000).

8. OTHER OPERATING EXPENSES

	2000	1999
	US\$'000	US\$'000
Included in other operating expenses are:		
Write off of property, plant and equipment	-	2,182
Write off of construction in progress	-	1,417
	<hr/> - <hr/>	<hr/> 3,599 <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

9. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2000	1999
	US\$'000	US\$'000
Directors' remuneration (<i>note a</i>)		
– Fees	–	–
– Other emoluments	687	735
Other staff costs	5,129	7,297
Retirement benefit scheme contributions (<i>note b</i>)	862	1,240
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Total staff costs	6,678	9,272
Auditors' remuneration	238	220
Depreciation	6,175	10,593
Rental expenses under operating leases	897	1,315
Loss on disposal of property, plant and equipment	37	51
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Notes:

(a) Emoluments of directors and highest paid employees

(i) Details of emoluments paid by the Group to the directors of the Company are as follows:

	2000	1999
	US\$'000	US\$'000
Basic salaries and allowances:		
Executive directors	640	688
Non-executive directors	47	47
	<hr/>	<hr/>
	687	735
	<hr/> <hr/>	<hr/> <hr/>

(ii) Emoluments of the directors of the Company were within the following bands:

	2000	1999
	Number of directors	Number of directors
Bands (HK\$)		
0 – 500,000	3	4
2,000,001 – 2,500,000	2	2
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(iii) During the year, none of the directors waived any of their salaries (1999 : Nil).

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FOR THE YEAR ENDED 31 DECEMBER 2000

9. LOSS FROM OPERATIONS (continued)

(a) Emoluments of directors and highest paid employees (continued)

- (iv) Of the five individuals with the highest emoluments in the Group, two (1999: three) were directors of the Company whose emoluments are included in the disclosures in note 9(a)(i) above. The emoluments of the remaining three (1999: two) individuals are as follows:

	2000 US\$'000	1999 US\$'000
Basic salaries and allowances	<u>216</u>	<u>165</u>

Their emoluments were within the following bands:

Bands (HK\$)	2000 Number of individual	1999 Number of individual
0 – 500,000	2	–
500,001 – 1,000,000	<u>1</u>	<u>2</u>

(b) Retirement benefit scheme

Pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the aggregate staff wages to certain defined retirement benefit schemes. None of the amount paid during the year relates to contributions made in connection with any of the directors of the Company.

As at 31 December, 2000, there were no forfeited contributions available to offset future contributions to be made by the Group (1999 : Nil).

The Group did not operate any retirement benefit scheme for its directors and employees outside the PRC.

10. FINANCE COSTS

	2000 US\$'000	1999 US\$'000
Interest paid on bank loans, overdrafts and other loans wholly repayable within five years	5,105	12,469
Less: amount capitalised as cost of construction in progress	<u>–</u>	<u>(19)</u>
	5,105	12,450
Net exchange (gain) loss	(984)	179
	<u>4,121</u>	<u>12,629</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

11. PROVISION FOR AMOUNTS DUE FROM FORMER SUBSIDIARIES AND AN ASSOCIATE

	2000	1999
	US\$'000	US\$'000
Provision for amounts due from former subsidiaries	2,119	4,776
Provision for amount due from an associate	3,668	–
	<u>5,787</u>	<u>4,776</u>

12. PROVISION FOR LOSS FOR BANK GUARANTEES GRANTED TO ASSOCIATES

Pursuant to the terms of a compromise agreement (the "Compromise Agreement") entered into on 10 November 2000 between the Company and the Creditors, the Group's liabilities under the bank guarantees granted to associates would be released upon the completion of the agreement. As the agreement has been completed subsequent to the balance sheet date, the provision made in the year ended 31 December 1999 will be written back to the Company's financial statements in the year 2001.

13. GAIN ON DISPOSAL OF INTERESTS IN SUBSIDIARIES AND ASSOCIATES

The gain relates to the Group's partial disposal of a former 67.47% owned subsidiary, namely, Tianjin Fortune Furniture Co., Ltd. ("TFF") and the deemed disposal of a former 51% owned subsidiary, Hubei Fuhan Timber Co., Ltd. ("HFT"). During the year, the Group disposed of 21% of the equity of TFF for a consideration of US\$3,870,000. As a result of the partial disposal, TFF became a 46.47% owned associate of the Group. In addition, due to the injection of additional paid up capital into HFT by the minority joint venture partner, the Group's interest in HFT was diluted to 48%. Prior to the partial disposal and deemed disposal, TFF contributed operating profit of US\$764,000, while HFT contributed operating loss of US\$754,000 towards the Group's operating results for the year.

