31 December 2001

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. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 9 (Revised) : "Events after the balance sheet date"
- SSAP 14 (Revised) : "Leases"
- SSAP 18 (Revised) : "Revenue"
- SSAP 26 : "Segment reporting"
- SSAP 28 : "Provisions, contingent liabilities and contingent assets"
- SSAP 29 : "Intangible assets"
- SSAP 30 : "Business combinations"
- SSAP 31 : "Impairment of assets"
- SSAP 32 : "Consolidated financial statements and accounting for investments in subsidiaries"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained earnings on a separate line within the capital and reserves section of the balance sheet.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 24 and 32 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in notes 11 and 29 to the financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. SSAP 28 has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements. The SSAP does, however, require that impairment losses on intangible assets are aggregated with the accumulated amortisation, whereas previously they were deducted from the cost of the relevant asset. This disclosure reclassification has had no effect on the net carrying amount of intangible assets in the balance sheet.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. The adoption of the SSAP has resulted in a prior year adjustment, further details of which are included in note 16 to the financial statements. The required new additional disclosures are included in note 16 and note 29 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong 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 periodic remeasurement of investment properties and certain 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 2001. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 revenue 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.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Dividends *(continued)*

In previous years, the Company recognised its proposed final dividend to shareholders, which was declared and approved after the balance sheet date, as a liability in its balance sheet. The Company also recognised the proposed final dividends of subsidiaries, which were declared and approved after the balance sheet date, as income in its profit and loss account for the year. The revised accounting treatments for dividends resulting from the adoption of SSAP 18 (Revised) have given rise to prior year adjustments in the Company's financial statements, further details of which are included in notes 12 and 29 to the financial statements.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, 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 impairment losses.

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition during the year is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the goodwill previously eliminated against reserves for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, further details of which are included in notes 16 and 29 to the financial statements.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In prior years, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the negative goodwill previously credited to the capital reserve for all acquisitions has been retrospectively restated as if the new accounting policy above had always been applied. This restatement has given rise to a prior year adjustment, details of which are included in notes 16 and 29 to the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Negative goodwill *(continued)*

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment property, are stated at cost or valuation less accumulated depreciation and any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fixed assets and depreciation *(continued)*

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 fixed asset.

Changes in the values of fixed assets, other than those for investment property, are dealt with as movements in the asset revaluation reserve. If the total of this 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. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated 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
Moulds	– 2 years

Construction in progress represents a building under construction, is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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, 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.

Intangible assets

(a) Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined, the expenditure is separately identifiable and can be measured reliably; 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 stated at cost less any impairment losses and are amortised using the straight-line basis, over the commercial useful lives of the underlying products of generally two years, commencing in the year when the products are put into commercial production.

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets *(continued)*

(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 stated at cost less any impairment losses and are amortised, using the straight-line method, over the terms of the underlying contracts.

(c) Patents

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years

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 any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments perviously charged are credited to the profit and loss account to the extent of the amounts previously charged.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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. Where the Group is the lessor, assets leased by the Group under operating lease are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the 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.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

31 December 2001

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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 into 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.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme. The Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the Scheme. The assets of the Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the Scheme. Prior to the Scheme becoming effective, the Group did not operate a pension scheme for its employees in Hong Kong.

Pursuant to the relevant regulations of the government of the People's Republic of China (the "PRC"), subsidiaries of the Group operating in the PRC participate in a retirement funds scheme managed by a local social security bureau. Contributions made are based on a percentage of the eligible employees' basic salaries and are charged to the profit and loss account as they become payable. The obligation of the Group with respect to the PRC retirement funds scheme is to pay these ongoing required contributions.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. In accordance with the Group's internal financial reporting, the Group has determined that geographical segments are presented as the primary reporting format. Business segments are not presented as the secondary segment because the Group's turnover and operating profit/(loss) were principally contributed by decorative products manufacturing business.

Segment assets consist primarily of accounts receivable and mainly exclude fixed assets, intangible assets, goodwill, investments, inventories, other receivables and operating cash. Capital expenditure comprises additions to fixed assets (note 14).

