

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

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 Company acts as an investment holding company. The principal activities of its subsidiaries and associates are the manufacture and sale of wooden products.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company and its subsidiaries (the "Group") have adopted for the first time a number of new and revised Statements of Standard Accounting Practice ("SSAP(s)") issued by the Hong Kong Society of Accountants. Adoption of these SSAPs has led to a number of changes in the Group's accounting policies. The revised accounting policies are set out in note 3. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements.

None of the above amendments affected the results of the Group for the current or prior years.

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.

Where the Group holds more than half of the issued share capital of subsidiaries but is not in a position to control the composition of the board of directors or equivalent governing body of these subsidiaries, these subsidiaries are excluded from the consolidation. Such investments in unconsolidated subsidiaries are dealt with as investments in securities and are accounted for in accordance with SSAP 24 "Accounting for investments in securities" unless the Group is in a position to exercise significant influence and equity account for these unconsolidated subsidiaries, and are stated at the amount at which it would have been included under the equity method of accounting at the date on which the Group ceases to have control and significant influence.

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

Turnover

Turnover represents the net amounts received and receivable for goods sold.

Revenue recognition

Sales of goods are recognised 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.

Interests in associates

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 less any identified impairment loss.

Investments in securities

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

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

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 identified impairment loss.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and amortisation and any identified impairment loss.

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.

Depreciation and amortisation is calculated to write off the cost of property, plant and equipment on a straight line basis over their estimated useful lives. The principal annual rates of depreciation and amortisation adopted by the Group are as follows:

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

The cost of construction in progress will not be amortised until they are put into use and are transferred to a specific category of property, plant and equipment when the construction is completed.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as expenses immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Club debenture

Club debenture held on a long term basis is stated at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average cost method.

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 terms.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed 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.

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

Transactions in currencies other than the United States dollar are initially recorded at the rates of exchange prevailing on the dates of transactions.

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

On consolidation, the assets and liabilities of the Group's operations are translated into United States dollar at the rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed of.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sales.

All other borrowing costs are recognised in net profit or loss in the period in which they are incurred.

Retirement benefits

Payments to Mandatory Provident Fund ("MPF") scheme are charged as an expense as they fall due. Payments made to state-managed retirement benefit schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefits scheme.

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into four principal operating divisions of which their principal activities are disclosed as follows and these divisions form the basis on which the Group reports its primary segment information.

Principal activities:

Blockboard and particle board	– manufacture and trading of products of blockboard and particle board
Door skin	– manufacture and trading of door skin
Furniture	– manufacture and trading of furniture
Other wooden products	– manufacture and trading of wooden products other than those identified as above

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

- (i) Segment information about these businesses for the year ended 31 December 2001 is presented below:

INCOME STATEMENT

	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture (Note) US\$'000	Other wooden products US\$'000	Others US\$'000	Inter- segment eliminations US\$'000	Consolid- ated US\$'000
TURNOVER							
External sales	31,953	1,545	—	2,264	71	—	35,833
Inter-segment sales	1,178	—	—	4,204	—	(5,382)	—
Total revenue	<u>33,131</u>	<u>1,545</u>	<u>—</u>	<u>6,468</u>	<u>71</u>	<u>(5,382)</u>	<u>35,833</u>
Inter-segment sales are charged at prevailing market prices.							
RESULT							
Segment result	<u>(2,068)</u>	<u>(96)</u>	<u>—</u>	<u>(404)</u>	<u>(4)</u>	<u>—</u>	<u>(2,572)</u>
Unallocated corporate expenses							<u>(2,066)</u>
Loss from operations							(4,638)
Finance costs							(1,769)
Share of results of associates	(2,193)	—	665	199	—	—	(1,329)
Write off of amount due from an associate	(240)	—	—	—	—	—	(240)
Net gain arising from corporate restructuring							25,959
Write back of provision for loss for bank guarantees granted to associates							4,000
Gain on deconsolidation of a subsidiary							610
Gain on buy-back of three-year loan notes at discounted price							252
Gain on disposal of an associate							18
Profit before taxation							22,863
Taxation							(474)
Profit before minority interests							<u>22,389</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

- (i) Segment information about these businesses for the year ended 31 December 2001 is presented below: (continued)

BALANCE SHEET

	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture (Note) US\$'000	Other wooden products US\$'000	Others US\$'000	Consolidated US\$'000
ASSETS						
Segment assets	26,253	1,180	–	2,005	60	29,498
Interests in associates	1,838	–	3,245	987	–	6,070
Investments in securities						1,974
Club debenture						37
Commonly used property, plant and equipment						40,268
Unallocated corporate assets						2,002
Consolidated total assets						<u>79,849</u>
LIABILITIES						
Segment liabilities	26,420	1,187	–	2,017	61	29,685
Unallocated corporate liabilities						3,865
Consolidated total liabilities						<u>33,550</u>

OTHER INFORMATION

	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture (Note) US\$'000	Other wooden products US\$'000	Others US\$'000	Consolidated US\$'000
Additions of property, plant and equipment						1,798
Depreciation and amortisation						5,437
Write off of bad and doubtful debts	1,456	65	–	112	3	1,636

Note:

During the year ended 31 December 2000, the Company had partially disposed of its equity interest in a subsidiary which was carrying out the business segment of furniture and since then the subsidiary became a 46.47% owned associate of the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

- (ii) Segment information about these businesses for the year ended 31 December 2000 is presented below:

INCOME STATEMENT

	Blockboard and particle board US\$'000	Furniture US\$'000	Other wooden products US\$'000	Inter- segment eliminations US\$'000	Consolid- ated US\$'000
TURNOVER					
External sales	53,469	13,341	7,723	-	74,533
Inter-segment sales	4,534	-	-	(4,534)	-
Total revenue	<u>58,003</u>	<u>13,341</u>	<u>7,723</u>	<u>(4,534)</u>	<u>74,533</u>
Inter-segment sales are charged at prevailing market prices.					
RESULT					
Segment result	<u>916</u>	<u>211</u>	<u>122</u>	<u>-</u>	1,249
Unallocated corporate expenses					<u>(4,079)</u>
Loss from operations					(2,830)
Finance costs					(4,121)
Share of results of associates	(63)	96	28	-	61
Write off of amount due from an associate					(3,668)
Write off of amounts due from former subsidiaries					(2,119)
Gain on disposals of subsidiaries					2,775
Gain on deconsolidation of a subsidiary					<u>505</u>
Loss before taxation					(9,397)
Taxation					<u>(582)</u>
Loss before minority interests					<u>(9,979)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