The gain in the year ended 31 December 1999 relates to gain arising from the disposal of interests in three former subsidiaries, namely Tianjin Fortune Timber Co., Ltd., Baishan Fusong Timber Co., Ltd. and Tianjin Fornia Industry Co., Ltd., and the disposal of two former associates, namely Shanghai Fortuna (Timber) Enterprise Co., Ltd. and San Shiah Enterprise Co., Ltd.

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FOR THE YEAR ENDED 31 DECEMBER 2000

14. GAIN ON DECONSOLIDATION OF A SUBSIDIARY

During the year ended 31 December 2000, Tianjin Fuda Timber Co., Ltd. ("TFD"), a former 75.3% owned subsidiary of the Group commenced compulsory winding up proceedings. As the Group can no longer exercise any control over TFD, TFD has been deconsolidated, resulting in a gain on deconsolidation. Prior to the deconsolidation, TFD did not contribute any operating results towards the Group's operating results for the year.

15. TAXATION

The tax charge (credit) comprises:

	2000	1999
	US\$'000	US\$'000
CURRENT TAXATION		
Company and subsidiaries:		
Hong Kong profits tax (<i>note a</i>)	(1)	–
PRC income tax (<i>note b</i>)	493	384
	492	384
Associates:		
PRC income tax (<i>note b</i>)	51	18
Overseas income tax	–	(7)
	51	11
DEFERRED TAXATION		
Company and subsidiaries	39	(16)
	582	379

Notes:

- (a) No provision for Hong Kong profits tax has been made as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for the year. The tax credit for the year represents an overprovision in previous years.
- (b) As Sino-foreign equity joint venture companies, the subsidiaries and associates established in the PRC are exempted from paying PRC income tax for the first two profit-making years followed by a 50% reduction in the income tax rates in the following three years. PRC income tax is provided for with reference to the applicable tax rates on the estimated assessable profits of those subsidiaries and associates.
- (c) The Group and the Company had no material unprovided deferred taxation in respect of the year ended 31 December 2000 (1999: Nil).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

16. NET LOSS FOR THE YEAR

Net loss for the year includes a profit of US\$143,000 (1999: loss of US\$23,793,000) which has been dealt with in the financial statements of the Company.

17. LOSS PER SHARE

- (a) The calculation of the basic loss per share is based on the net loss for the year of US\$10,349,000 (1999: loss of US\$30,505,000) and 828,448,317 shares (1999: 828,448,317 shares) in issue during the year.
- (b) No diluted loss per share is calculated as the effect of the potential ordinary shares outstanding during the year is anti-dilutive.

18. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related companies:

	2000	1999
	US\$'000	US\$'000
Tianjin Fortune Timber Co., Ltd.		
– Raw materials sold thereto	348	–
– Raw materials purchased therefrom	330	–
San Shiah Enterprise Co., Ltd. (note a)		
– Raw materials sold thereto	–	24
Liao Yuan City Fuyuan Wood Industry Co., Ltd.		
– Raw materials purchased therefrom	–	134
– Technical advisory fee received therefrom	7	–

In addition to the above transactions, during the year and as at the balance sheet date, Mr. Liu Ching-Chih and Ms. Yeung Mi-Ki provided personal guarantees and pledged 23,840,000 and 33,840,000 shares in the Company beneficially owned by themselves, respectively, to the Creditors and a supplier of the Group as securities.

Notes:

- (a) San Shiah Enterprise Co., Ltd. was formerly an associate of the Group. As at 31 December 2000, Mr. Liu Ching-Chih still holds a significant equity interest in that company.
- (b) All the other related companies are associates of the Group.

The above transactions were carried out at market price or, where no market price was available, at cost plus a percentage of profit mark-up.