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers

	United States of America 2001 HK$'000	Europe 2001 HK$'000	Asia Pacific 2001 HK$'000	Others 2001 HK$'000	Consolidated 2001 HK$'000
Turnover	399,380	245,070	56,380	8,365	709,195
Segment results	31,692	2,771	3,278	1,995	39,736
Impairment of long term investments					(6,178)
Unallocated costs					(60,328)
Loss from operating activities					(26,770)
Finance costs					(21,677)
Loss before tax					(48,447)
Tax					5,284
Loss before minority interests					(43,163)
Minority interests					353
Net loss form ordinary activities attributable to shareholders					(42,810)
Segment assets	33,305	26,130	22,358	580	82,373
Unallocated assets					511,663
Total assets					594,036
Unallocated liabilities					390,792
Other segment information:					
Capital expenditure (unallocated)					65,422
Amortisation of intangible assets (unallocated)					18,305
Depreciation (unallocated)					29,339
Provision for doubtful debts	348	459	–	–	807
Impairment of long term investments (unallocated)					6,178

31 December 2001

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers (continued)

	United States of America 2000 HK$'000	Europe 2000 HK$'000	Asia Pacific 2000 HK$'000	Others 2000 HK$'000	Consolidated 2000 HK$'000
Turnover	844,178	257,111	98,824	8,557	1,208,670
Segment results	117,780	(12,792)	18,765	1,933	125,686
Unallocated costs					(64,608)
Profit from operating activities					61,078
Finance costs					(22,023)
Profit before tax					39,055
Tax					(3,189)
Profit before minority interests					35,866
Minority interests					524
Net profit from ordinary activities attributable to shareholders					36,390
Segment assets	50,143	43,943	34,404	1,310	129,800
Unallocated assets					568,758
Total assets					698,558
Unallocated liabilities					468,780
Other segment information:					
Capital expenditure (unallocated)					143,701
Amortisation of intangible assets (unallocated)					22,459
Depreciation (unallocated)					24,617
Provision for doubtful debts	174	335	–	–	509

31 December 2001

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of assets

	Total assets 2001 HK$'000	Capital Expenditure 2001 HK$'000
Asia Pacific	384,867	50,601
Europe	167,772	12,007
United States of America	17,982	2,814
	570,621	65,422
Unallocated assets	23,415	
	594,036	

	Total assets 2000 HK$'000	Capital Expenditure 2000 HK$'000
Asia Pacific	462,576	126,072
Europe	202,645	13,906
United States of America	24,272	3,723
	689,493	143,701
Unallocated assets	9,065	
	698,558	

31 December 2001

5. 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:

	2001	2000
	HK$'000	*HK$'000*
Sales of goods	709,195	1,208,334
Rendering of services	–	336
	709,195	1,208,670

31 December 2001

6. PROFIT /(LOSS) FROM OPERATING ACTIVITIES

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

	2001	2000
	HK$'000	*HK$'000*
Cost of inventories sold and services provided *	**478,384**	831,652
Staff costs (excluding directors' remuneration – note 7):		
Salaries and wages	**138,143**	189,699
Pension contributions	**1,983**	1,900
Depreciation	**29,339**	24,617
Auditors' remuneration	**2,743**	1,475
Amortisation of intangible assets	**18,305**	22,459
Research costs written off	**–**	5,873
Write-off of intangible assets	**–**	3,295
Amortization of goodwill**	**502**	–
Loss on disposal of fixed assets	**1,135**	1,426
Provision for doubtful debts	**807**	509
Impairment of long term investments	**6,178**	–
Impairment of an investment in an associate	**96**	300
Minimum lease payments under operating leases in respect of land and buildings	**11,880**	10,882
Exchange losses/(gains), net	**860**	(3,646)
Negative goodwill recognized as income ***	**(3,251)**	–
Interest income	**(1,089)**	(1,372)
Gross rental income	**(1,645)**	(2,727)
Less: Outgoings	**290**	249
Net rental income	**(1,355)**	(2,478)

6. PROFIT /(LOSS) FROM OPERATING ACTIVITIES *(continued)*

* The "cost of inventories sold and services provided" includes HK$92,963,000 (2000: HK$135,506,000) relating to staff costs, depreciation, amortisation of intangible assets 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.

** The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.

*** The amount of negative goodwill recognised in the profit and loss account for the year are included in "Other revenue and gains" on the face of the consolidated profit and loss account. The amount of negative goodwill recognised was in respect of negative goodwill arising on acquisition in expectation of identified future losses and expenses, which did not represent identifiable liabilities as at the date of acquisition.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2001 *HK$'000*	2000 *HK$'000*
Executive directors:		
Fees	60	60
Basic salaries, housing, other allowances and benefits in kind	7,301	7,242
	7,361	7,302
Non-executive directors:		
Fees	615	774
	7,976	8,076

Fees to non-executive directors include HK$435,000 (2000: HK$616,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2000: Nil).

