

notes to financial statements

31 December 2000

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- design, manufacture and sale of home decorative products
- design, manufacture and sale of garden decorative products
- sale of other products and raw materials

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared in accordance with Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of investment properties and certain other fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2000. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- from the rendering of services, based on the stage of completion of the contract, provided that the revenues and the costs incurred can be measured reliably. The stage of completion of a contract is established by reference to the physical completion of a particular phase of the contract. Foreseeable losses on contracts in progress are recognised in full when identified;
- interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and
- rental income, on a time proportion basis over the lease terms.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors. Interests in subsidiaries are stated at cost unless, in the opinion of the directors, there have been permanent diminutions in values, when they are written down to values determined by the directors.

Associates

An associate is a company, not being a subsidiary or a joint venture, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provisions for diminutions in values, other than those considered to be temporary in nature, deemed necessary by the directors.

Goodwill

Goodwill arising on consolidation of subsidiaries and the acquisition of associates represents the excess of purchase consideration paid over the fair values ascribed to the net underlying assets acquired and is eliminated against reserves in the year of acquisition. The excess of the Group's share of the fair value of the separable net assets acquired over the cost of the investment is credited directly to reserves. On disposal of subsidiaries and associates, the relevant portion of attributable goodwill/capital reserve previously eliminated against/credited to reserves is realised and accounted for in arriving at the gain or loss on disposal.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment properties, are stated at cost or valuation 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 fixed asset, the expenditure is capitalised as an additional cost of that asset.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Changes in the values of fixed assets are dealt with as movements in the asset revaluation reserve. If the reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. A subsequent revaluation increase is recognised as income to the extent that it reverses a revaluation deficit of the same asset previously charged to the profit and loss account.

Depreciation is provided on the straight-line basis to write off the cost or valuation of each asset, less any estimated residual value, over the following estimated useful lives:

| | | |
|---|---|---|
| Freehold land | — | Nil |
| Leasehold land | — | Over the lease terms |
| Buildings | — | 20 years or over the lease terms, whichever is shorter |
| Leasehold improvements | — | 3 to 10 years or over the lease terms, whichever is shorter |
| Plant and machinery | — | 10 years |
| Furniture, fixtures, equipment and motor vehicles | — | 5 years |

No depreciation is provided on construction in progress until it is completed and put into use.

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On disposal or retirement, the attributable revaluation surplus not previously dealt with in retained profits is transferred directly to retained profits.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the carrying amount over the remaining term of the lease, and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

(a) *Research and development costs*

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects undertaken to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and there is reasonable certainty that the projects are technically feasible and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are amortised, using the straight-line method, over the commercial useful lives of the underlying products, generally two years, commencing in the year when the products are put into commercial production.

(b) *Deferred expenses*

Payments made to customers as consideration for their long term commitments to purchase exclusively from the Group are recorded as deferred expenses. The deferred expenses are capitalised only when it is expected that future economic benefits will flow to the Group.

Deferred expenses are amortised, using the straight-line method, over the terms of the underlying contracts.

Investments

Investment securities are securities which are intended to be held on a continuing basis for an identified long term purpose and are stated at cost less provisions for diminutions in values, on an individual investment basis. Provisions are made when the fair values have declined below the carrying amounts unless there is evidence that the decline is temporary. Any reduction in carrying amounts is charged to the profit and loss account.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised unless its realisation is assured beyond reasonable doubt.

notes to financial statements

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash equivalents

For the purpose of the consolidated cash flow statement, 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. For the purpose of balance sheet classification, cash and bank balances represent assets which are not restricted as to use.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, associates and overseas branches are translated to Hong Kong dollars at the rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Credit terms

Trading terms with customers are largely on credit, except for new customers, where payment in advance is normally required. Invoices are normally payable within 45 to 90 days of issuance, except for certain well established customers, where the terms are extended to 120 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are regularly reviewed by senior management.

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3. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns.

Revenue from the following activities has been included in the Group's turnover:

| | 2000 HK\$'000 | 1999 HK\$'000 |
|-----------------------|------------------|------------------|
| Sales of goods | 1,208,334 | 525,431 |
| Rendering of services | 336 | 9,565 |
| | <u>1,208,670</u> | <u>534,996</u> |

4. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Cost of inventories sold and services provided | 831,652 | 389,549 |
| Staff costs (excluding directors' remuneration — note 5): | | |
| Salaries and wages | 189,699 | 107,957 |
| Pension contributions | 1,900 | 424 |
| Depreciation: | | |
| Owned fixed assets | 24,005 | 8,133 |
| Leased fixed assets | 612 | — |
| Auditors' remuneration | 1,475 | 1,013 |
| Amortisation of intangible assets | 22,459 | 16,830 |
| Research cost written off | 5,873 | — |
| Write-off of intangible assets | 3,295 | — |
| Loss on disposal of fixed assets | 1,426 | 143 |
| Provisions for doubtful debts | 509 | — |
| Provision for diminution in value of investment in an associate | 300 | — |
| Operating lease rentals in respect of land and buildings | 10,882 | 4,467 |
| Exchange gains, net | (3,646) | (581) |
| Interest income | (1,372) | (1,061) |
| Gross rental income | (2,727) | — |
| Less: Outgoings | 249 | — |
| | <u>(2,478)</u> | <u>—</u> |