- (ii) Segment information about these businesses for the year ended 31 December 2000 is presented below: (continued)

BALANCE SHEET

	Blockboard and particle board	Furniture	Other wooden products	Consolid- ated
	US\$'000	US\$'000	US\$'000	US\$'000
ASSETS				
Segment assets	20,084	5,077	3,044	28,205
Interests in associates	4,084	2,614	798	7,496
Club debenture				37
Commonly used property, plant and equipment				44,072
Unallocated corporate assets				5,522
Consolidated total assets				<u>85,332</u>
LIABILITIES				
Segment liabilities	25,494	6,399	3,657	35,550
Unallocated corporate liabilities				51,540
Consolidated total liabilities				<u>87,090</u>

OTHER INFORMATION

	Blockboard and particle board	Furniture	Other wooden products	Consolid- ated
	US\$'000	US\$'000	US\$'000	US\$'000
Additions of property, plant and equipment				3,879
Depreciation and amortisation				6,175
Write off of bad and doubtful debts	3,358	840	466	4,664

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

The Group's operations are located in Hong Kong, the PRC and Singapore. Manufacture of the wooden products is carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods:

	Sales revenue by geographical market		Loss from operations	
	Year ended 31.12.2001 US\$'000	Year ended 31.12.2000 US\$'000	Year ended 31.12.2001 US\$'000	Year ended 31.12.2000 US\$'000
The PRC	34,081	60,734	(2,446)	1,006
United States of America	–	13,597	–	241
Others	1,752	202	(126)	2
	<u>35,833</u>	<u>74,533</u>	<u>(2,572)</u>	1,249
Unallocated corporate expenses			<u>(2,066)</u>	<u>(4,079)</u>
Loss from operations			<u>(4,638)</u>	<u>(2,830)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments (continued)

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	Year ended 31.12.2001 US\$'000	Year ended 31.12.2000 US\$'000	Year ended 31.12.2001 US\$'000	Year ended 31.12.2000 US\$'000
The PRC	63,320	69,676	1,772	3,879
Others	16,529	15,656	26	–
	<u>79,849</u>	<u>85,332</u>	<u>1,798</u>	<u>3,879</u>

5. OTHER REVENUE

Other revenue comprises:

	2001 US\$'000	2000 US\$'000
Interest income	53	88
Value added tax refund (<i>Note</i>)	2,147	3,663
Other operating income	844	217
	<u>3,044</u>	<u>3,968</u>

Note:

Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax ("VAT") treatment of such subsidiaries, during the year ended 31 December 2001, VAT refund totalling US\$2,147,000 (2000: US\$3,663,000) were obtained by these subsidiaries.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2001	2000
	US\$'000	US\$'000
Directors' remuneration (<i>Note a</i>)		
– Fees	–	–
– Other emoluments	173	687
Other staff costs	2,924	5,129
Retirement benefit scheme contributions (<i>Note b</i>)	450	862
	<hr/>	<hr/>
Total staff costs	3,547	6,678
	<hr/>	<hr/>
Auditors' remuneration	201	238
Depreciation	5,437	6,175
Loss on disposal of property, plant and equipment	23	37
Minimum lease payments under operating leases in respect of rented premises	245	897
Provision for bad and doubtful debts	1,636	4,664
	<hr/> <hr/>	<hr/> <hr/>

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:

	2001	2000
	US\$'000	US\$'000
Other emoluments to executive directors:		
Salaries and other benefits	160	640
Retirement benefit scheme contributions	1	–
	<hr/>	<hr/>
	161	640
	<hr/>	<hr/>
Other emoluments to independent non-executive directors:		
Salaries and other benefits	11	47
Retirement benefit scheme contributions	1	–
	<hr/>	<hr/>
	12	47
	<hr/>	<hr/>
	173	687
	<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

6. LOSS FROM OPERATIONS (continued)

Notes: (continued)

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

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

Bands (HK\$)	2001 Number of directors	2000 Number of directors
0 – 500,000	9	3
500,001 – 1,000,000	2	–
2,000,001 – 2,500,000	<u>–</u>	<u>2</u>

(iii) Of the five individuals with the highest emoluments in the Group, two (2000: two) were directors of the Company whose emoluments are included in the disclosures in note 6(a)(i) and (ii) above. The emoluments of the remaining three (2000: three) individuals are as follows:

	2001 US\$'000	2000 US\$'000
Salaries and other benefits	315	216
Retirement benefit scheme contributions	<u>3</u>	<u>–</u>
	<u>318</u>	<u>216</u>

Their emoluments were within the following bands:

Bands (HK\$)	2001 Number of individuals	2000 Number of individuals
0 – 500,000	–	2
500,001 – 1,000,000	2	1
1,000,001 – 1,500,000	<u>1</u>	<u>–</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

6. LOSS FROM OPERATIONS (continued)

Notes: (continued)

(b) Retirement benefit scheme

The Group operates MPF scheme for all qualifying employees in Hong Kong of the Company and its subsidiaries. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

In addition, 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 retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit schemes is to make the specified contribution.

The total cost charged to the income statements of US\$450,000 (2000: US\$862,000) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. The amount paid during the year relates to contributions made in connection with the directors of the Company are disclosed in Note 6(a)(i).

7. FINANCE COSTS

	2001 US\$'000	2000 US\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	1,570	5,105
– three-year loan notes	199	–
	<u>1,769</u>	<u>5,105</u>
Net exchange gain	–	(984)
	<u>1,769</u>	<u>4,121</u>

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

8. NET GAIN ARISING FROM CORPORATE RESTRUCTURING

The gain represents the net amount of loans and accrued interest waived by certain of the Group's bankers and the liquidator of a financial institution in Hong Kong (collectively the "Creditors"), less legal and professional fees, pursuant to a compromise agreement entered into between the Company and the Creditors as part of a scheme of corporate restructuring (the "Restructuring Scheme"), which was approved by the shareholders in a special general meeting held on 23 March 2001. Details of the Restructuring Scheme are set out in the circular dated 5 February 2001 issued in connection with the corporate restructuring.