7. DIRECTORS' REMUNERATION *(continued)*

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2001	2000
Nil – HK$1,000,000	**10**	10
HK$1,500,001 – HK$2,000,000	**2**	2

Pursuant to a resolution passed on 1 January 2002, certain executive directors agreed to reduce their annual remunerations from approximately HK$5,591,000 as recorded for the year ended 31 December 2001 to approximately HK$3,991,000 starting from 1 January 2002.

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one director (2000: two directors) of the Company, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining four (2000: three) non-director, highest paid employees are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	**3,264**	6,053

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2001	2000
Nil – HK$1,000,000	**4**	1
HK$1,500,001 – HK$2,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**–**	1

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.

31 December 2001

9. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable:		
Within five years	**18,114**	21,543
Over five years	**2,790**	–
Interest on finance leases	**773**	480
Total finance costs	**21,677**	22,023

10. TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	462
Elsewhere	**183**	7,597
Deferred – note 26	**(104)**	(4,899)
Overprovision in prior years:		
Hong Kong	**(327)**	29
Elsewhere	**(5,036)**	–
	(5,284)	3,189

Hong Kong profits tax has not been provided as the Group did not derive any assessable profits arising in Hong Kong during the year. Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2000. 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.

In accordance with the relevant approval documents issued by the PRC tax authorities, subsidiaries of the Group operating in the PRC are exempted from PRC corporate income tax for the first two profitable calendar years of operation and thereafter are eligible for a 50% relief from PRC corporate income tax for the following three years.

11. LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The loss from ordinary activities attributable to shareholders for the year ended 31 December 2001 dealt with in the financial statements of the Company is HK$2,029,000 (2000: profit of HK$20,021,000 as restated).

The comparative amount for 2000 has been restated by a prior year adjustment resulting in a net credit of HK$23,392,000 to the Company's net profit for that year. The prior year adjustment reversed dividends from subsidiaries which were declared and approved by the subsidiaries after the prior year's balance sheet date, but which were recognised by the Company as revenue in its financial statements for that year. This change in accounting policy has arisen from the adoption of revisions to SSAP 18, as further detailed in notes 2 and 29 to the financial statements.

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2000: Nil).

13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the net loss attributable to shareholders for the year of HK$42,810,000 (2000: net profit of HK$36,390,000) and the weighted average of 358,193,096 (2000: 342,011,278) ordinary shares in issue during the year, as adjusted to reflect the bonus issue during the year.

A diluted loss per share amount for the year ended 31 December 2001 has not been disclosed, as the warrants outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of the diluted earnings per share for the year ended 31 December 2000 is based on the net profit attributable to shareholders for the year of HK$36,390,000. The weighted average number of ordinary shares used in the calculation of 348,229,665 comprised the 342,011,278 ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average of 6,218,387 ordinary shares assumed to have been issued at no consideration on the deemed exercises of all share options during the year, as adjusted to reflect the bonus issue during the year ended 31 December 2001.

31 December 2001

14. FIXED ASSETS

Group

	Land and buildings HK$'000	Investment property HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures, equipment and motor vehicles HK$'000	Moulds HK$'000	Total HK$'000
Cost or valuation:								
At beginning of year	170,297	11,026	9,165	34,631	47,266	76,542	–	348,927
Additions	8,944	–	24,903	5,172	8,679	12,889	4,835	65,422
Acquisition of a subsidiary	–	–	–	–	–	54	–	54
Disposals	–	–	–	(1,327)	(220)	(1,770)	–	(3,317)
Revaluation	5,980	–	–	–	–	–	–	5,980
Transfers	15,953	–	(23,510)	7,557	(102)	102	–	–
Exchange realignment	(3,185)	–	(8)	(27)	(391)	(3,385)	–	(6,996)
At 31 December 2001	197,989	11,026	10,550	46,006	55,232	84,432	4,835	410,070
Accumulated depreciation:								
At beginning of year	15,901	–	–	14,848	10,279	39,179	–	80,207
Provided during the year	4,341	–	–	6,014	4,916	12,626	1,442	29,339
Disposals	–	–	–	(303)	(92)	(233)	–	(628)
Surplus on revaluation	(9,134)	–	–	–	–	–	–	(9,134)
Transfers	–	–	–	–	(30)	30	–	–
Exchange realignment	(539)	–	–	(9)	(238)	(1,871)	–	(2,657)
At 31 December 2001	10,569	–	–	20,550	14,835	49,731	1,442	97,127
Net book value:								
At 31 December 2001	187,420	11,026	10,550	25,456	40,397	34,701	3,393	312,943
At 31 December 2000	154,396	11,026	9,165	19,783	36,987	37,363	–	268,720
Analysis of cost and valuation:								
At cost	86,300	–	10,550	46,006	55,232	84,432	4,835	287,355
At valuation	111,689	11,026	–	–	–	–	–	122,715
	197,989	11,026	10,550	46,006	55,232	84,432	4,835	410,070