The "Cost of inventories sold and services provided" includes HK\$135,506,000 (1999: HK\$85,240,000) relating to staff costs, depreciation, amortisation and operating lease rentals in respect of land and buildings, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

notes to financial statements

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5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the Company's directors are as follows:

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Executive directors: | | |
| Fees | 60 | — |
| Basic salaries, housing, other allowances and benefits in kind | 7,242 | 4,189 |
| | <u>7,302</u> | <u>4,189</u> |
| Non-executive directors: | | |
| Fees | 774 | 360 |
| | <u>8,076</u> | <u>4,549</u> |

The number of directors whose remuneration fell within the bands set out below is as follows:

| | Number of directors | |
|-----------------------------|---------------------|----------|
| | 2000 | 1999 |
| Nil-HK\$1,000,000 | 10 | 7 |
| HK\$1,500,001-HK\$2,000,000 | 2 | 1 |
| | <u>2</u> | <u>1</u> |

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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5. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

Of the five highest paid individuals, two (1999: one) were directors of the Company and their remuneration has been included in the directors' remuneration. The remuneration of the remaining three (1999: four) highest paid individuals is as follows:

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|----------------------------|------------------|
| Basic salaries, housing, other allowances and benefits in kind | 6,053 | 3,671 |
| | Number of employees | |
| | 2000 | 1999 |
| Nil-HK\$1,000,000 | 3 | 4 |

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join, or upon joining, the Group or as compensation for loss of office.

6. FINANCE COSTS

| | Group | |
|---|------------------|------------------|
| | 2000 HK\$'000 | 1999 HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 21,543 | 4,430 |
| Interest on finance leases | 480 | — |
| Total finance costs | 22,023 | 4,430 |

notes to financial statements

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7. TAX

| | Group | |
|--|--------------|--------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Current year provision: | | |
| Hong Kong | 462 | 10 |
| Elsewhere | 7,597 | 3,952 |
| Deferred — note 23 | (4,899) | 154 |
| Underprovision/(overprovision) in prior years: | | |
| Hong Kong | 29 | (1,068) |
| | <u>3,189</u> | <u>3,048</u> |

Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$3,371,000 (1999: profit of HK\$21,105,000).

9. DIVIDEND

| | Group | |
|--|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| 1999 proposed final dividend of HK3 cents per ordinary share | — | 9,458 |

The directors do not recommend the payment of any dividend in respect of the year.

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10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK\$36,390,000 (1999: HK\$30,062,000) and the weighted average of 311,228,844 (1999: 248,612,356) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on the net profit attributable to shareholders for the year of HK\$36,390,000 (1999: HK\$30,062,000). The weighted average number of ordinary shares used in the calculation of 317,146,293 (1999: 250,123,880) comprises the 311,228,844 (1999: 248,612,356) ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 5,917,449 (1999: 1,511,524) ordinary shares assumed to have been issued at no consideration on the deemed exercise of all share options during the year.

11. FIXED ASSETS

Group

| | Land and buildings | Investment property | Construction in progress | Leasehold improvements | Plant and machinery | Furniture, fixtures, equipment and motor vehicles | Total |
|---------------------------------|-----------------------|------------------------|-----------------------------|---------------------------|------------------------|---|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost or valuation: | | | | | | | |
| At beginning of year | 107,019 | — | 3,931 | 24,804 | 17,804 | 60,148 | 213,706 |
| Additions | 47,077 | 11,026 | 25,332 | 10,257 | 30,103 | 19,906 | 143,701 |
| Acquisition of subsidiaries | — | — | — | — | — | 184 | 184 |
| Disposals | (306) | — | (742) | (517) | (320) | (1,130) | (3,015) |
| Transfers | 19,370 | — | (19,370) | — | (71) | 71 | — |
| Exchange realignment | (2,863) | — | 14 | 87 | (250) | (2,637) | (5,649) |
| At 31 December 2000 | 170,297 | 11,026 | 9,165 | 34,631 | 47,266 | 76,542 | 348,927 |
| Accumulated depreciation: | | | | | | | |
| At beginning of year | 11,645 | — | — | 7,830 | 8,076 | 31,491 | 59,042 |
| Provided during the year | 4,759 | — | — | 7,509 | 2,557 | 9,792 | 24,617 |
| Written back on disposals | (71) | — | — | (517) | (110) | (753) | (1,451) |
| Transfers | — | — | — | — | (36) | 36 | — |
| Exchange realignment | (432) | — | — | 26 | (208) | (1,387) | (2,001) |
| At 31 December 2000 | 15,901 | — | — | 14,848 | 10,279 | 39,179 | 80,207 |
| Net book value: | | | | | | | |
| At 31 December 2000 | 154,396 | 11,026 | 9,165 | 19,783 | 36,987 | 37,363 | 268,720 |
| At 31 December 1999 | 95,374 | — | 3,931 | 16,974 | 9,728 | 28,657 | 154,664 |
| Analysis of cost and valuation: | | | | | | | |
| At cost | 61,443 | — | 9,165 | 34,631 | 47,266 | 76,542 | 229,047 |
| At valuation | 108,854 | 11,026 | — | — | — | — | 119,880 |
| | 170,297 | 11,026 | 9,165 | 34,631 | 47,266 | 76,542 | 348,927 |