9. WRITE BACK OF PROVISION FOR LOSS FOR BANK GUARANTEES GRANTED TO ASSOCIATES

The provision represented bank guarantees granted to certain associates in the financial year ended 31 December 1999. Following the completion of the Restructuring Scheme on 30 March 2001, the guarantees were released and the provision has accordingly been written back to the Group's income statement.

10. GAIN ON DECONSOLIDATION OF A SUBSIDIARY

Since January 2001, the Group has been unable to exercise its rights as a controlling shareholder of Langfang Fuyang Timber Co., Ltd. 廊坊福洋木業有限公司 ("LFT"), a subsidiary engaged in manufacturing and sale of wooden products of which the Group has 51% equity interest. Because the Group has been unable to obtain any financial information of LFT for the current year, the directors considered that for accounting purpose LFT should be deconsolidated from the Group's financial statements from 1 January 2001 resulting in a gain on deconsolidation of US\$610,000 (see Note 35).

The directors of the Company believe that the Group has no other material obligations or commitments in respect of LFT that would require either adjustments to or disclosures in these financial statements.

During the prior year, Tianjin Fuda Timber Co., Ltd. 天津福達木業有限公司 ("TFD"), a former 75.3% owned subsidiary of the Group commenced compulsory winding up proceedings. As the Group could no longer exercise any control over TFD, TFD had been deconsolidated and resulted in a gain of US\$505,000.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

11. GAIN ON BUY-BACK OF THREE-YEAR LOAN NOTES AT DISCOUNTED PRICE

During the year, the Group bought back certain of its three-year loan notes with a principal amount of US\$840,000 which issued as part of the Restructuring Scheme at a consideration of US\$588,000. The consideration paid is 70% of the face value of the three-year loan notes being bought and this resulted in the recognition of a gain of US\$252,000 in the income statement of the Group.

12. GAIN ON DISPOSALS OF SUBSIDIARIES

The gain of the prior year related to the Group's partial disposal of a former 67.47% owned subsidiary, namely, Tianjin Fortune Furniture Co., Ltd. 天津福家家具有限公司 ("TFF") and another deemed disposal of a former 51% owned subsidiary, Hubei Fuhan Timber Co., Ltd. 湖北福漢木業有限公司 ("HFT").

In the prior year, the Group disposed of its 21% equity interest in TFF for a consideration of US\$3,870,000. As a result of this 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 joint venture partner of HFT, the Group's equity interest in HFT was diluted to 48% and HFT was reclassified to an associate accordingly.

13. TAXATION

The charge comprises:

	2001 US\$'000	2000 US\$'000
The Company and subsidiaries:		
Hong Kong Profits Tax (<i>note a</i>)	–	(1)
PRC income tax (<i>note b</i>)	233	493
Deferred taxation (<i>Note 22</i>)	47	39
	<hr/> 280	<hr/> 531
Share of taxation of associates:		
PRC income tax (<i>note b</i>)	194	51
	<hr/> 474	<hr/> 582

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

13. TAXATION

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 prior year represented an overprovision in the previous years.
- (b) 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 prevailing in the respective regions of the PRC on the estimated assessable profits of those subsidiaries and associates.

The Group had no material unprovided deferred taxation for both years.

14. NET PROFIT (LOSS) FOR THE YEAR

Of the net profit of US\$24,255,000 (2000: loss of US\$10,349,000) for the year, a loss of US\$5,816,000 (2000: profit of US\$143,000) has been dealt with in the financial statements of the Company.

15. EARNINGS (LOSS) PER SHARE

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

	2001	2000
	US\$'000	US\$'000
Net profit (loss) for the year and earnings (loss) for the purpose of basic earnings per share	<u>24,255</u>	<u>(10,349)</u>
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic earnings (loss) per share	5,591,565,611	828,448,317
Effect of dilutive potential shares arising from:		
– Warrants	567,556,371	–
– Share options	<u>102,914</u>	–
Weighted average number of shares for the purpose of diluted earnings (loss) per share	<u>6,159,224,896</u>	<u>828,448,317</u>

No diluted loss per share was presented for the prior year as the exercise price of the share options of the Company was higher than the market price of the shares of the Company in that year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

16. 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	Construction in progress US\$'000	Total US\$'000
THE GROUP							
AT COST							
At 1 January 2001	15,812	2,391	43,632	274	1,835	601	64,545
Currency realignment	262	-	619	4	23	10	918
Additions	101	-	815	54	102	726	1,798
Reclassifications	128	-	451	-	-	(579)	-
Acquisition of a subsidiary	-	-	-	17	-	-	17
Deconsolidation of a subsidiary	(318)	-	(438)	(77)	(155)	-	(988)
Disposals	-	-	(447)	-	(57)	-	(504)
At 31 December 2001	15,985	2,391	44,632	272	1,748	758	65,786
DEPRECIATION AND AMORTISATION							
At 1 January 2001	2,104	456	14,514	157	1,294	-	18,525
Currency realignment	100	-	178	3	16	-	297
Eliminated on deconsolidation of a subsidiary	(101)	-	(251)	(71)	(131)	-	(554)
Provided for the year	1,056	95	4,032	29	225	-	5,437
Eliminated on disposals	-	-	(10)	-	(30)	-	(40)
At 31 December 2001	3,159	551	18,463	118	1,374	-	23,665
NET BOOK VALUES							
At 31 December 2001	12,826	1,840	26,169	154	374	758	42,121
At 31 December 2000	13,708	1,935	29,118	117	541	601	46,020

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001	2000
	US\$'000	US\$'000
Unlisted shares, at cost	3,356	3,304
Less: Impairment loss	(3,304)	(3,304)
	52	–
Amounts due from subsidiaries	96,038	46,088
Less: Allowance for amounts due from subsidiaries	(80,454)	(46,088)
	15,636	–

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts are not likely to be settled within the coming twelve months and accordingly, the amounts are classified as non-current.