14. 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	–	80,757	80,757
At valuation:			
Freehold	–	53,438	53,438
Medium lease term	34,446	18,779	53,225
	34,446	152,974	187,420

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 2001 amounted to HK$15,909,000 (2000: HK$12,424,000).

The Group's leasehold land and buildings and investment property in Hong Kong and freehold land in Germany were revalued on an open market, existing use basis at 31 December 2001 by RHL Appraisal Ltd ("RHL") and Dipl.-Ing. Andreas Staubach, independent firms of professional valuers, respectively. 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 2001, did not differ materially from their fair values as at 31 December 2001.

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$91,601,000 (2000: HK$94,989,000).

The Group's revalued land and buildings and investment property with a net book value of HK$112,419,000 (2000: HK$108,207,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 23 to the financial statements.

Subsequent to the balance sheet date, additional revalued land and buildings with a net book value of approximately HK$52,279,000 as at 31 December 2001 were pledged to secure additional banking facilities granted to the Group following the issuance of the respective land and properties certificates by the PRC authorities to the Group (note 34(c)).

14. FIXED ASSETS *(continued)*

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 and properties certificates.

The Group's investment property is situated in Hong Kong and held under a medium term lease. The investment property held by the Group is leased under an operating lease which the Group earns rental income therefrom. Details of future annual rental receivables under operating leases are included in note 32 to the financial statements.

15. INTANGIBLE ASSETS

Group

	Deferred expenses	Deferred development costs	Patents	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At beginning of year	4,404	16,654	–	21,058
Additions	1,686	20,084	7,506	29,276
Write-off	–	(8,517)	–	(8,517)
Exchange realignment	(273)	(10)	–	(283)
At 31 December 2001	5,817	28,211	7,506	41,534
Accumulated amortisation:				
At beginning of year	3,292	9,679	–	12,971
Amortisation	1,183	16,140	982	18,305
Write-off	–	(8,517)	–	(8,517)
Exchange realignment	(204)	(5)	–	(209)
At 31 December 2001	4,271	17,297	982	22,550
Net book value:				
At 31 December 2001	1,546	10,914	6,524	18,984
At 31 December 2000	1,112	6,975	–	8,087

16. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statements. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

Group

	Group	
	Goodwill	**Negative goodiwill**
	HK$'000	*HK$'000*
Cost:		
At beginning of year:		
As previously reported	–	–
Prior year adjustment	4,319	(3,341)
As restated	4,319	(3,341)
Additions	704	–
At 31 December 2001	5,023	(3,341)
Accumulated amortisation and impairment/ (recognition as income):		
At beginning of year	–	–
Amortisation provided/(recognised as income) during the year	502	(3,251)
At 31 December 2001	502	(3,251)
Net book value:		
At 31 December 2001	4,521	(90)
At 31 December 2000 (as restated)	4,319	(3,341)

As detailed in note 3 to the financial statements, the Group has adopted the transitional provision of SSAP 30 which permits goodwill and negative goodwill in respect of previous acquisitions to be restated to the non-current assets section of the balance sheet, in accordance with the new accounting policy.

The prior year adjustment so arising has resulted in goodwill previously eliminated against goodwill reserves of HK$4,319,000 as at 1 January 2001, previously credited to the capital reserve of HK$3,341,000 as at that date, being restated as the cost of the goodwill and negative goodwill above, as at 1 January 2001. As the effect of amortisation would reduce the profit of prior year by approximately HK$327,000 and was considered insignificant, no restatement has been made in the prior year's profit and loss accounts.

The effect of this change in accounting policy on the profit and loss account for the current year was to increase the amortisation of goodwill by HK$502,000 and increase the negative goodwill recognised as income by HK$3,251,000.