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FOR THE YEAR ENDED 31 DECEMBER 2000

19. PROPERTY, PLANT AND EQUIPMENT

	Short term leasehold land and buildings in the PRC US\$'000	Medium term leasehold land and buildings in Hong Kong US\$'000	Plant and equipment US\$'000	Furniture and fittings US\$'000	Motor vehicles US\$'000	Total US\$'000
THE GROUP						
AT COST						
At 1 January 2000	18,564	2,397	58,946	743	3,289	83,939
Exchange adjustments	(279)	(6)	(788)	(10)	(43)	(1,126)
Additions	1,222	-	1,229	102	110	2,663
Transfer from construction in progress	166	-	502	-	-	668
Disposal and deconsolidation of subsidiaries	(3,861)	-	(15,295)	(444)	(1,459)	(21,059)
Disposals	-	-	(962)	(117)	(62)	(1,141)
At 31 December 2000	15,812	2,391	43,632	274	1,835	63,944
AGGREGATE DEPRECIATION						
At 1 January 2000	2,287	361	16,152	385	2,034	21,219
Charge for the year	723	96	4,917	69	370	6,175
Exchange adjustments	(52)	(1)	(236)	(5)	(28)	(322)
Eliminated on disposal and deconsolidation of subsidiaries	(854)	-	(5,834)	(228)	(1,049)	(7,965)
Eliminated on disposals	-	-	(485)	(64)	(33)	(582)
At 31 December 2000	2,104	456	14,514	157	1,294	18,525
NET BOOK VALUES						
At 31 December 2000	13,708	1,935	29,118	117	541	45,419
At 31 December 1999	16,277	2,036	42,794	358	1,255	62,720

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FOR THE YEAR ENDED 31 DECEMBER 2000

20. CONSTRUCTION IN PROGRESS

	THE GROUP
	US\$'000
AT COST	
At 1 January 2000	1,423
Exchange adjustments	(6)
Additions during the year	1,216
Disposal of subsidiaries	(1,364)
Transfer to property, plant and equipment	(668)
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At 31 December 2000	<u>601</u>

At 31 December 2000, no interest is capitalised in the Group's construction in progress (1999: US\$19,000).

21. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	US\$'000	US\$'000
Unlisted shares, at cost	3,304	3,304
Amounts due from subsidiaries	46,088	48,418
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	49,392	51,722
<i>Less: Provision</i>	(49,392)	(51,270)
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	<u>-</u>	<u>452</u>

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FOR THE YEAR ENDED 31 DECEMBER 2000

21. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries as at 31 December 2000 are as follows:

Name of company	Place of establishment/ incorporation	Place of operations	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
Directly held					
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	US\$10,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	100	US\$10,000	Investment holding
TGT Holdings Corporation	British Virgin Islands	Hong Kong	100	US\$2	Investment holding
Indirectly held					
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$5,000,000	Investment holding
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$1,000,000	Investment holding
Ta Fu International Development Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$10,000	Inactive
Fulbond High-Tech Investment Limited (Formerly Known as Ta Fu Composition Board & Equipment Development Co., Ltd.)	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$200	Inactive

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21. INTERESTS IN SUBSIDIARIES (continued)

Name of company	Place of establishment/ incorporation	Place of operations	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred* HK\$20	Investment holding
Ta Fu Management Services Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$10,000	Provision of management services
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred* HK\$20	Property investment
Langfang Fuyang Timber Co., Ltd.	PRC	PRC	51	US\$1,122,449	Manufacture of wooden products
Hubei Full-joint Timber Co., Ltd.	PRC	PRC	51	US\$6,800,000	Manufacture of wooden products
Jilin Province Fuchun Timber Co., Ltd.	PRC	PRC	55	RMB17,464,000	Manufacture of wooden products
Dun Hua Fudun Timber Co., Ltd.	PRC	PRC	60	RMB30,000,000	Manufacture of wooden products
Baoding Fuhe Timber Co., Ltd.	PRC	PRC	69.95	US\$4,500,000	Manufacture of wooden products
Jilin Fudun Timber Co., Ltd.	PRC	PRC	72	RMB223,158,165	Manufacture of wooden products

* The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK\$100,000,000,000,000,000.