Particulars of the subsidiaries as at 31 December 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operations	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Directly held by the Company</i>					
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
Fulbond Business Services Limited 福邦企業服務有限公司	Hong Kong	Hong Kong	100	HK\$2	Provision of management services

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operations	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Directly held by the Company (continued)</i>					
Fulbond Digital Systems Limited 福邦數碼系統有限公司	Hong Kong	Hong Kong	100	HK\$2	Trading of electronic products
Fulbond System Pte Ltd. (formerly known as Jason Automations (S) Pte. Ltd.)	Singapore	Singapore	60	S\$150,000	Trading of electrical and electronic components
<i>Indirectly held by the Company</i>					
Ta Fu Timber Company Limited 大福木業有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$5,000,000	Investment holding
Ta Fu Flooring Company Limited 大福地板有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$1,000,000	Investment holding
Ta Fu International Development Limited 大福國際開發有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$10,000	Inactive
Fulbond High-Tech Investment Limited 福邦高科技投資有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$200	Inactive
Ta Fu Furniture Co., Limited 大福家具有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred* HK\$20	Investment holding
Senbond Building Materials Limited (formerly known as Ta Fu Management Services Limited) 森邦建材有限公司 (前稱 大福管理服務有限公司)	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred* HK\$10,000	Provision of management services

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operations	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Indirectly held by the Company (continued)</i>					
Ta Fu Properties Co., Limited 大福物業有限公司	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred * HK\$20	Property investment
Hubei Full-joint Timber Co., Ltd. 湖北福江木業有限公司	PRC	PRC	51	US\$6,800,000	Manufacture and sale of wooden products
Jilin Province Fuchun Timber Co., Ltd. 吉林省福春木業有限公司	PRC	PRC	55	RMB17,464,000	Manufacture and sale of wooden products
Dun Hua Fudun Timber Co., Ltd. 敦化福敦木業有限公司	PRC	PRC	60	RMB30,000,000	Manufacture and sale of wooden products
Baoding Fuhe Timber Co., Ltd. 保定福河木業有限公司	PRC	PRC	69.95	US\$4,500,000	Manufacture and sale of wooden products
Jilin Fudun Timber Co., Ltd. 吉林福敦木業有限公司	PRC	PRC	72	RMB223,158,165	Manufacture and sale of wooden products
Langfang Fuyang Timber Co., Ltd. 廊坊福洋木業有限公司	PRC	PRC	51	US\$1,122,449	Manufacture and sale 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Share of net assets of the associates	6,070	7,496

Particulars of the Group's associates as at 31 December 2001 are as follows:

Name of associate	Place of incorporation/ registration	Place of operation	Percentage of registered capital held by the Group %	Registered capital	Principal activities
Shenyang Fuyang Wood-Basal Panel Ltd. 瀋陽福陽人造板有限公司	PRC	PRC	40	US\$5,000,000	Manufacture and sale of wooden products
Tianjin Fortune Timber Co., Ltd. 天津福津木業有限公司	PRC	PRC	49.5	US\$17,453,021	Manufacture and sale of wooden products
Hubei Fuhan Timber Co., Ltd. 湖北福漢木業有限公司	PRC	PRC	48	US\$4,567,565	Manufacture and sale of wooden products
Tianjin Fortune Furniture Co., Ltd. 天津福家家具有限公司	PRC	PRC	46.47	US\$8,000,000	Manufacture and sale of wooden products

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

19. INVESTMENT IN SECURITIES

	THE GROUP AND THE COMPANY	
	2001	2000
	US\$'000	US\$'000
Investment securities:		
Unlisted securities, at cost	<u>1,974</u>	<u>—</u>

Particulars of the investment as at 31 December 2001 disclosed pursuant to section 129(2) of the Companies Ordinance are as follows:

Name of investee	Place of incorporation	Proportion of nominal value of issued capital attributable to the Group and the Company	Principal activities
UniSVR Global Information Technology Corp. ("UniSVR") 優網通國際資訊股份有限公司	Taiwan	13%	Provision of information technology outsourcing services

20. CLUB DEBENTURE

In the opinion of the directors, the club debenture of the Group is worth at least its carrying value.

21. DEPOSIT PAID FOR AN INVESTMENT ACQUISITION

The amount represents a deposit of NT\$3,000,000 paid by the Group for the acquisition of 51% equity interests in Shenyang Fusheng Wood Chipboard Co., Ltd., 瀋陽福昇中密度板有限公司 ("Fusheng"), a sino-foreign joint venture company established in the PRC for the manufacture and sale of medium density fibre board. Accordingly, the deposit is classified as non-current.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

22. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Balance at beginning of the year	83	691
Charge for the year (<i>Note 13</i>)	(47)	(39)
Arising on disposal of subsidiaries	—	(569)
	<hr/>	<hr/>
Balance at end of the year	<u>36</u>	<u>83</u>

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

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Tax effect of timing differences attributable to:		
Taxation losses	—	302
Other timing differences	47	(263)
	<hr/>	<hr/>
	<u>47</u>	<u>39</u>

At the balance sheet date, the major components of deferred taxation assets provided are as follows:

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Tax effect of timing differences attributable to:		
Other timing differences	<u>36</u>	<u>83</u>

The Group and the Company did not have significant unprovided deferred tax assets or liabilities at the balance sheet date.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

23. INVENTORIES

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Raw materials	4,260	5,024
Work in progress	1,797	1,897
Finished goods	5,329	3,605
	<u>11,386</u>	<u>10,526</u>

At 31 December 2001, included above are finished goods of US\$569,000 (2000: US\$367,000) which are carried at net realisable values.

Induced in raw materials of the prior year was US\$56,000 carried at net realisable value.

24. TRADE AND OTHER RECEIVABLES

The Group's policy is to allow an average credit period of 90 days to its trade customers.