31 December 2001

17. INTERESTS IN SUBSIDIARIES

	Company 2001 HK$'000	Company 2000 HK$'000
Unlisted shares, at cost	75,331	75,331
Due from subsidiaries	133,983	104,969
	209,314	180,300

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

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	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

31 December 2001

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
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
Fuqing Kangli Light Industrial Products Co., Ltd.	PRC	Registered HK$5,000,000	100	Manufacture of giftware
Shenzhen Yuansheng Light Industrial Products Co., Ltd.#	PRC	Registered RMB80,000,000	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
McField International Co., Ltd.	Hong Kong	Ordinary HK$100,000	100	Distribution of giftware
Silkroadgifts (Hong Kong) Limited#	Hong Kong	Ordinary HK$10,000	100	Distribution of giftware

31 December 2001

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
HPT Group (U.S.A.) Hong Kong Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of giftware
Peaktop Limited (LA)**	United States of America	Ordinary US$10,000	100	Marketing and provision of after-sale services
Peaktop Technologies (USA), Inc.** (formerly Peaktop International Inc)	United States of America	Ordinary US$160,000	100	Wholesale of giftware
Prismarte (Italy) (USA), Ltd.**	United States of America	Ordinary US$1,000	100	Wholesale of giftware
Progress International Trading Inc.**	United States of America	Ordinary US$300,000	100	Marketing and provision of after-sale services
Heissner AG**	Germany	Ordinary Euro 3,250,000	99.1	Distribution and manufacture of water pumps and home gardening decorative products

31 December 2001

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company	Principal activities
Peaktop Europe GmbH**	Germany	Ordinary DM 500,000	100	Distribution of water pumps and home gardening decorative products
Silkroadgifts Inc**	United States of America	Ordinary US$95,000	100	Distribution of giftware
Peaktop Technologies s.r.l.	Italy	Ordinary Euro 52,000	100	Trading of aquarium products and provision of research and development services
Waterwerks Pty Ltd.**	Australia	Ordinary AUD 10,000	90	Sales and distribution of giftware, household and gardening decorations

17. INTERESTS IN SUBSIDIARIES *(continued)*

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 attend or vote at general meetings 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, Hong Kong or other Ernst & Young International member firms.

\# Established/incorporated 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.

18. INTERESTS IN ASSOCIATES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**487**	511
Due from associates	**460**	593
	947	1,104
Provision for impairment	**(396)**	(300)
	551	804

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

18. INTERESTS IN ASSOCIATES *(continued)*

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

Name	Business structure	Place of incorporation/ registration 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 was audited by Ernst & Young, Hong Kong or other Ernst & Young International member firms.

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.

19. LONG TERM INVESTMENTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	6,524	6,598
Provision for impairment	(6,178)	–
	346	6,598

31 December 2001

20. INVENTORIES

	Group 2001 HK$'000	Group 2000 HK$'000
Raw materials	43,455	65,369
Work-in-progress	9,351	13,565
Finished goods	58,015	109,815
	110,821	188,749

No inventories were stated at net realisable value as at the balance sheet date (2000: Nil).

At 31 December 2001, the carrying amount of the Group's inventories of approximately HK$43,629,000 (2000: Nil) was pledged to the Group's bankers to secure banking facilities granted to the Group as further detailed in note 23 to the financial statements.

21. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 45 to 90 days, extending up to 120 days for major customers. 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 minimize credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date and net of provisions is as follows:

	Group 2001 HK$'000	Group 2000 HK$'000
Current	50,680	96,150
30 – 60 days	11,888	14,411
61 – 90 days	6,005	6,086
Over 90 days	13,800	13,153
	82,373	129,800

31 December 2001

21. ACCOUNTS RECEIVABLE *(continued)*

At 31 December 2001, trade receivables of the Group of approximately HK$18,275,000 (2000: Nil) were pledged to the Group's bankers to secure banking facilities granted to the Group, as further detailed in note 23 to the financial statements.