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

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22. INTERESTS IN ASSOCIATES

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Share of associates' net assets	7,496	2,557

Particulars of the associates as at 31 December 2000 are as follows:

Name of company	Country of establishment	Place of operation	Percentage of registered capital held %	Registered capital	Principal activities
Shenyang Fuyang Wood-Basal Panel Ltd.	PRC	PRC	40	US\$5,000,000	Manufacture of wooden products
Liao Yuan City Fuyuan Wood Industry Co., Ltd.	PRC	PRC	35.4	RMB34,700,000	Manufacture of wooden products
Tianjin Fortune Timber Co., Ltd.	PRC	PRC	49.5	US\$17,453,021	Manufacture of wooden products
Hubei Fuhan Timber Co., Ltd.	PRC	PRC	48	US\$4,567,565	Manufacture of wooden products
Tianjin Fortune Furniture Co., Ltd.	PRC	PRC	46.47	US\$8,000,000	Manufacture of wooden products

23. INVESTMENTS IN SECURITIES

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Investment securities:		
Unlisted investments, at cost	37	37

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24. DEFERRED TAXATION

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Balance at 1 January	691	675
Arising on disposal of subsidiaries	(569)	–
(Charge) credit for the year	(39)	16
	<hr/>	<hr/>
Balance at 31 December	83	691
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At the balance sheet date, the major components of deferred taxation assets provided are as follows:

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Excess of depreciation over tax allowance	–	9
Unutilised tax losses	–	444
Other timing differences	83	238
	<hr/>	<hr/>
	83	691
	<hr/> <hr/>	<hr/> <hr/>

The deferred tax charge (credit) provided for the year is as follows:

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Excess of depreciation over tax allowance	–	–
Tax losses utilised	302	117
Other timing differences	(263)	(133)
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	39	(16)
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Notes to the Financial Statements

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25. AMOUNTS DUE TO SUBSIDIARIES

The amounts due to subsidiaries of the Company are unsecured, interest-free and repayable on demand.

26. AMOUNTS DUE FROM (TO) ASSOCIATES

The amounts due from (to) associates are unsecured, interest-free and repayable on demand.

27. INVENTORIES

	THE GROUP	
	2000	1999
	US\$'000	US\$'000
Raw materials	5,024	9,711
Work in progress	1,897	3,361
Finished goods	3,605	5,722
	<u>10,526</u>	<u>18,794</u>

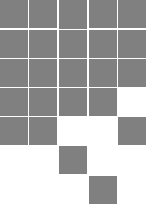
Included above are raw materials of US\$56,000 (1999: US\$4,425,000) and finished goods of US\$367,000 (1999: US\$3,539,000) which are carried at net realisable value.

28. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing on average credit period of 90 days to its trade customers.

At 31 December 2000, the balance of trade and other receivables included trade debts of US\$7,462,000 (1999: US\$11,229,000). The aged analysis of trade debtors at the balance sheet date is as follows:

	2000	1999
	US\$'000	US\$'000
0 – 90 days	5,940	7,531
91 – 180 days	1,256	1,143
More than 180 days	266	2,555
	<u>7,462</u>	<u>11,229</u>



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29. AMOUNTS DUE TO DIRECTORS

The amounts due to directors are unsecured, interest-free and repayable on demand.

30. TRADE AND OTHER PAYABLES

At 31 December 2000, the balance of trade and other payables included trade creditors of US\$3,434,000 (1999: US\$7,778,000). The aged analysis of trade creditors at the balance sheet date is as follows:

	2000	1999
	US\$'000	US\$'000
0 – 90 days	2,067	5,041
91 – 180 days	263	377
More than 180 days	1,104	2,360
	<hr/> 3,434 <hr/>	<hr/> 7,778 <hr/>

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31. BANK AND OTHER BORROWINGS

	THE GROUP			
	2000	2000	1999	1999
	US\$'000	US\$'000	US\$'000	US\$'000
Bank loans				
– Secured	2,878		16,669	
– Unsecured	27,312	30,190	25,192	41,861
Bank overdrafts, unsecured		11,421		8,610
Loan from a financial institution, secured		–		1,412
Loan from a local government authority in PRC, unsecured		–		120
Other loan, unsecured (<i>note a</i>)		1,408		–
		43,019		52,003
Total outstanding balances repayable:				
– Secured				
Within one year	2,878		15,568	
Between one to two years	–	2,878	2,513	18,081
– Unsecured				
Within one year		40,141		33,922
		43,019		52,003
Less: Portion due within one year included in current liabilities		(43,019)		(49,490)
		–		2,513

Notes:

- (a) Other loan represents a loan, which was formerly owed to a financial institution but was assigned to S.T.J. Technology Ltd. ("STJ"), the major shareholder of Global Innovation Investment Limited (the "Investor"). Both STJ and the Investor are parties involved in the corporate restructuring of the Company.
- (b) Details of the property, plant and equipment and other assets pledged by the Group are set out in note 38.