The following is an aged analysis of trade receivables at the balance sheet date:

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
0 – 90 days	7,168	5,940
91 – 180 days	1,049	1,256
More than 180 days	469	266
	<u>8,686</u>	<u>7,462</u>
Other receivables	3,680	7,632
	<u>12,366</u>	<u>15,094</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

25. AMOUNTS DUE FROM/ TO ASSOCIATES

The amounts due from/to associates of the Group are unsecured, interest free and repayable on demand.

26. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
0 – 90 days	2,573	2,067
91 – 180 days	505	263
More than 180 days	847	1,104
	<hr/>	<hr/>
	3,925	3,434
Other payables	5,811	11,902
	<hr/>	<hr/>
	9,736	15,336

27. AMOUNTS DUE TO SUBSIDIARIES

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

28. AMOUNTS DUE TO DIRECTORS

The amounts due to directors of the Group and the Company at 31 December 2000 were unsecured, interest free and repayable on demand.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

29. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2001 US\$'000	2000 US\$'000	2001 US\$'000	2000 US\$'000
Bank loans				
– Secured	2,623	2,878	–	–
– Unsecured	17,598	27,312	–	–
	20,221	30,190	–	–
Three-year loan notes, unsecured (Note a)	2,967	–	2,967	–
Bank overdrafts, unsecured	81	11,421	–	–
Other loan, unsecured (Note b)	–	1,408	–	–
	23,269	43,019	2,967	–
The bank and other borrowings are repayable within a period of:				
– Secured and within one year	2,623	2,878	–	–
– Unsecured				
Within one year	14,428	40,141	1,187	–
Between one to two years	5,625	–	1,187	–
Between two to five years	593	–	593	–
	20,646	40,141	2,967	–
	23,269	43,019	2,967	–
Less: Amount due within one year shown under current liabilities	(17,051)	(43,019)	(1,187)	–
	6,218	–	1,780	–

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

29. BANK AND OTHER BORROWINGS (continued)

Notes:

- (a) According to the corporate restructuring of the Company and its subsidiaries which was completed on 30 March 2001, the Creditors have received three-year loan notes from the Company with an aggregate face value of US\$4,400,000 which bear interest at a rate of 7% per annum. The three-year loan notes are repayable in six equal semi-annual instalments.

During the year, the Company made a buy-back of the three-year loan notes of principal amount of US\$840,000 at a consideration of US\$588,000, which is 70% of the face value of the three-year loan notes being bought. Subsequent to the buy-back, the Company repaid the first instalment during the year of a principal amount of US\$593,000.

- (b) Other loan represented a loan, which was formerly owed to a financial institution but had been assigned to S.T.J. Technology Limited ("STJ"), the major shareholder of Global Innovation Investment Limited ("GIIL"), in the prior year. GIIL became the major shareholder of the Company after the completion of the corporate restructuring and the Group's liability of the loan was released as a part of the corporate restructuring.

30. SHARE CAPITAL

	Number of shares	Amount US\$'000
Authorised:		
At 1 January 2000 and 2001, ordinary shares of US\$0.020 each	5,000,000,000	100,000
Increase in number of shares as a result of the Restructuring Scheme (<i>Note a</i>)	<u>95,000,000,000</u>	<u>—</u>
At 31 December 2001, ordinary shares of US\$0.001 each	<u>100,000,000,000</u>	<u>100,000</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

30. SHARE CAPITAL (continued)

	Number of shares	Amount US\$'000
Issued and fully paid:		
At 1 January 2000 and 2001, ordinary shares of US\$0.020 each	828,448,317	16,569
Reduction of nominal value (<i>Note a</i>)	–	(15,741)
Issue of shares pursuant to the Restructuring Scheme (<i>Note b</i>)	5,422,564,000	5,423
Participation offer of shares (<i>Note b</i>)	539,178,317	539
Issue of shares upon subscription from an existing shareholder (<i>Note c</i>)	790,000,000	790
Issue of shares upon the exercise of warrants (<i>Note d</i>)	18,684,744	19
	<hr/>	<hr/>
At 31 December 2001, ordinary shares of US\$0.001 each	<u>7,598,875,378</u>	<u>7,599</u>

Notes:

- (a) Pursuant to a special resolution passed in the special general meeting held on 23 March 2001, the nominal value of the issued and unissued ordinary shares of the Company of US\$0.020 each was reduced by US\$0.019 to US\$0.001 each. The authorised share capital of the Company remains at US\$100,000,000 comprising 100,000,000,000 ordinary shares of US\$0.001 each by sub-dividing the ordinary shares of the Company of US\$0.020 each into 20 shares of US\$0.001 each and this resulted in the increase of the number of authorised ordinary shares of 95,000,000,000 after the completion of the capital reduction.

The issued share capital of the Company of US\$16,569,000 was reduced by US\$15,741,000 to US\$828,000. The surplus amount of US\$15,741,000 arising from such reduction was duly approved to set off against the accumulated losses of the Company (see Note 33).

- (b) Pursuant to another special resolution passed in the special general meeting held on 23 March 2001, the Restructuring Scheme and a participation offer of new shares to independent shareholders were duly approved and the Company issued a total of 5,961,742,317 new ordinary shares of US\$0.001 each at prices ranging from US\$0.0025 to US\$0.0075 to the various parties involved in the Restructuring Scheme and the participation offer. These shares issued rank pari passu in all respects with the existing issued shares of the Company. Details of the Restructuring Scheme and the issue of the shares and warrants by the Company have been disclosed in the circular to the shareholders of the Company dated 5 February 2001. Total consideration for the issue of ordinary shares and warrants by the Company was approximately US\$21,550,000 of which an aggregate value of approximately US\$15,588,000 representing the consideration over the nominal value of the ordinary shares of the Company issued has been credited to the share premium and warrant reserve of the Company.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

30. SHARE CAPITAL (continued)

Notes:

- (c) On 20 August 2001, GILL, the major shareholder of the Company entered into a placing agreement of 790,000,000 ordinary shares of the Company of US\$0.001 each with certain placees at a placing price of HK\$0.040 per share. The placing price represented a discount of approximately 9% to the closing price of the Company's shares of HK\$0.044 each as quoted on the Stock Exchange on 20 August 2001. On the same date, the Company also entered into a subscription agreement with GILL for issuing 790,000,000 ordinary shares of the Company of US\$0.001 each at a subscription price of HK\$0.040 per share. On 3 September 2001, 790,000,000 ordinary shares of the Company of US\$0.001 each were issued and allotted by the Company, under the general mandate granted to the directors of the Company at the Annual General Meeting held on 22 June 2001, to GILL for a total consideration of approximately US\$4,083,000. These shares issued rank pari passu in all respects with the existing issued shares of the Company.
- (d) During the year, the registered holders of 18,684,744 units of warrants exercised their rights to subscribe for ordinary shares. All shares issued rank pari passu with the then existing shares in issue in all respects.