notes to financial statements

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11. FIXED ASSETS (continued)

The Group's land and buildings included above are held under the following lease terms:

| | Hong Kong | Elsewhere | Total |
|-------------------|-----------|-----------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| At cost: | | | |
| Medium lease term | — | 57,215 | 57,215 |
| At valuation: | | | |
| Freehold | — | 41,784 | 41,784 |
| Medium lease term | 35,647 | 19,750 | 55,397 |
| | <hr/> | <hr/> | <hr/> |
| | 35,647 | 118,749 | 154,396 |

The Group's investment property is located at: Units 1603 and 1605 on the 16th Floor of Tower III of Enterprise Square, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong and held under a medium term lease. It is used as office building and the interest of it is wholly attributable to the Group.

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 December 2000 amounted to HK\$12,424,000 (1999: Nil).

The Group's leasehold land and buildings and investment property in Hong Kong were revalued on an open market value existing use basis at 31 December 2000 by RHL Appraisal Ltd ("RHL"), an independent firm of professional valuers. For the land and buildings in the PRC, the directors considered that their carrying amounts, with reference to the valuation performed by RHL on a depreciated replacement cost basis at 31 December 2000, did not differ materially from their fair values as at 31 December 2000.

The freehold land and buildings located in Germany were acquired on 23 December 1999 as a result of the acquisition of a 98% interest in Heissner AG. The directors consider that their carrying amounts did not differ materially from their fair value as at 31 December 2000.

Had the Group's revalued leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK\$94,989,000 (1999: HK\$63,750,000).

The Group's revalued land and buildings, and investment property with a net book value of HK\$108,207,000 (1999: HK\$66,119,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 19.

The construction in progress and the remaining leasehold land and buildings were constructed on a parcel of industrial land for which the Group is still in the process of obtaining the land use rights certificate.

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12. INTANGIBLE ASSETS

Group

| | Deferred expenses | Deferred development cost | Total |
|---------------------------|------------------------------|--|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 |
| Cost: | | | |
| At beginning of year | 4,671 | 27,632 | 32,303 |
| Additions | — | 15,921 | 15,921 |
| Written off | — | (26,973) | (26,973) |
| Exchange realignment | (267) | 74 | (193) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2000 | 4,404 | 16,654 | 21,058 |
| Accumulated amortisation: | | | |
| At beginning of year | 1,650 | 12,599 | 14,249 |
| Amortisation | 1,736 | 20,723 | 22,459 |
| Written off | — | (23,678) | (23,678) |
| Exchange realignment | (94) | 35 | (59) |
| | <hr/> | <hr/> | <hr/> |
| At 31 December 2000 | 3,292 | 9,679 | 12,971 |
| Net book value: | | | |
| At 31 December 2000 | <hr/> | <hr/> | <hr/> |
| | 1,112 | 6,975 | 8,087 |
| At 31 December 1999 | <hr/> | <hr/> | <hr/> |
| | 3,021 | 15,033 | 18,054 |

13. INTERESTS IN SUBSIDIARIES

| | Company | |
|--------------------------|-----------------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Unlisted shares, at cost | 75,331 | 75,331 |
| Due from subsidiaries | 104,969 | 103,162 |
| | <hr/> | <hr/> |
| | 180,300 | 178,493 |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

notes to financial statements

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13. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation or establishment/ operations | Nominal value of issued and paid-up share/ registered capital | Attributable equity interest | Principal activities |
|--|---|---|------------------------------|---|
| Peaktop Investment Holdings (B.V.I.) Limited | British Virgin Islands | Ordinary US\$10,000 | 100% | Investment holding |
| Peaktop Limited | Hong Kong | Ordinary HK\$100 Deferred* HK\$18,720,000 | 100% | Trading of giftware and investment holding |
| Progress Limited | Hong Kong | Ordinary HK\$10,000 | 100% | Trading of giftware and Investment holding |
| Prisma (Italy) Hong Kong Limited | Hong Kong | Ordinary HK\$10,000 | 100% | Trading of giftware |
| Peaktop Limited | British Virgin Islands/ Taiwan | Ordinary US\$2 | 100% | Investment holding |
| Fuqing Yuansheng Light Industrial Products Co., Ltd. | PRC | Registered US\$5,200,000 | 100% | Manufacture and export of giftware |
| Yu Hua (Zhong Shan) Electrical Appliance Co., Ltd.# | PRC | Registered HK\$5,000,000 | 100% | Manufacture and distribution of water pumps |
| Yu Hua (Hong Kong) Electrical Appliance Co., Ltd.# | Hong Kong | Ordinary HK\$10,000 | 100% | Distribution of water pumps |