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FOR THE YEAR ENDED 31 DECEMBER 2000

32. SHARE CAPITAL

	Number of shares		2000 US\$'000	1999 US\$'000
	2000	1999		
<i>Authorised:</i>				
Ordinary shares of US\$0.02 each at 1 January and 31 December	<u>5,000,000,000</u>	<u>5,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of US\$0.02 each at 1 January and 31 December	<u>828,448,317</u>	<u>828,448,317</u>	<u>16,569</u>	<u>16,569</u>

33. SHARE OPTION SCHEME

Under the terms of the share option scheme which became effective on 11 December 1996, the board of directors of the Company may offer to any executive directors and 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.

The options are exercisable from the date of grant of such options to 10 February 2007. Details of the movements of the share options granted are as follows:

Date of grant	Exercisable price	Number of share options at 1 January 2000	Number of share options cancelled during the year	Number of share options at 31 December 2000
11 February 1997	HK\$1.85	45,574,000	–	45,574,000
20 November 1999	US\$0.02	<u>10,000,000</u>	<u>(5,000,000)</u>	<u>5,000,000</u>
		<u>55,574,000</u>	<u>(5,000,000)</u>	<u>50,574,000</u>

The share options cancelled during the year relate to options granted to a former employee of the Group.

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34. RESERVES

	Share premium US\$'000	Capital reserve US\$'000	Warrant reserve US\$'000	Revaluation reserve US\$'000	General reserve US\$'000	Exchange translation reserve US\$'000	Capital redemption reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
THE GROUP									
At 1 January 1999	26,428	(289)	5,542	368	2,329	(2,303)	4	(19,251)	12,828
Transfer from									
accumulated losses	-	-	-	-	76	-	-	(76)	-
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	-	(401)	-	-	(401)
Disposal of subsidiaries and associates	-	1,029	-	(368)	-	2,325	-	368	3,354
Expiry of warrants	-	-	(5,542)	-	-	-	-	-	(5,542)
Net loss for the year	-	-	-	-	-	-	-	(30,505)	(30,505)
At 31 December 1999	26,428	740	-	-	2,405	(379)	4	(49,464)	(20,266)
Transfer from									
accumulated losses	-	-	-	-	262	-	-	(262)	-
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	-	(1,150)	-	-	(1,150)
Disposal and deconsolidation of subsidiaries	-	(24)	-	-	(936)	783	-	-	(177)
Net loss for the year	-	-	-	-	-	-	-	(10,349)	(10,349)
At 31 December 2000	26,428	716	-	-	1,731	(746)	4	(60,075)	(31,942)
Attributable to:									
Company and subsidiaries	26,428	716	-	-	1,731	(280)	4	(57,762)	(29,163)
Associates	-	-	-	-	-	(466)	-	(2,313)	(2,779)
	26,428	716	-	-	1,731	(746)	4	(60,075)	(31,942)

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FOR THE YEAR ENDED 31 DECEMBER 2000

34. RESERVES (continued)

	Share premium	Warrant reserve	Contributed surplus	Capital redemption reserve	Accumulated losses	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
THE COMPANY						
At 1 January 1999	26,428	5,542	1,614	4	(26,413)	7,175
Expiry of warrants	-	(5,542)	-	-	-	(5,542)
Net loss for the year	-	-	-	-	(23,793)	(23,793)
	<u>26,428</u>	<u>5,542</u>	<u>1,614</u>	<u>4</u>	<u>(23,793)</u>	<u>(23,793)</u>
At 31 December 1999	26,428	-	1,614	4	(50,206)	(22,160)
Net profit for the year	-	-	-	-	143	143
	<u>26,428</u>	<u>5,542</u>	<u>1,614</u>	<u>4</u>	<u>(50,206)</u>	<u>(22,160)</u>
At 31 December 2000	<u>26,428</u>	<u>5,542</u>	<u>1,614</u>	<u>4</u>	<u>(50,063)</u>	<u>(22,017)</u>

General reserve comprises Enterprise Expansion Fund and General Reserve Fund set aside by certain PRC subsidiaries in accordance with those companies' memorandum and articles of association.

The Company has no profit available for distribution at 31 December 2000 and 1999.