22. INTEREST-BEARING BANK LOANS AND OVERDRAFTS, SECURED

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank overdrafts repayable on demand:		
Secured	2,609	6,422
Unsecured	–	5,619
	2,609	12,041
Bank loans:		
Secured	134,544	128,664
Unsecured	39,130	56,682
	173,674	185,346
The maturity of the bank loans is as follows:		
Bank loans are wholly repayable:		
Within one year	131,770	132,412
In the second year	12,289	12,591
In the third to fifth years, inclusive	18,003	22,470
Beyond five years	11,612	17,873
	173,674	185,346
Portion classified as current liabilities	(131,770)	(132,412)
Long term portion	41,904	52,934

31 December 2001

23. 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;

(ii) First legal charges on all of 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$101,393,000 (note 14); and

(iii) Floating charges over certain of the Group's inventories and accounts receivables of approximately HK$43,629,000 (note 20) and HK$18,275,000 (note 21), respectively.

24. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its manufacturing business in the PRC. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2001, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2001 HK$'000	Minimum lease payments 2000 HK$'000	Present value of minimum lease payments 2001 HK$'000	Present value of minimum lease payments 2000 HK$'000
Amounts payable:				
Within one year	5,582	4,123	5,394	3,870
In the second year	3,424	4,122	3,095	3,576
In the third to fifth years, inclusive	813	1,928	658	1,567
Total minimum finance lease payments	9,819	10,173	9,147	9,013
Future finance charges	(672)	(1,160)		
Total net finance lease payables	9,147	9,013		
Portion classified as current liabilities	(5,113)	(3,402)		
Long term portion	4,034	5,611		

24. FINANCE LEASE PAYABLES *(continued)*

SSAP 14 was revised and implemented during the year, and requires certain new disclosures which have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

25. ACCOUNTS AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Current	**48,662**	56,854
30 – 60 days	**12,092**	18,188
61 – 90 days	**10,573**	9,310
Over 90 days	**27,332**	22,421
	98,659	106,773

26. DEFERRED TAX

	Group	
	2001	2000
	HK$'000	*HK$'000*
Balance at beginning of year	**111**	5,298
Credit for the year – note 10	**(104)**	(4,899)
Charge to asset revalution reserve – note 29	**5,547**	–
Exchange realignment	**–**	(288)
At 31 December	**5,554**	111

No provision has been made for taxes which would 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.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

27. RECEIPTS IN ADVANCE

On 20 December 2001, the Company entered into placing agreements with eight independent investors pursuant to which the Company agreed to place 66,710,000 placing shares to these independent investors at a price of HK$0.33 per placing share. The approval from The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the listing of and permission to deal in new shares was obtained after the balance sheet date and the placing shares were subsequently issued and allotted on 7 January 2002. At 31 December 2001, the net proceeds from the placing of these shares of approximately HK$22,014,000 were classified as receipts in advance.

28. SHARE CAPITAL

Shares

	2001 *HK$'000*	2000 *HK$'000*
Authorised:		
1,000,000,000 (2000: 1,000,000,000) ordinary shares of HK$0.10 each	100,000	100,000
Issued and fully paid:		
366,905,000 (2000: 315,254,000) ordinary shares of HK$0.10 each	36,690	31,525

During the year, there were the following movements in share capital:

(a) The subscription rights attaching to 18,296,000 share options were exercised at the subscription price of HK$0.4736 per share, resulting in the issue of 18,296,000 shares of HK$0.10 each for a total cash consideration, before expenses, of HK$8,665,000; and

(b) A bonus issue of one bonus share for every ten existing shares held by members on the register of members of the Company on 28 June 2001 was made, resulting in the issue of 33,355,000 shares of HK$0.10 each.

28. SHARE CAPITAL *(continued)*

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

	Number of shares in issue *'000*	Issued share capital *HK$'000*
At beginning of year	315,254	31,525
Share options exercised (a)	18,296	1,830
Bonus issue (b)	33,355	3,335
At 31 December 2001	366,905	36,690

Share options

The Company operates a share option scheme (the "Scheme"), further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 32 to 34.

At the beginning of the year, there were 18,296,000 share options outstanding under the Scheme, which entitled 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 was HK$0.4736, subject to adjustment.

All the share options were exercised during the year and no further share options under the Scheme were granted during the year.

Warrants

A total of 49,600,000 warrants with exercise price of HK$0.95 per share lapsed and were cancelled during the year.