notes to financial statements

31 December 2000

13. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation or establishment/ operations | Nominal value of issued and paid-up share/ registered capital | Attributable equity interest | Principal activities |
|--|---|---|------------------------------|--|
| McField International Co., Ltd.# | Hong Kong | Ordinary HK\$100,000 | 100% | Distribution of giftware |
| Peaktop Limited (LA)** | United States of America | Ordinary US\$10,000 | 100% | Marketing and provision of after sales services |
| Peaktop International, Inc.** | United States of America | Ordinary US\$1,160,000 | 87% | Wholesale of giftware |
| Prismarte (Italy) (USA), Ltd.** | United States of America | Ordinary US\$1,000 | 87% | Wholesale of giftware |
| Progress International Trading Inc.** | United States of America | Ordinary US\$300,000 | 100% | Marketing and provision of after sales services |
| Heissner AG** | Germany | Ordinary Euro3,250,000 | 99.1% | Distribution and manufacture of water pumps and home gardening decorative products |
| Peaktop Europe GmbH (formerly U-Source International Trading GmbH)** | Germany | Ordinary DM500,000 | 100% | Distribution of water pumps and home gardening decorative products |
| Silkroadgifts, Inc.**# | United States of America | Ordinary US\$90,500 | 100% | Distribution of giftware |

notes to financial statements

31 December 2000

13. INTERESTS IN SUBSIDIARIES (continued)

| Name | Place of incorporation or establishment/ operations | Nominal value of issued and paid-up share/ registered capital | Attributable equity interest | Principal activities |
|--|---|---|------------------------------|---|
| Peaktop Technologies s.r.l.**# | Italy | Ordinary Euro52,000 | 100% | Trading of aquarium products and provision of research and development services |
| Waterwerks Pty. Ltd.**# | Australia | Ordinary AUD10,000 | 90% | Sales and distribution of giftware, household and gardening decorations |
| Fuqing Kangli Light Industrial Products Co., Ltd.**# | PRC | Registered HK\$750,000 | 100% | Manufacture of giftware |

Except for Peaktop Investment Holdings (B.V.I.) Limited, all of the above subsidiaries are indirectly held by the Company.

* The deferred shares carry no rights to dividends (other than a dividend at a fixed rate of 1% per annum on the excess of the net profits the company may determine to distribute in respect of any financial year over HK\$1,000,000,000,000,000), no rights to receive notice or to attend or vote at general meeting and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK\$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

** Not audited by Ernst & Young.

Acquired during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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14. INTERESTS IN ASSOCIATES

| | Group | |
|------------------------------------|------------------|------------------|
| | 2000 HK\$'000 | 1999 HK\$'000 |
| Share of net assets | 511 | 546 |
| Due from associates | 593 | 1,139 |
| Due to associates | — | (368) |
| | <hr/> | <hr/> |
| | 1,104 | 1,317 |
| Provision for diminutions in value | (300) | — |
| | <hr/> | <hr/> |
| | 804 | 1,317 |

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's principal associates are as follows:

| Name | Business structure | Place of incorporation and operations | Percentage of equity attributable to the Group | Principal activities |
|---|--------------------|---------------------------------------|--|--------------------------------------|
| Yuan Hua International Investment Company Limited | Corporate | Hong Kong | 30% | Investment holding |
| Orchid Potteries Co. Limited | Corporate | Thailand | 25% | Trading and manufacture of potteries |

Neither of the associates were audited by Ernst & Young.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

15. LONG TERM INVESTMENTS

The Group's long term investments represent unlisted shares stated at cost.

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16. INVENTORIES

| | Group | |
|------------------|----------------|----------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Raw materials | 65,369 | 49,221 |
| Work in progress | 13,565 | 20,086 |
| Finished goods | 109,815 | 57,270 |
| | <u>188,749</u> | <u>126,577</u> |

As at 31 December 2000, no inventories were stated at net realisable value (1999: HK\$10,872,000).