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FOR THE YEAR ENDED 31 DECEMBER 2000

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of loss before taxation to net cash inflow from operating activities:

	2000	1999
	US\$'000	US\$'000
Loss before taxation	(9,397)	(29,089)
Depreciation	6,175	10,593
Warrant reserve recognised on expiry of warrants	–	(5,542)
Write off of property, plant and equipment	–	2,182
Write off of construction in progress	–	1,417
Provision for loss for bank guarantees granted to associates	–	4,000
Interest income	(88)	(99)
Interest expenses	5,105	12,450
Loss on disposal of property, plant and equipment	37	51
Provision for inventories	572	6,049
Provision for bad and doubtful debts	4,664	9,034
Provision for amounts due from former subsidiaries and an associate	5,787	4,776
Gain on disposal of interests in subsidiaries and associates and deconsolidation of a subsidiary	(3,280)	(11,409)
Share of results of associates	(61)	931
Decrease in amounts due from associates	108	1,240
Increase in inventories	(1,050)	(3,035)
Increase in trade and other receivables	(1,933)	(5,852)
Decrease in amounts due to associates	(349)	(39)
Increase (decrease) in amounts due to directors	520	(1,554)
(Decrease) increase in trade and other payables	(3,343)	12,274
Increase (decrease) in bills payable	675	(374)
Exchange differences	(1,441)	2,148
	<hr/>	<hr/>
Net cash inflow from operating activities	2,701	10,152
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FOR THE YEAR ENDED 31 DECEMBER 2000

35. NOTES TO CONSOLIDATED OUTFLOW OF CASH FLOW STATEMENT (continued)

(b) Disposal of subsidiaries

	2000 US\$'000	1999 US\$'000
Net assets (liabilities) disposed of		
Non-current assets		
Property, plant and equipment	10,353	33,967
Construction in progress	1,364	7,514
Other unlisted investments	–	245
Deferred taxation	569	–
	12,286	41,726
Current assets		
Inventories	8,697	9,896
Trade and other receivables	8,995	25,196
Amounts due from directors	1,036	–
Bank balances and cash	3,388	1,575
	22,116	36,667
Current liabilities		
Trade and other payables	3,865	32,703
Bills payables	–	1,523
Tax liabilities	251	–
Short term loans	14,378	55,347
	18,494	89,573
Net current assets (liabilities)	3,622	(52,906)
Net assets (liabilities) disposed of	15,908	(11,180)
Less: Minority interests' share of net assets (liabilities) disposed of	(6,306)	–
Less: Interests in associates acquired	(8,507)	–
	1,095	(11,180)
Gain on disposal	2,775	11,460
Consideration	3,870	280
Satisfied by:		
Cash consideration	1,573	280
Other receivables	2,297	–
	3,870	280

The subsidiaries disposed of during the year contributed net operating inflow of US\$2,596,000 (1999: US\$4,003,000) towards the Group's net operating inflow and paid US\$806,000 (1999: US\$2,959,000) in respect of the net returns on investment and servicing of finance, paid US\$269,000 (1999: Nil) in respect of taxation, utilised US\$658,000 (1999: US\$758,000) for investing activities and obtained net inflow of US\$356,000 (1999: outflow of US\$366,000) in respect of financing activities.

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FOR THE YEAR ENDED 31 DECEMBER 2000

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

- (c) An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is provided as follows:

	2000	1999
	US\$'000	US\$'000
Cash consideration	1,573	280
Bank balances and cash disposed of	(3,388)	(1,575)
	<u>(1,815)</u>	<u>(1,295)</u>

- (d) Deconsolidation of a subsidiary

	US\$'000
Net liabilities transferred on deconsolidation	
Non-current assets	
Property, plant and equipment	2,741
Current assets	
Inventories	49
Other receivables	824
	<u>873</u>
Current liabilities	
Trade and other payables	2,427
Short-term loans	1,692
	<u>4,119</u>
Net current liabilities	<u>(3,246)</u>
Total net liabilities transferred	(505)
Gain on deconsolidation	505
Consideration	<u>–</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2000

35. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Analysis of changes in financing during the year