31 December 2001

29. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Exchange fluctuation reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (Note b)	Goodwill reserve HK$'000	Retained profits HK$'000	Total HK$'000
Group								
Balance at 1 January 2000:								
As previously reported	44,106	18,528	(1,822)	2,115	11,398	6,246	83,403	163,974
Prior year adjustments:								
SSAP 30 – restatement to non-current assets section of balance sheet of goodwill and negative goodwill on acquisition of subsidiaries (notes 2 and 16)	–	–	–	–	–	(6,246)	–	(6,246)
As restated	44,106	18,528	(1,822)	2,115	11,398	–	83,403	157,728
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)
Net profit for the year	–	–	–	–	–	–	36,390	36,390
	50,177	18,528	(3,758)	2,115	11,398	–	119,793	198,253
As 31 December 2000 and 1 January 2001:								
As previously reported	50,177	18,528	(3,758)	2,115	11,398	(978)	119,793	197,275
SSAP 30 – restatement to non-current assets section of balance sheet of goodwill and negative goodwill on acquisition of subsidiaries (notes 2 and 16)	–	–	–	–	–	978	–	978
As restated	50,177	18,528	(3,758)	2,115	11,398	–	119,793	198,253
Issue of shares	3,500	–	–	–	–	–	–	3,500
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of overseas branches	–	–	(1,956)	–	–	–	–	(1,956)
Surplus on revaluation	–	–	–	15,114	–	–	–	15,114
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(5,547)	–	–	–	(5,547)
Transfer to statutory reserve	–	–	–	-	7,209	–	(7,209)	-
Net loss for the year	–	–	–	–	–	–	(42,810)	(42,810)
At 31 December 2001	53,677	18,528	(5,714)	11,682	18,607	–	69,774	166,554
Reserves retained by:								
Company and subsidiaries	53,677	18,528	(5,714)	11,682	18,607	–	69,841	166,621
Associates	–	–	–	–	–	–	(67)	(67)
At 31 December 2001	53,677	18,528	(5,714)	11,682	18,607	–	69,774	166,554
Reserves retained by:								
Company and subsidiaries	50,177	18,528	(3,758)	2,115	11,398	–	119,860	198,320
Associates	–	–	–	–	–	–	(67)	(67)
At 31 December 2000	50,177	18,528	(3,758)	2,115	11,398	–	119,793	198,253

31 December 2001

29. RESERVES *(continued)*

	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Retained profits HK$'000	Total HK$'000
Company				
Balance at 1 January 2000:				
As previously reported	44,106	75,131	29,380	148,617
Effect of adopting SSAP 18 (Revised) 1999 final dividend receivable (note 11)	–	–	(23,392)	(23,392)
As restated	44,106	75,131	5,988	125,225
Issue of shares	6,071	–	–	6,071
Net profit for the year 2000 (as restated)	–	–	20,021	20,021
At 31 December 2000 and 1 January 2001	50,177	75,131	26,009	151,317
Issue of shares	3,500	–	–	3,500
Net loss for the year 2001	–	–	(2,029)	(2,029)
At 31 December 2001	53,677	75,131	23,980	152,788

29. 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.

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001 *HK$'000*	2000 *HK$'000*
Profit/(loss) from operating activities	(26,770)	61,078
Depreciation	29,339	24,617
Amortisation of intangible assets	18,305	22,459
Amortisation of goodwill	502	–
Negative goodwill recognised as income	(3,251)	–
Interest income	(1,089)	(1,372)
Loss on disposal of fixed assets	1,135	1,426
Write-off of intangible assets	–	3,295
Impairment of long term investments	6,178	–
Impairment of an investment in an associate	96	300
Provision for doubtful debts	807	509
Decrease/(increase) in accounts receivable	46,620	(53,689)
Decrease/(increase) in inventories	77,928	(60,385)
Decrease/(increase) in prepayments, deposits and other receivables	12,049	(4,609)
Decrease in amounts due from associates	133	546
Increase/(decrease) in accounts and bills payables	(8,114)	20,445
Increase/(decrease) in other payables and accruals	(23,433)	3,945
Decrease in amounts due to associates	–	(368)
Net cash inflow from operating activities	130,435	18,197

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Analysis of changes in financing during the year

	Issued 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 2000	74,417	106,795	(9,051)	–	619
Net cash inflow/(outflow) from financing	–	83,808	9,051	(2,653)	–
Inception of finance lease contract – note 30 (d)	–	–	–	11,666	–
Acquisition of equipment and machinery and raw materials	7,285	–	–	–	–
Acquisition of subsidiaries – note 30 (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)	–	–	–
At 31 December 2000 and 1 January 2001	81,702	185,346	–	9,013	392
Net cash inflow/(outflow) from financing	30,679	(61,739)	–	(4,352)	–
Inception of finance lease contract – note 30 (d)	–	–	–	4,486	–
Arising on acquisition of additional interest in a subsidiary	–	–	–	–	363
Share of loss for the year	–	–	–	–	(353)
Proceeds of shares issued classified as receipts in advance – note 27	(22,014)	–	–	–	–
Increase in bank loan classified as cash equivalents	–	50,067	–	–	–
	90,367	173,674	–	9,147	402

