

Notes to the Financial Statements

(For the year ended 31 December, 2001)

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company's shares and warrants are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Yugang International Limited ("Yugang"), a company which is also incorporated in Bermuda with its shares listed on the Stock Exchange.

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 37.

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

In the current year, the Company and its subsidiaries (hereinafter collectively referred to the "Group") has adopted a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants for the first time. Adoption of these new and revised 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. Comparative amounts for the prior year have been restated in order to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group's accounting policies that have affected the amounts reported for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP No. 9 (Revised) "Events after the balance sheet date", dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed as a separate component of equity on the balance sheet. Accordingly, dividend income declared by the subsidiaries after the balance sheet date are not recognised as an asset at the Company's balance sheet. This change in accounting policy has been applied retrospectively, resulting from an increase in the Group's net assets as at 1 January, 2000 of approximately HK\$9,715,000 and a decrease in the Company's net asset as at 1 January, 2000 of approximately HK\$23,285,000.

Leases

SSAP No. 14 (Revised) "Leases" ("SSAP 14") has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group's leasing arrangements. Disclosures for all of the Group's leasing arrangements have been modified so as to comply with the requirements of SSAP 14. Comparative amounts have been restated in order to achieve a consistent presentation.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE
(continued)

Segment reporting

In the current year, the Group has changed the basis of identification of reportable segments to that required by SSAP No. 26 "Segment reporting". Segment disclosures for the year ended 31 December, 2000 have been amended so that they are presented on a consistent basis.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, leasehold properties and construction in progress, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date of each accounting period.

The results of the 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, as appropriate.

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

Revenue recognition

Sales of goods are recognised when the goods are delivered to customers and title has passed.

Rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the lease terms.

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

Notes to the Financial Statements

(For the year ended 31 December, 2001)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties are stated at their open market value based on a professional valuation at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequent arises, this surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

Depreciation and amortisation are not provided for investment properties which are held on leases with an unexpired term, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment and construction in progress, are stated at cost or valuation less accumulated depreciation and amortisation and accumulated impairment losses at the balance sheet date.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Any surplus arising on revaluation of property, plant and equipment is credited to the asset revaluation reserve, except to the extent that it reverses a revaluation deficit of the same asset previously recognised as an expense, in which case this surplus is credited to the income statement to the extent of the deficit previously charged. A decrease in net carrying amount arising on revaluation of an asset is charged to the income statement to the extent that it exceeds the surplus, if any, on the revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Leasehold properties are stated in the balance sheet at their revalued amount, being the fair value on the basis of their existing state at the date of revaluation less any subsequent accumulated depreciation and amortisation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Construction in progress is stated in the balance sheet at its revalued amount, being the fair value on the basis of its existing state at the date of revaluation. Construction in progress is not depreciated or amortised. On completion, the carrying value of construction work is transferred to the appropriate category of property, plant and equipment.

Depreciation and amortisation are provided to write off the cost or valuation of property, plant and equipment, over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired terms of the leases
Buildings	2% or over the unexpired terms of the leases, if less than 50 years
Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Plant and machinery	10%
Electricity supply system	10%
Furniture, fixtures and equipment	10%
Moulds	15%
Motor vehicles	25%

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are charged to the income statement in the period in which they are incurred.

Interest in properties

Interest in properties is stated at cost less accumulated amortisation and accumulated impairment losses at the balance sheet date. Amortisation is provided to write off the cost of interest in properties on a straight line basis over the unexpired lease terms.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible note receivables

Convertible note receivables are recognised on a trade-date basis and are initially measured at cost less any identified impairment loss.

Club membership

Costs incurred in the acquisition of club membership are capitalised and amortised on a straight-line basis over their estimated useful lives.

Investments in subsidiaries

A subsidiary is an enterprise controlled by the Company. Control is achieved where the Company has the power to govern the financial and operating policies of an investee enterprise so as to obtain benefits from its activities.

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

Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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 loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

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, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on translation are dealt with in the income statement.

Convertible note payable

Convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note payable for each accounting period.

The costs incurred in connection with the issue of convertible note payable are deferred and amortised on a straight-line basis over the lives of the convertible notes from the date of issue of the notes to their final redemption date. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

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 expense 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 under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the lease terms.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme and mandatory provident fund scheme.

4. TURNOVER

Turnover represents the amounts received and receivable for goods sold, less returns and discounts, to outside parties and rental income received and receivable from outside parties during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into operating divisions- sales of goods and property rental. These divisions are the basis on which the Group reports its primary segment information.

Sales of goods of the Group includes sales of watch boxes, gift boxes, spectacles cases, bags and pouches, display units and stationery.