17. ACCOUNTS RECEIVABLE

As at 31 December 2000, the ageing analysis of the accounts receivable was as follows:

| | Group | |
|--------------|----------------|---------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Current | 96,150 | 54,633 |
| 30-60 days | 14,411 | 6,081 |
| 61-90 days | 6,086 | 4,787 |
| Over 90 days | 13,153 | 9,971 |
| | <u>129,800</u> | <u>75,472</u> |

notes to financial statements

31 December 2000

18. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

| | Group | |
|-------------------------------------|----------------|----------------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Bank overdrafts repayable on demand | | |
| Secured | 6,422 | 7,499 |
| Unsecured | 5,619 | — |
| | <u>12,041</u> | <u>7,499</u> |
| Bank loans | | |
| Secured | 128,664 | 59,044 |
| Unsecured | 56,682 | 47,751 |
| | <u>185,346</u> | <u>106,795</u> |

The maturity of the bank loans is as follows:

Bank loans are wholly repayable:

| | | |
|---|------------------|-----------------|
| Within one year | 132,412 | 79,230 |
| In the second year | 12,591 | — |
| In the third to fifth years, inclusive | 22,470 | 16,149 |
| Beyond five years | 17,873 | 11,416 |
| | <u>185,346</u> | <u>106,795</u> |
| Portion classified as current liabilities | <u>(132,412)</u> | <u>(79,230)</u> |
| Long term portion | <u>52,934</u> | <u>27,565</u> |

19. BANKING FACILITIES

The Group's bank loans and overdrafts are secured by the following:

- (i) Corporate guarantees from the Company and certain subsidiaries of the Company; and
- (ii) First legal charges on all the investment properties with a carrying amount of HK\$11,026,000 and certain leasehold land and buildings and freehold land of the Group with a net book value of approximately HK\$97,181,000 (note 11).

notes to financial statements

31 December 2000

20. FINANCE LEASE PAYABLES

There were obligations under finance leases at the balance sheet date as follows:

| | Group | |
|---|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Amounts payable: | | |
| Within one year | 4,123 | — |
| In the second year | 4,122 | — |
| In the third to fifth years, inclusive | 1,928 | — |
| | <hr/> | |
| Total minimum finance lease payments | 10,173 | — |
| | | |
| Future finance charges | (1,160) | — |
| | <hr/> | |
| Total net finance lease payables | 9,013 | — |
| | | |
| Portion classified as current liabilities | (3,402) | — |
| | <hr/> | |
| Long term portion | 5,611 | — |
| | <hr/> | |

21. ACCOUNTS AND BILLS PAYABLE

As at 31 December 2000, the ageing analysis of the accounts and bills payable was as follows:

| | Group | |
|--------------|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Current | 56,854 | 68,329 |
| 30-60 days | 18,188 | 8,150 |
| 61-90 days | 9,310 | 4,928 |
| Over 90 days | 22,421 | 4,444 |
| | <hr/> | |
| | 106,773 | 85,851 |
| | <hr/> | |

22. AMOUNT DUE TO A SHAREHOLDER

The amount due to a shareholder was unsecured, interest-free and fully repaid during the year.

notes to financial statements

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23. DEFERRED TAX

| | Group | |
|---------------------------------------|----------|----------|
| | 2000 | 1999 |
| | HK\$'000 | HK\$'000 |
| Balance at beginning of year | 5,298 | 16 |
| Acquisition of subsidiaries | — | 5,128 |
| Charge/(credit) for the year — note 7 | (4,899) | 154 |
| Exchange realignment | (288) | — |
| | <hr/> | <hr/> |
| At 31 December | 111 | 5,298 |

The revaluation of the Group's land and buildings does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

No provision has been made for taxes which arise on the remittance to Hong Kong of retained profits of overseas companies as it is not anticipated that these amounts will be remitted in the near future.

There are no significant potential deferred tax liabilities for which provision has not been made.

24. SHARE CAPITAL

Shares

| | 2000 | 1999 |
|---|----------|----------|
| | HK\$'000 | HK\$'000 |
| Authorised: | | |
| 1,000,000,000 (1999: 1,000,000,000) ordinary shares of HK\$0.10 each | 100,000 | 100,000 |
| | <hr/> | <hr/> |
| Issued and fully paid: | | |
| 315,254,000 (1999: 303,112,000) ordinary shares of HK\$0.10 each | 31,525 | 30,311 |

On 7 April 2000, the Group acquired equipment and machinery, injection moulds and raw materials for a total consideration of HK\$15,073,000 from an independent third party. The consideration was satisfied as to HK\$7,285,000 by the allotment and issue of 12,142,000 ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 each and the balance of HK\$7,788,000 was satisfied by way of cash.

notes to financial statements

31 December 2000

24. SHARE CAPITAL (continued)

A summary of the transaction during the year, with reference to the above movement of the Company's ordinary share capital, is as follows:

| | Number of shares issued | Par value |
|----------------------|------------------------------------|------------------|
| | HK\$'000 | HK\$'000 |
| At beginning of year | 303,112 | 30,311 |
| New shares issued | 12,142 | 1,214 |
| | <hr/> | <hr/> |
| At 31 December 2000 | 315,254 | 31,525 |

Share options

Under the terms of the Company's share option scheme adopted by the Company on 20 December 1997, the directors of the Company may, at their discretion, invite any employee, including any director, of the Company or any of its subsidiaries to take up options to subscribe for shares of the Company. The subscription price shall be not less than the higher of 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the offer of the option or the nominal value of a share. The maximum number of shares in respect of which options may be granted under the share option scheme may not exceed 10% of the issued share capital of the Company (excluding for this purpose any shares which have been duly allotted and issued pursuant to the exercise of any option granted under the scheme). The scheme became effective upon the listing of the Company's shares on the Stock Exchange on 15 January 1998 and will remain in force for a period of 10 years commencing on 12 January 1998, the date of adoption.