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Acquisition of subsidiaries

	2001 HK$'000	2000 HK$'000
Net assets acquired:		
Fixed assets	54	184
Inventories	–	1,163
Cash and bank balances	54	237
Accounts receivable	–	1,148
Prepayments, deposits and other receivables	48	–
Amount due from a shareholder	–	100
Accounts and bills payables	–	(477)
Other payables and accruals	(350)	(288)
Tax payable	–	(286)
Minority interests	–	(168)
	(194)	1,613
Goodwill reserve on acquisition	341	3,586
Capital reserve	–	(100)
	147	5,099
Satisfied by:		
Cash	147	5,099

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

	2001 HK$'000	2000 HK$'000
Cash consideration	(147)	(5,099)
Cash and bank balances acquired	54	237
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	(93)	(4,862)

The subsidiary 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.

31 December 2001

30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(d) Major non-cash transaction

During the year, the Group entered into a finance lease arrangement in respect of fixed assets with a total capital value at the inception of the lease of HK$4,486,000 (2000: HK$11,666,000).

31. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bills discounted with recourse	**13,529**	10,333	**–**	–
Guarantees of banking facilities granted to subsidiaries	**–**	–	**300,658**	263,800
Guarantees of finance leases granted to subsidiaries	**–**	–	**49,000**	49,000

At the balance sheet date, banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$122,556,000 (2000: HK$164,056,000).

31 December 2001

32. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the financial statements) under operating lease arrangements, and the terms of the leases are two years. The terms of the lease generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Within one year	**930**	224
In the second to fifth years, inclusive	**261**	–
	1,191	224

(b) As lessee

The Group leases certain of its office and factory properties under operating lease arrangements which are negotiated for terms ranging from 1 to 50 years.

At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2001	2000
	HK$'000	*HK$'000*
		(Restated)
Within one year	**9,551**	14,817
In the second to fifth years, inclusive	**19,792**	26,526
Beyond five years	**52,368**	70,841
	81,711	112,184

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease payments receivable under non-cancellable operating leases, as detailed in note (a) above. This disclosures was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above have been restated to accord with the current year's presentation.

33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32 above, the Group had the following commitments at the balance sheet date:

	2001	2000
	HK$'000	*HK$'000*
Capital commitments contracted, but not provided for	**36,579**	55,516

The Company did not have any other significant commitments at the balance sheet date (2000: Nil).

34. POST BALANCE SHEET EVENTS

(a) On 20 December 2001, the Company entered into placing agreements with eight independent investors pursuant to which the Company agreed to place 66,710,000 placing shares to the independent investors at a price of HK$0.33 per placing share. The approval from the Stock Exchange for the listing of and permission to deal in new shares was obtained after the balance sheet date and the placing shares were subsequently issued and allotted on 7 January 2002. At 31 December 2001, the net proceeds from the placing of these shares of approximately HK$22,014,000 were classified as receipts in advance under non-current liabilities. The net proceeds, after deducting related expenses, will be used to expand the Group's production facilities and distribution network and to provide further working capital for the Group's operational purpose.

(b) On 22 March 2002, the Company entered into subscription agreements with seven independent investors pursuant to which the Company agreed to place 78,000,000 placing shares to the independent investors at a price of HK$0.30 per placing share. The approval from the Stock Exchange for the listing of and permission to deal in new shares was obtained on 18 April 2002 and the placing shares were subsequently issued and allotted on 24 April 2002. The proceeds before related expenses were approximately HK$23,400,000. The net proceeds, after deducting related exenses, will be used to expand the Group's production facilities and distribution network and to provide additional working capital for the Group's operational purpose.

(c) Subsequent to the balance sheet date, the Group secured a two-year bank loan of approximately HK$38 million and approximately HK$11.7 million bank loan renewable in February 2003. The loans are secured by the Group's certain land and buildings in the PRC (note 14).

35. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been reclassified to conform with the current year's presentation.

36. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorized for issue by the board of directors on 25 April 2002.