There were no changes of the authorised, issued and fully paid share capital of the Company in the prior year.

31. SHARE OPTION SCHEMES

Under the terms of the Company's old share option scheme which became effective on 11 December 1996 (the "Old Share Option Scheme"), 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 under the Old Share Option Scheme are as follows:

Date of grant	Exercisable price	Number of share options		
		Outstanding at 1 January 2001	Lapsed during the year	Outstanding at 31 December 2001
11 February 1997	HK\$1.85	45,574,000	(24,858,000)	20,716,000
20 November 1999	US\$0.02	5,000,000	(5,000,000)	—
		<u>50,574,000</u>	<u>(29,858,000)</u>	<u>20,716,000</u>

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

31. SHARE OPTION SCHEMES (continued)

The share options cancelled during the year relate to options granted to former directors or employees of the Group.

During the year, a new share option scheme was adopted by the Company on 19 November 2001 (the "New Share Option Scheme") to replace the Old Share Option Scheme. Pursuant to the New Share Option Scheme, the directors of the Company may, at their discretion, grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group to subscribe for shares in the Company at a price determined by the directors and not less than the highest of:

- (i) The closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant of the options;
- (ii) The average closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of grant of the options; and
- (iii) The nominal value of the shares of the Company on the date of grant.

The issue of options under the New Share Option Scheme is subject to a maximum of 30% of the issued share capital of the Company from time to time.

No options were granted under the New Share Option Scheme during the year.

32. WARRANTS

In accordance with the corporate restructuring of the Group which was completed on 30 March 2001, a total of 1,346,051,326 units of warrants with subscription rights of approximately US\$3.4 million were therefore issued. Each warrant entitles the holder thereof to subscribe in cash at an initial subscription price of HK\$0.02, subject to adjustments, for one share at any time between the date of issue of the warrants up to 31 March 2004.

During the year, warrants carrying subscription rights of approximately US\$49,000 were exercised.

At 31 December 2001, exercise in full of the outstanding warrants will result in the issue of an additional 1,327,366,582 shares of US\$0.001 each of the Company.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

33. RESERVES

	Share premium US\$'000	Capital reserve US\$'000	Warrant 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 2000	26,428	740	-	2,405	(379)	4	(49,464)	(20,266)
Disposal and deconsolidation of subsidiaries	-	(24)	-	(936)	783	-	-	(177)
Transfer of reserve	-	-	-	262	-	-	(262)	-
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	(1,150)	-	-	(1,150)
Net loss for the year	-	-	-	-	-	-	(10,349)	(10,349)
At 31 December 2000	26,428	716	-	1,731	(746)	4	(60,075)	(31,942)
Share premium and warrant reserve arising from corporate restructuring	11,936	-	3,652	-	-	-	-	15,588
Share premium arising on issues of shares upon subscription	3,293	-	-	-	-	-	-	3,293
Share premium arising upon exercise of warrants	30	-	-	-	-	-	-	30
Transfer of warrant reserve upon exercise of warrants	50	-	(50)	-	-	-	-	-
Transfer of reserve	-	-	-	331	-	-	(331)	-
Deconsolidation of a subsidiary	-	-	-	(165)	195	-	-	30
Exchange difference arising from translation of operations of subsidiaries and associates	-	-	-	-	460	-	-	460
Set off from capital reduction upon corporate restructuring	-	-	-	-	-	-	15,741	15,741
Net profit for the year	-	-	-	-	-	-	24,255	24,255
At 31 December 2001	41,737	716	3,602	1,897	(91)	4	(20,410)	27,455
Attributable to:								
Company and subsidiaries	41,737	716	3,602	1,897	280	4	(16,573)	31,663
Associates	-	-	-	-	(371)	-	(3,837)	(4,208)
	41,737	716	3,602	1,897	(91)	4	(20,410)	27,455

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

33. RESERVES (continued)

	Share premium US\$'000	Warrant reserve US\$'000	Contributed surplus US\$'000	Capital redemption reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
THE COMPANY						
At 1 January 2000	26,428	–	1,614	4	(50,206)	(22,160)
Net profit for the year	–	–	–	–	143	143
At 31 December 2000	26,428	–	1,614	4	(50,063)	(22,017)
Share premium and warrant reserve arising from corporate restructuring	11,936	3,652	–	–	–	15,588
Share premium arising on issues of shares upon subscription	3,293	–	–	–	–	3,293
Share premium arising upon exercise of warrants	30	–	–	–	–	30
Transfer of warrant reserve upon exercise of warrants	50	(50)	–	–	–	–
Set off from capital reduction upon corporate restructuring	–	–	–	–	15,741	15,741
Net loss for the year	–	–	–	–	(5,816)	(5,816)
At 31 December 2001	41,737	3,602	1,614	4	(40,138)	6,819

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

Capital reserve represents the reserve arising from the group restructuring taken place in 1996.

