

NOTES TO THE CONDENSED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2001

1. ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention modified for revaluation of certain property interests.

The interim financial report has been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim financial reporting" ("SSAP 25") issued by the Hong Kong Society of Accountants, except that comparative figures are not presented for the condensed statement of recognised gains and losses nor for the condensed consolidated cash flow statement, being the first condensed consolidated cash flow statement to be included in the interim financial report relating to accounting periods ended on or after July 1, 2000. Such departure from SSAP 25 is permitted under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the current period, the Company has adopted a number of new Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants for the first time. The only SSAP that has impacted on these condensed financial statements is SSAP 9 (Revised) "Events after the balance sheet date" ("SSAP 9 (Revised)"). SSAP 9 (Revised) specifies that dividends declared after the balance sheet date should be disclosed as a separate component of equity. In prior periods, dividends declared after the balance sheet date were recognised as liabilities in the balance sheet. SSAP 9 (Revised) has been applied retrospectively, resulting in an increase in the Group's net assets at January 1, 2000 of HK\$9,715,000 and at January 1, 2001 of HK\$10,379,000.

Other than the adoption of SSAP 9 (Revised), the accounting policies adopted in these condensed financial statements are consistent with those followed in the Group's annual audited financial statements for the year ended December 31, 2000.

2. TURNOVER

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

	Turnover		Profit before taxation	
	1.1.2001 to 6.30.2001 HK\$'000	1.1.2000 to 6.30.2000 HK\$'000	1.1.2001 to 6.30.2001 HK\$'000	1.1.2000 to 6.30.2000 HK\$'000
By principal activity:				
Sales of cases, bags and pouches, display units and stationery	118,493	126,685	21,812	23,421
Property rental	<u>30</u>	<u>88</u>	<u>30</u>	<u>83</u>
	<u>118,523</u>	<u>126,773</u>	<u>21,842</u>	<u>23,504</u>
Interest income			6,716	2,921
Finance costs			<u>(3,766)</u>	<u>(185)</u>
			<u>24,792</u>	<u>26,240</u>
By geographical market:				
North and South America	31,016	43,479	5,709	8,038
Hong Kong	40,098	35,271	10,356	9,323
Europe	38,808	39,349	7,144	7,275
Others	<u>8,601</u>	<u>8,674</u>	<u>1,583</u>	<u>1,604</u>
	<u>118,523</u>	<u>126,773</u>	<u>24,792</u>	<u>26,240</u>

3. DEPRECIATION AND AMORTISATION

During the period, depreciation and amortisation of approximately HK\$1,856,000 (1.1.2000 to 6.30.2000: HK\$1,777,000) was charged in respect of the Group's property, plant and equipment and interest in properties.

4. FINANCE COSTS

	1.1.2001 to 6.30.2001 HK\$'000	1.1.2000 to 6.30.2000 HK\$'000
Interest on		
Convertible note payable	(3,766)	(184)
Bank overdraft	<u>-</u>	<u>(1)</u>
	<u>(3,766)</u>	<u>(185)</u>

5. TAXATION

The charge represents Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period.

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

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

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

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

6. DIVIDENDS

During the period, the final dividend of HK\$0.005 per share for 2000 was paid to the shareholders. The directors do not recommend the payment of any interim dividend for the six months ended June 30, 2001.

7. EARNINGS PER SHARE

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

	1.1.2001 to 6.30.2001 HK\$'000	1.1.2000 to 6.30.2000 HK\$'000
Net profit for the period	22,858	24,110
Effect of dilutive potential shares relating to convertible note payable	<u>3,766</u>	<u>184</u>
Earnings for the purposes of diluted earnings per share	<u><u>26,624</u></u>	<u><u>24,294</u></u>
	Number of shares	
	6.30.2001	6.30.2000
Weighted average number of shares for the purposes of basic earnings per share	2,074,281,099	1,784,127,434
Effect of dilutive potential shares:		
Convertible note payable	1,844,527,224	91,575,092
Warrants	163,645,985	11,325,955
Options	<u>–</u>	<u>10,010,491</u>
Weighted average number of shares for the purposes of diluted earnings per share	<u><u>4,082,454,308</u></u>	<u><u>1,897,038,972</u></u>

8. INVESTMENT PROPERTY

During the period, the investment property was transferred to leasehold properties at its carrying value of HK\$1,100,000 as the property was put into use in the Group’s business.

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$10,345,000 (1.1.2000 to 12.31.2000: HK\$7,997,000) on the acquisition of property, plant and equipment.

10. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$40,583,000 (12.31.2000: HK\$38,362,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	6.30.2001 HK\$'000	12.31.2000 HK\$'000
0 to 30 days	17,108	19,880
31 to 60 days	8,569	5,451
Over 60 days	<u>14,906</u>	<u>13,031</u>
	<u><u>40,583</u></u>	<u><u>38,362</u></u>

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$18,540,000 (12.31.2000: HK\$16,855,000). The aged analysis of trade payables at the balance sheet date is as follows:

	6.30.2001 HK\$'000	12.31.2000 HK\$'000
0 to 30 days	6,593	6,843
31 to 60 days	5,037	4,540
Over 60 days	<u>6,910</u>	<u>5,472</u>
	<u><u>18,540</u></u>	<u><u>16,855</u></u>

12. SHARE CAPITAL

	Number of shares '000	HK\$ '000
Shares of HK\$0.01 each		
<i>Authorised share capital:</i>		
At 1.1.2001 and 6.30.2001	<u>10,000,000</u>	<u>100,000</u>
<i>Issued and fully paid:</i>		
At 1.1.2001	2,070,820	20,708
Exercise of warrants	8,092	81
	<u>2,078,912</u>	<u>20,789</u>
At 6.30.2001	<u>2,078,912</u>	<u>20,789</u>

During the period, 8,092,000 shares of HK\$0.01 each were allotted and issued at a price of HK\$0.065 per share as a result of exercise of the Company's warrants.

13. RESERVES

	Share premium HK\$ '000	Surplus account HK\$ '000	Asset revaluation reserve HK\$ '000	Dividend reserve HK\$ '000	Accumulated profits HK\$ '000	Total HK\$ '000
At January 1, 2000						
– as originally stated	19,583	90,554	1,000	–	91,186	202,323
– derecognition of liability for final dividend for 1999 (<i>note 1</i>)	–	–	–	9,715	–	9,715
– as restated	19,583	90,554	1,000	9,715	91,186	212,038
Premium arising on exercise of share options	2,781	–	–	–	–	2,781
Premium arising on issue of shares pursuant to a subscription agreement	21,760	–	–	–	–	21,760
Expenses incurred in connection with issue of shares pursuant to a subscription agreement	(353)	–	–	–	–	(353)
Premium arising on exercise of warrants	4,913	–	–	–	–	4,913
Net profit for the year	–	–	–	–	48,585	48,585
Underprovision for dividend	–	–	–	193	(193)	–
Dividends paid	–	–	–	(9,908)	–	(9,908)
Proposal of final dividend for 2000	–	–	–	10,379	(10,379)	–
	<u>48,684</u>	<u>90,554</u>	<u>1,000</u>	<u>10,379</u>	<u>129,199</u>	<u>279,816</u>
At December 31, 2000	<u>48,684</u>	<u>90,554</u>	<u>1,000</u>	<u>10,379</u>	<u>129,199</u>	<u>279,816</u>
At January 1, 2001						
– as originally stated	48,684	90,554	1,000	–	129,199	269,437
– derecognition of liability for final dividend for 2000 (<i>note 1</i>)	–	–	–	10,379	–	10,379
– as restated	48,684	90,554	1,000	10,379	129,199	279,816
Premium arising on exercise of warrants	445	–	–	–	–	445
Net profit for the period	–	–	–	–	22,858	22,858
Underprovision for dividend	–	–	–	16	(16)	–
Dividends paid	–	–	–	(10,395)	–	(10,395)
	<u>49,129</u>	<u>90,554</u>	<u>1,000</u>	<u>–</u>	<u>152,041</u>	<u>292,724</u>
At June 30, 2001	<u>49,129</u>	<u>90,554</u>	<u>1,000</u>	<u>–</u>	<u>152,041</u>	<u>292,724</u>

14. RELATED PARTY TRANSACTIONS

	1.1.2001 to 6.30.2001 HK\$ '000	1.1.2000 to 6.30.2000 HK\$ '000
--	---------------------------------------	---------------------------------------

During the period, the Group had the following significant transactions with Faircom Limited:

Issue of convertible note payable	–	150,000
Interest on convertible note payable	<u>3,766</u>	<u>184</u>

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

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

15. PLEDGE OF ASSETS

At June 30, 2001, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$4,000,000 (12.31.2000: HK\$4,000,000) as securities for general banking facilities granted to the Group.

16. CAPITAL COMMITMENTS

	6.30.2001 HK\$'000	12.31.2000 <i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	<u>—</u>	<u>1,084</u>

At June 30, 2001, the directors are of the opinion that the development costs in respect of the construction of factory premises which will be further incurred by the Group amounted to approximately HK\$2,813,000 (12.31.2000: HK\$10,521,000), of which approximately HK\$2,799,000 (12.31.2000: HK\$8,646,000) were contracted for but not provided in the financial statements.

17. POST BALANCE SHEET EVENT

Subsequent to June 30, 2001, the Group purchased a convertible note of HK\$25,000,000 issued by a company listed on the Stock Exchange.

18. COMPARATIVE FIGURES

Income included in other revenue in respect of sales of goods of approximately HK\$116,000 for the six months ended June 30, 2000 has been reclassified to the gross profit and turnover and cost of goods were increased by approximately HK\$4,411,000 and HK\$4,295,000, respectively.