As at the balance sheet date, the Company had 18,296,000 outstanding share options which entitle the holders to subscribe for shares of the Company at any time on or before 30 June 2001. The subscription price per share payable upon the exercise of each option is HK\$0.4736, subject to adjustment. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 18,296,000 additional shares of HK\$0.10 each and proceeds of approximately HK\$8,665,000 before the related issue expenses.

Warrants

As at the balance sheet date, the Company had 49,600,000 warrants entitling the registered holders to subscribe in cash at any time on or before 3 June 2001 for new shares of HK\$0.10 each at a price of HK\$0.95 per share. Up to the date of the report, none of the warrants was exercised. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 49,600,000 additional ordinary shares and cash proceeds, before related issue expenses, of approximately HK\$47,120,000.

notes to financial statements

31 December 2000

25. RESERVES

| | Share premium HK\$'000 | Contributed surplus HK\$'000 (Note a) | Exchange fluctuation reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Statutory reserve HK\$'000 (Note b) | Capital reserve HK\$'000 | Goodwill reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|--|--|---|--|--------------------------------|---------------------------------|---------------------------------|-------------------|
| Group | | | | | | | | | |
| At 1 January 1999 | 23,848 | 18,528 | (2,478) | 2,115 | 11,398 | — | — | 62,799 | 116,210 |
| Issue of shares | 18,471 | — | — | — | — | — | — | — | 18,471 |
| Issue under share option scheme | 2,430 | — | — | — | — | — | — | — | 2,430 |
| Share issue expenses | (643) | — | — | — | — | — | — | — | (643) |
| Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of overseas branches | — | — | 656 | — | — | — | — | — | 656 |
| Reserve arising on consolidation of subsidiaries acquired during the year | — | — | — | — | — | 7,008 | (762) | — | 6,246 |
| Net profit for the year | — | — | — | — | — | — | — | 30,062 | 30,062 |
| Dividend | — | — | — | — | — | — | — | (9,458) | (9,458) |
| At 31 December 1999 and 1 January 2000 | 44,106 | 18,528 | (1,822) | 2,115 | 11,398 | 7,008 | (762) | 83,403 | 163,974 |
| Issue of shares | 6,071 | — | — | — | — | — | — | — | 6,071 |
| Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of overseas branches | — | — | (1,936) | — | — | — | — | — | (1,936) |
| Reserve arising on consolidation of subsidiaries acquired during the year | — | — | — | — | — | 100 | (3,715) | — | (3,615) |
| Additional goodwill reserve arising during the year on the acquisition of a subsidiary in the prior year | — | — | — | — | — | — | (3,609) | — | (3,609) |
| Net profit for the year | — | — | — | — | — | — | — | 36,390 | 36,390 |
| At 31 December 2000 | 50,177 | 18,528 | (3,758) | 2,115 | 11,398 | 7,108 | (8,086) | 119,793 | 197,275 |

notes to financial statements

31 December 2000

25. RESERVES (continued)

| | Share premium HK\$'000 | Contributed surplus HK\$'000 (Note a) | Exchange fluctuation reserve HK\$'000 | Asset revaluation reserve HK\$'000 | Statutory reserve HK\$'000 (Note b) | Capital reserve HK\$'000 | Goodwill reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|-----------------------------|------------------------------|--|--|---|--|--------------------------------|---------------------------------|---------------------------------|-------------------|
| Reserves retained by: | | | | | | | | | |
| Company and subsidiaries | 50,177 | 18,528 | (3,758) | 2,115 | 11,398 | 7,108 | (8,086) | 119,860 | 197,342 |
| Associates | — | — | — | — | — | — | — | (67) | (67) |
| At 31 December 2000 | 50,177 | 18,528 | (3,758) | 2,115 | 11,398 | 7,108 | (8,086) | 119,793 | 197,275 |
| Reserves retained by: | | | | | | | | | |
| Company and subsidiaries | 44,106 | 18,528 | (1,822) | 2,115 | 11,398 | 7,008 | (762) | 83,470 | 164,041 |
| Associates | — | — | — | — | — | — | — | (67) | (67) |
| At 31 December 1999 | 44,106 | 18,528 | (1,822) | 2,115 | 11,398 | 7,008 | (762) | 83,403 | 163,974 |

| | Share premium HK\$'000 | Contributed surplus HK\$'000 (Note a) | Retained profits HK\$'000 | Total HK\$'000 |
|--|------------------------------|--|---------------------------------|-------------------|
| At 1 January 1999 | 23,848 | 75,131 | 17,733 | 116,712 |
| Issue of shares | 18,471 | — | — | 18,471 |
| Share issue expenses | (643) | — | — | (643) |
| Issue under share option scheme | 2,430 | — | — | 2,430 |
| Net profit for the year 1999 | — | — | 21,105 | 21,105 |
| Dividend | — | — | (9,458) | (9,458) |
| At 31 December 1999 and 1 January 2000 | 44,106 | 75,131 | 29,380 | 148,617 |
| Issue of shares | 6,071 | — | — | 6,071 |
| Net loss for the year 2000 | — | — | (3,371) | (3,371) |
| At 31 December 2000 | 50,177 | 75,131 | 26,009 | 151,317 |