The Company has no profit available for distribution at 31 December 2001 and at 31 December 2000.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

34. RECONCILIATION OF PROFIT (LOSS) BEFORE TAXATION TO NET CASH (OUTFLOW) INFLOW FROM OPERATING ACTIVITIES

	2001 US\$'000	2000 US\$'000
Profit (loss) before taxation	22,863	(9,397)
Depreciation	5,437	6,175
Interest income	(53)	(88)
Interest expenses	1,769	5,105
Loss on disposal of property, plant and equipment	23	37
Share of results of associates	1,329	(61)
Net gain arising from corporate restructuring	(25,959)	–
Write back of provision for loss for bank guarantees granted to associates	(4,000)	–
Gain on deconsolidation of a subsidiary	(610)	(505)
Gain on buy-back of three-year loan notes at discounted price	(252)	–
Gain on disposal of an associate	(18)	–
Write off of amount due from an associate	240	3,668
Write off of amounts due from former subsidiaries	–	2,119
Gain on disposals of subsidiaries	–	(2,775)
Increase in inventories	(1,019)	(478)
Decrease in trade and other receivables	2,245	2,731
(Increase) decrease in amounts due from associates	(227)	108
Decrease in trade and other payables	(1,482)	(3,343)
Increase in bills payable	–	675
Decrease in amounts due to associates	(31)	(349)
(Decrease) increase in amounts due to directors	(2,686)	520
Exchange differences	(134)	(1,441)
	<hr/>	<hr/>
Net cash (outflow) inflow from operating activities	(2,565)	2,701

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

35. DECONSOLIDATION OF A SUBSIDIARY

	2001	2000
	US\$'000	US\$'000
Net liabilities transferred on deconsolidation:		
Property, plant and equipment	434	2,741
Inventories	161	49
Other receivables	498	824
Bank balances and cash	23	–
Trade and other payables	(1,459)	(2,427)
Bank and other borrowings	(297)	(1,692)
	<hr/>	<hr/>
Total net liabilities transferred	(640)	(505)
General reserve deconsolidated (<i>Note 33</i>)	(165)	–
Exchange reserve deconsolidated (<i>Note 33</i>)	195	–
Gain on deconsolidation (<i>Note 10</i>)	610	505
	<hr/>	<hr/>
Consideration	–	–
	<hr/> <hr/>	<hr/> <hr/>

The subsidiaries deconsolidated of both years did not have significant cash flows attributed to the Group.

Outflow of cash and cash equivalents in respect of deconsolidation of subsidiaries is presented by a decrease in bank balances and cash of approximately US\$23,000 (2000: nil).

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

36. ACQUISITION OF A SUBSIDIARY

On 11 September 2001, the Group acquired 60% equity interest in Fulbond System Pte. Ltd. (formerly known as Jason Automations (S) Pte. Ltd.), a company incorporate in Singapore, for a cash consideration of US\$52,000. The acquisition has been accounted for by the purchase method of accounting.

	2001	2000
	US\$'000	US\$'000
Net asset acquired:		
Property, plant and equipment	17	–
Inventories	2	–
Trade and other receivables	9	–
Bank balances and cash	71	–
Trade and other payables	(12)	–
	<u>87</u>	–
Less: Minority interest arising from the acquisition	(35)	–
	<u>52</u>	–
Net assets acquired by the Group	52	–
Satisfied by cash	52	–
Analysis of net inflow of cash and cash equivalents in connection with the acquisition the subsidiary:		
Cash consideration paid	(52)	–
Bank balances and cash acquired	71	–
	<u>19</u>	–

The subsidiary acquired during the year did not have significant cash flows attributed to the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

37. DISPOSAL OF SUBSIDIARIES

	2001	2000
	US\$'000	US\$'000
Net assets disposed of:		
Property, plant and equipment	-	11,717
Deferred taxation	-	569
Inventories	-	8,697
Trade and other receivables	-	8,995
Amounts due from directors	-	1,036
Bank balances and cash	-	3,388
Trade and other payables	-	(3,865)
Taxation	-	(251)
Bank and other borrowings	-	(14,378)
	<hr/>	<hr/>
Net assets disposed of	-	15,908
<i>Less: Minority shareholders' share of net assets disposed of</i>	-	(6,306)
<i>Less: Transfer to interests in associates</i>	-	(8,507)
	<hr/>	<hr/>
	-	1,095
Gain on disposal	-	2,775
	<hr/>	<hr/>
Total consideration	<hr/> <hr/>	<hr/> <hr/>
	-	3,870
Satisfied by:		
Cash consideration	-	1,573
Other receivables	-	2,297
	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>
	-	3,870

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

37. DISPOSAL OF SUBSIDIARIES (continued)

The subsidiaries disposed of in the prior year contributed US\$2,596,000 towards the Group's net inflow from operating activities and paid US\$806,000 in respect of the net returns on investment and servicing of finance, paid US\$269,000 in respect of taxation, utilised US\$658,000 for investing activities and obtained net inflow of US\$356,000 in respect of financing activities.

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

	2001	2000
	US\$'000	US\$'000
Cash consideration	-	1,573
Bank balances and cash disposed of	-	(3,388)
	<u>-</u>	<u>(1,815)</u>

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

38. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital, share premium and warrant reserve US\$'000	Bank loans and other loans US\$'000	Bank overdraft (Note) US\$'000	Minority interests US\$'000
Balance at 1 January 2000	42,997	43,393	1,363	19,716
Currency realignment	–	(1,057)	–	(165)
New borrowings raised	–	22,260	2,806	–
Repayments	–	(16,928)	–	–
Disposal of subsidiaries	–	(14,378)	–	(6,306)
Deconsolidation of a subsidiary	–	(1,692)	–	–
Minority interests in profits of subsidiaries	–	–	–	370
Balance at 31 December 2000 and at 1 January 2001	42,997	31,598	4,169	13,615
Currency realignment	–	277	–	159
Transfer to set off accumulated losses upon capital reduction	(15,741)	–	–	–
Issue of shares and warrants pursuant to corporate restructuring	11,650	–	–	–
Set off of borrowings with the issues of shares upon corporate restructuring	9,900	(9,900)	–	–
Issue of shares upon subscription	4,083	–	–	–
Issue of shares upon exercise of warrants	49	–	–	–
Waiver of borrowings upon corporate restructuring	–	(2,193)	(4,169)	–
Cash repayment pursuant to corporate restructuring	–	(6,000)	–	–
Three-year loan notes issued under corporate restructuring	–	4,400	–	–
Buy-back and repayment of three-year loan notes	–	(1,181)	–	–
Gain on buy-back of three-year loan notes	–	(252)	–	–
Deconsolidation of a subsidiary	–	(297)	–	–
New borrowings raised	–	7,634	–	–
Repayment	–	(898)	–	–
Minority interests in losses of subsidiaries	–	–	–	(1,866)
Dividends paid to minority shareholders	–	–	–	(698)
Minority interests arising on acquisition of a subsidiary	–	–	–	35
Balance at 31 December 2001	<u>52,938</u>	<u>23,188</u>	<u>–</u>	<u>11,245</u>