	Bank and other loans	Minority interests
	US\$'000	US\$'000
Balance at 1 January 1999	98,252	20,542
Cash inflow	42,539	–
Cash outflow	(41,864)	–
Disposal of subsidiaries	(55,347)	–
Partial interest in subsidiaries attributable to minority shareholders disposed of	–	17
Exchange adjustments	(187)	(1,460)
Dividends paid to minority shareholders	–	(420)
Minority shareholders' share of current year's results	–	1,037
	<hr/>	<hr/>
Balance at 1 January 2000	43,393	19,716
Cash inflow	22,260	–
Cash outflow	(16,928)	–
Disposal and deconsolidation of subsidiaries	(16,070)	(6,306)
Exchange adjustments	(1,057)	(165)
Minority shareholders' share of current year's results	–	370
	<hr/>	<hr/>
Balance at 31 December 2000	<u>31,598</u>	<u>13,615</u>

(f) Major non-cash transaction

The interest paid during the year does not include an amount of US\$2,806,000 (1999: US\$1,363,000), which was charged directly to the Group's bank overdraft accounts.

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FOR THE YEAR ENDED 31 DECEMBER 2000

36. CAPITAL COMMITMENTS

At the balance sheet date, the Group had outstanding capital commitments as follows:

	2000		1999	
	Contracted but not provided for US\$'000	Authorised but not contracted US\$'000	Contracted but not provided for US\$'000	Authorised but not contracted US\$'000
Capital expenditure in respect of acquisition of property, plant and equipment	<u>78</u>	<u>115</u>	<u>54</u>	<u>–</u>

37. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the following outstanding non-cancellable annual commitments under operating leases in respect of land and buildings:

	2000 US\$'000	1999 US\$'000
Leases expiring:		
Within one year	–	255
Within two to five years	23	445
After five years	<u>229</u>	<u>595</u>
	<u>252</u>	<u>1,295</u>

38. PLEDGE OF ASSETS

As at 31 December 2000, certain of the Group's property, plant and equipment with an aggregate net book value US\$5,557,000 (1999: US\$13,062,000) were pledged to various banks for securing bank loans and general banking facilities granted to the Group.

In addition, as at 31 December 2000, a debenture, which includes a fixed charge and a floating charge on all the assets and income of the Company and certain subsidiaries, was held by the Creditors.



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FOR THE YEAR ENDED 31 DECEMBER 2000

39. CONTINGENT LIABILITIES

As at 31 December 2000, the Group had contingent liabilities of US\$1,000,000 (1999: US\$1,000,000) in respect of a bank guarantee granted to a deconsolidated subsidiary.

Subsequent to the balance sheet date, the guarantee has been released as part of the restructuring.

40. POST BALANCE SHEET EVENTS

- (a) On 5 February 2001, a circular was issued to shareholders regarding the proposed restructuring and connected transaction involving, inter alia, capital reduction, compromise agreement with the Creditors, subscription agreement with the Investor, whitewash waiver, participation offer to independent shareholders and change of name.
- (b) On 23 March 2001, Special General Meeting was held to approve the proposed restructuring transactions.
- (c) On 23 March 2001, the Company issued a prospectus regarding the participation offer of 539,178,317 new shares of US\$0.001 each at HK\$0.02 per participation share, payable in full on acceptance (in the proportion of one participation share for every new share held) with two warrants for every five participation shares taken up.
- (d) The restructuring was completed on 30 March 2001. The issued share capital of the Company was reduced by US\$0.019 per share by cancelling an equivalent amount of paid-up capital per share so that the nominal value of each share in issue had been reduced from US\$0.02 to US\$0.001. Accordingly, the Company's existing issued share capital as at 31 December 2000 of US\$16,569,000 had been reduced by US\$15,741,000 to US\$828,000. Pursuant to a subscription agreement, the Investor injected US\$10 million in cash to subscribe for 4,000 million shares at a subscription price of US\$0.0025 each with 976 million units of warrants and US\$6 million was used to repay the Creditors. According to the Compromise Agreement, the Creditors released and fully discharged the Group from all liabilities under the Creditor's indebtedness of approximately US\$49 million after received the cash of US\$6 million from the Group, 1,320 million shares at US\$0.0075 each and 132 million units of warrants and 3 year loan notes with an aggregate face value of US\$4.4 million which bear interest at a rate of 7% per annum.
- (e) 539,178,317 shares and 215,671,326 unit of warrants were issued and allotted to independent shareholders in April 2001 under the participation offer and raised approximately HK\$10.8 million before expenses.
- (f) 102,564,000 shares and 22,380,000 units of warrants had been issued and allotted to certain professional parties as part payment of their fees incurred in connection with the restructuring.