Company

| | | | | |
|--|--------|--------|---------|---------|
| At 1 January 1999 | 23,848 | 75,131 | 17,733 | 116,712 |
| Issue of shares | 18,471 | — | — | 18,471 |
| Share issue expenses | (643) | — | — | (643) |
| Issue under share option scheme | 2,430 | — | — | 2,430 |
| Net profit for the year 1999 | — | — | 21,105 | 21,105 |
| Dividend | — | — | (9,458) | (9,458) |
| At 31 December 1999 and 1 January 2000 | 44,106 | 75,131 | 29,380 | 148,617 |
| Issue of shares | 6,071 | — | — | 6,071 |
| Net loss for the year 2000 | — | — | (3,371) | (3,371) |
| At 31 December 2000 | 50,177 | 75,131 | 26,009 | 151,317 |

notes to financial statements

31 December 2000

25. RESERVES (continued)

Notes:

- (a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor in connection with the Group reorganisation in 1997.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under The Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for cash distribution and/or distribution in specie under certain circumstances prescribed by section 54 thereof.

- (b) In accordance with the relevant PRC regulations, a subsidiary of the Company established in the PRC is required to transfer a certain percentage of its profits after tax, if any, to the statutory reserve. Subject to certain restrictions set out in the relevant PRC regulations, the statutory reserve may be used to offset accumulated losses of the subsidiary.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Profit from operating activities | 61,078 | 37,605 |
| Depreciation | 24,617 | 8,133 |
| Amortisation of intangible assets | 22,459 | 16,830 |
| Interest income | (1,372) | (1,061) |
| Loss on disposal of fixed assets | 1,426 | 143 |
| Write-off of intangible assets | 3,295 | — |
| Provision for diminution in value of investment in an associate | 300 | — |
| Provisions for doubtful debts | 509 | — |
| Increase in accounts receivable | (53,689) | (8,478) |
| Increase in inventories | (60,385) | (32,559) |
| Increase in prepayments, deposits and other receivables | (4,609) | (11,321) |
| Decrease in amounts due from associates | 546 | — |
| Increase in accounts and bills payable | 20,445 | 38,885 |
| Increase in other payables and accruals | 3,945 | 21,463 |
| Decrease in amounts due to associates | (368) | — |
| Net cash inflow from operating activities | <u>18,197</u> | <u>69,640</u> |

notes to financial statements

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the years

| | Share capital and share premium HK\$'000 | Bank loans HK\$'000 | Pledged bank deposits HK\$'000 | Finance lease payables HK\$'000 | Minority interests HK\$'000 |
|--|---|------------------------|--------------------------------------|---------------------------------------|-----------------------------------|
| At 1 January 1999 | 48,648 | 19,870 | (7,731) | — | — |
| Net cash inflow/(outflow) from financing | 2,437 | (3,476) | (1,320) | — | — |
| Shares issued on acquisition of subsidiaries | 23,332 | — | — | — | — |
| Acquisition of subsidiaries | — | 90,401 | — | — | 619 |
| At 31 December 1999 and 1 January 2000 | 74,417 | 106,795 | (9,051) | — | 619 |
| Net cash inflow/(outflow) from financing | — | 83,808 | 9,051 | (2,653) | — |
| Inception of finance lease contracts — note 26(d)(i) | — | — | — | 11,666 | — |
| Acquisition of equipment and machinery and raw materials — note 26(d)(ii) | 7,285 | — | — | — | — |
| Acquisition of subsidiaries — note 26(c) | — | — | — | — | 168 |
| Arising on acquisition of additional interest in a subsidiary | — | — | — | — | 129 |
| Share of loss for the year | — | — | — | — | (524) |
| Decrease in bank loan classified as cash equivalents | — | (5,257) | — | — | — |
| | 81,702 | 185,346 | — | 9,013 | 392 |