Note:

This bank overdraft represented the amount of accrued interest on bank and other borrowings which were waived by the Creditors during the year.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

39. MAJOR NON-CASH TRANSACTIONS

On 30 March 2001, pursuant to the completion of the Restructuring Scheme, the Company issued and allotted a total of 5,961,742,317 new ordinary shares of US\$0.001 each at a price ranging from US\$0.0025 to US\$0.0075 to the various parties involved in the Restructuring Scheme and the participation offer with a total consideration of US\$21,550,000 of which 1,320,000,000 new ordinary shares were issued and allotted to the Creditors of the Group at a price of US\$0.0075 per share for a total consideration of US\$9,900,000. In addition, the Creditors also received US\$6,000,000 cash and three-year loan notes with an aggregate face value of US\$4,400,000 in settlement of the Group's borrowings from the Creditors amounting to approximately US\$47,588,000.

40. CAPITAL COMMITMENTS

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

	THE GROUP			
	2001		2000	
	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>2,201</u>	<u>-</u>	<u>78</u>	<u>115</u>

In addition, at 31 December 2001, the Group has entered into an agreement to acquire 51% equity interest in Fusheng from STJ at a total consideration of NT\$55.5 million (equivalent to approximately US\$1.6 million) of which the Group has made the payment of NT\$3,000,000 (equivalent to approximately US\$86,000) as a deposit for the acquisition. The Group is therefore committed to the contribution of the remaining balance of capital investment in Fusheng in accordance with the terms as set out and disclosed in the circular to the shareholders of the Company dated 1 November 2001.

The Company did not have any capital commitment at the balance sheet date of both years.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

41. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had the outstanding commitment of future minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	THE GROUP	
	2001	2000
	US\$'000	US\$'000
Within one year	256	252
In the second to fifth years inclusive	934	945
Over five years	928	1,144
	<u>2,118</u>	<u>2,341</u>

Operating lease payments represent rental payable by the Group for certain of its rented premises for manufacturing purposes in the PRC. Leases are negotiated and rentals are fixed for an average term of five years.

The Company did not have any operating lease commitment at the balance sheet date of both years.

42. PLEDGE OF ASSETS

- (a) At 31 December 2001, certain of the Group's property, plant and equipment with an aggregate net book value of US\$4,524,000 (2000: US\$5,557,000) were pledged to various banks for securing bank loans and general banking facilities granted to the Group.
- (b) During the year, a debenture, which included a fixed charge and floating charge on all the assets and income of the Group held by the Creditors was released after the completion of the corporate restructuring of the Group.

Notes to the Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2001

43. CONTINGENT LIABILITIES

- (a) One of the Group's associates, Tianjin Fortune Timber Co., Ltd. 天津福津木業有限公司 ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. Part of such loans have been guaranteed by another associate, Tianjin Fortune Furniture Co. Ltd. 天津福家家具有限公司 ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of this report and the effect of this litigation on the Group's share of TFFCL's net assets of approximately US\$3,852,000 at 31 December 2001 is dependent on the outcome of the negotiations, the directors are of the view that adjustment regarding this matter would not be practicable for the time being.
- (b) As at 31 December 2000, the Group had contingent liabilities of US\$1,000,000 in respect of a bank guarantee granted to a deconsolidated subsidiary. During the year, the guarantee was released as a part of the corporate restructuring.

44. RELATED PARTY TRANSACTIONS

Details of the Group's transactions with its related parties are as follows:

	2001	2000
	US\$'000	US\$'000
Sales of materials to an associate	-	348
Purchase of materials from an associate	-	330
Technical advisory fee received from an associate	-	7
	<u> </u>	<u> </u>

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.

Notes to the *Financial Statements*

FOR THE YEAR ENDED 31 DECEMBER 2001

44. RELATED PARTY TRANSACTIONS (continued)

In addition, the Group also entered into the following transactions with related parties during the year:

- (a) The Company entered into a subscription agreement on 11 October 2001 with UniSVR, a company incorporated in Taiwan of which Dr. Yang Ding-Yuan, a director of the Company, has a beneficial interest. Pursuant to the subscription agreement, UniSVR has agreed to allot and issue to the Company and the Company has agreed to subscribe for 5,440,000 shares out of a total of 6,800,000 new shares of UniSVR to be issued by UniSVR to potential investors at NT\$12.5. The subscription of 5,440,000 shares represented an approximately 13% of the issued share capital of UniSVR as enlarged by the issue of 6,800,000 new shares.

Also pursuant to the subscription agreement, Dr. Yang Ding-Yuan has granted a Put Option for the Company to sell to STJ, a company incorporated in the British Virgin Islands of which Dr. Yang Ding-Yuan has beneficial interests, all the shares of UniSVR subscribed by the Company on the terms and conditions as disclosed in the circular dated 1 November 2001 to the shareholders of the Company. The subscription of UniSVR shares by the Company was completed on 30 November 2001.

- (b) On 11 October 2001, a wholly owned subsidiary of the Company has entered into an agreement to acquire 51% equity interest in Fusheng from STJ at a total consideration of NT\$55.5 million (equivalent to approximately US\$1,609,000), details of the acquisition has been disclosed in the circular to the shareholders of the Company dated 1 November 2001.

During the year, the Company has made the payment of NT\$3 million (equivalent to US\$86,000) as a deposit for the acquisition. However, the completion of the acquisition is still pending for the consents of relevant government authorities in the PRC.

- (c) In the prior year and as at 31 December 2000, Mr. Liu Ching-Chih and Ms. Yeung Mi-Ki, former directors of the Company, had provided personal guarantees and pledged, respectively, 23,840,000 and 33,840,000 shares in the Company beneficially owned by themselves to the Creditors and a supplier of the Group as securities. In October 2001, the personal guarantee and the pledge of the shares of the Company to the supplier were released.