notes to financial statements

31 December 2000

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries

| | 2000 HK\$'000 | 1999 HK\$'000 |
|---|------------------|------------------|
| Net assets acquired: | | |
| Fixed assets | 184 | 69,197 |
| Intangible assets | — | 3,021 |
| Unlisted investment | — | 125 |
| Interests in associates | — | 1,084 |
| Inventories | 1,163 | 57,564 |
| Cash and bank balances | 237 | 2,364 |
| Accounts receivable | 1,148 | 35,374 |
| Prepayments, deposits and other receivables | — | 6,871 |
| Bank loans | — | (90,401) |
| Accounts and bills payable | (477) | (26,881) |
| Other payables and accruals | (288) | (18,125) |
| Deferred tax | — | (5,128) |
| Amount due from/(to) a shareholder | 100 | (2,800) |
| Tax | (286) | (2,068) |
| Minority interests | (168) | (619) |
| | <u>1,613</u> | <u>29,578</u> |
| Goodwill reserve on acquisition | 3,586 | 762 |
| Capital reserve | (100) | (7,008) |
| | <u>5,099</u> | <u>23,332</u> |
| Satisfied by: | | |
| Cash | 5,099 | — |
| Shares issued | — | 23,332 |
| | <u>5,099</u> | <u>23,332</u> |
| Analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries: | | |
| | 2000 HK\$'000 | 1999 HK\$'000 |
| Cash consideration | (5,099) | — |
| Cash and bank balances acquired | 237 | 2,364 |
| Bank loans acquired | — | (26,000) |
| | <u>(4,862)</u> | <u>(23,636)</u> |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | <u>(4,862)</u> | <u>(23,636)</u> |

notes to financial statements

31 December 2000

26. NOTES TO CONSOLIDATED CASH FLOW STATEMENT (continued)

(c) Acquisition of subsidiaries (continued)

The subsidiaries acquired during the year made no significant contribution to the Group in respect of the cash flows, turnover and contribution to the consolidated profit after tax and before minority interests for the year.

(d) Major non-cash transactions

- (i) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total value at the inception of the lease of HK\$11,666,000 (1999: Nil).
- (ii) On 7 April 2000, the Group acquired equipment and machinery, injection moulds and raw materials for a total consideration of HK\$15,073,000 from an independent third party. The consideration was satisfied as to HK\$7,285,000 (comprising HK\$6,661,000 for the equipment and machinery and HK\$624,000 for the raw materials) by the allotment and issue of 12,142,000 ordinary shares of HK\$0.10 each at an issue price of HK\$0.60 each and the balance of HK\$7,788,000 (comprising HK\$4,734,000 for the injection moulds and HK\$3,054,000 for the raw materials) was satisfied by way of cash.

27. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

| | 2000 HK\$'000 | 1999 HK\$'000 |
|--|------------------|------------------|
| Capital commitments contracted, but not provided for | <u>55,516</u> | <u>35,225</u> |
| Annual commitments payable in the following year under non-cancellable operating leases in respect of land and buildings expiring: | | |
| Within one year | 332 | 825 |
| In the second to fifth years, inclusive | 8,278 | 6,466 |
| Beyond five years | <u>6,207</u> | <u>2,983</u> |
| | <u>14,817</u> | <u>10,274</u> |

The Company did not have any other significant commitments at the balance sheet date.

notes to financial statements

31 December 2000

28. CONTINGENT LIABILITIES

| | Group | | Company | |
|--|------------------|------------------|------------------|------------------|
| | 2000 HK\$'000 | 1999 HK\$'000 | 2000 HK\$'000 | 1999 HK\$'000 |
| Bills discounted with recourse | 10,333 | 19,334 | — | — |
| Guarantees of banking facilities granted to subsidiaries | — | — | 263,800 | 139,720 |
| Guarantees of finance leases granted to subsidiaries | — | — | 49,000 | — |

In respect of the Company guarantees for banking facilities and finance lease facilities granted to subsidiaries, the balance drawn down by the subsidiaries as at the balance sheet date amounted to HK\$164,056,000 (1999: HK\$28,382,000) and HK\$9,013,000 (1999: nil), respectively.

29. POTENTIAL CLAIMS

During the year, the Group received several claims for unspecified amounts in relation to the alleged infringement of copyrights and design patents. These matters are still pending and no lawsuits have yet been filed. The directors, based on the advice of the Group's legal counsel, believe that the subsidiary concerned has a valid defence against the litigation. Accordingly, the Group has not provided for any claims arising from the litigation other than the related legal and other costs incurred.

30. POST BALANCE SHEET EVENTS

- (a) On 1 February 2001, the Group entered into a sale and purchase agreement (the "Agreement") with an independent third party for the acquisition of a 51% equity interest of a Germany incorporated company which is principally engaged in the trading of decorative products together with certain patents, copyrights, trademarks and trade names for a total consideration of US\$793,000 (equivalent to HK\$6,185,000).
- (b) On 28 May 2001, the Company proposed to grant bonus shares to its shareholders on the basis of one share for every ten shares of HK\$0.10 each in the share capital of the Company held by the shareholders whose names appeared on the register of members of the Company on Thursday, 28 June 2001. Based on the issued share capital of the Company as at the date of this report, 31,525,400 new shares will be issued.

31. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 28 May 2001.