INCOME STATEMENT

	Turnover		Segment results	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of goods	221,540	276,798	23,532	46,098
Property rental	30	178	25	168
	221,570	276,976	23,557	46,266
Interest income			11,213	10,722
Profit from operations			34,770	56,988
Finance costs			(7,594)	(4,003)
Profit before taxation			27,176	52,985
Taxation			(2,736)	(4,400)
Net profit for the year			24,440	48,585

Notes to the Financial Statements
(For the year ended 31 December, 2001)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

BALANCE SHEET

	Sales of goods HK\$'000	2001 Property rental HK\$'000	Consolidated HK\$'000	Sales of goods HK\$'000	2000 Property rental HK\$'000	Consolidated HK\$'000
Assets						
Segment assets	319,514	-	319,514	386,942	1,100	388,042
Other corporate assets			183,508			103,039
			503,022			491,081
Liabilities						
Segment liabilities	36,171	-	36,171	39,466	30	39,496
Other corporate liabilities			150,574			151,061
			186,745			190,557

OTHER INFORMATION

	2001 HK\$'000	2000 HK\$'000
Capital additions		
– sales of goods	17,318	7,997
– property rental	-	-
Depreciation and amortisation		
– sales of goods	4,404	3,951
– property rental	-	-
Other non-cash expenses		
– sales of goods	-	236
– property rental	-	100

Notes to the Financial Statements

(For the year ended 31 December, 2001)

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

The Group's operations and assets are principally carried out and situated in the People's Republic of China (the "PRC"), including Hong Kong.

A geographical breakdown of the Group's turnover by geographical market is as follows:

	2001 HK\$'000	2000 HK\$'000
North and South America	63,730	92,059
Hong Kong	71,794	84,142
Europe	70,726	81,663
Others	15,320	19,112
	221,570	276,976

The ratio of contribution to profit before taxation to turnover for each individual geographical segment is substantially in line with the overall group ratio.

6. OTHER OPERATING EXPENSES

The amounts represent non-recurrent costs incurred relating to the removal of the Group's production plant during the year.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

7. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 9)	6,770	8,728
Other staff costs	8,503	8,037
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Total staff costs	15,273	16,765
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Auditors' remuneration		
– Current year	500	550
– Underprovision in prior years	–	129
Depreciation and amortisation	4,404	3,951
Minimum rental payments under operating lease in respect of land and buildings	4,579	4,863
and after crediting:		
Interest income	11,213	10,722
Gain on disposals of property, plant and equipment	52	–
Rental income less outgoings of approximately HK\$5,000 (2000: HK\$10,000)	25	168
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8. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest in respect of:		
– Convertible note payable	(7,594)	(4,002)
– Bank overdraft	–	(1)
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	(7,594)	(4,003)
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Notes to the Financial Statements

(For the year ended 31 December, 2001)

9. DIRECTORS' REMUNERATION

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	400	200
Other emoluments (executive directors):		
Salaries and other benefits	5,022	5,768
Performance related incentive payments	1,175	2,400
Retirement benefit scheme contributions	173	60
Payment for loss of office to a former director	–	300
Total directors' remuneration	6,770	8,728

Emoluments of the directors were within the following bands:

	Number of directors	Number of directors
HK\$Nil to HK\$1,000,000	5	9
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	–	1

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No directors have waived any emoluments during the year.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

10. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December, 2001 included three (2000: four) executive directors of the Company, whose emoluments are included in note 9. The emoluments of all the five highest paid individuals are analysed as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	5,984	6,040
Performance related incentive payments	1,210	2,420
Retirement benefit scheme contributions	242	81
	7,436	8,541

Emoluments of the five highest paid individuals were within the following bands:

	2001	2000
	Number of individuals	
HK\$Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	–
HK\$4,500,001 to HK\$5,000,000	–	1
	5	5

11. TAXATION

	2001 HK\$'000	2000 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	(3,067)	(4,607)
Overprovision in prior years	331	207
	(2,736)	(4,400)

Notes to the Financial Statements

(For the year ended 31 December, 2001)

11. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16% (2000: 16%) of the assessable profits for the year.

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

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

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

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

Details of deferred taxation are set out in note 23.

12. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Final dividend of HK\$0.003 per share (2000: HK\$0.005)	6,295	10,379
Underprovision in prior year/period as a result of new shares issued subsequent to the approval of last year's/period's financial statements	16	193
	6,311	10,572

Notes to the Financial Statements
(For the year ended 31 December, 2001)

13. EARNINGS PER SHARE

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

	2001 HK\$'000	2000 HK\$'000
Net profit for the year	24,440	48,585
Effect of dilutive potential shares:		
Interest saving on convertible note	7,594	4,002
Earnings for the purpose of diluted earnings per share	32,034	52,587
Weighted average number of shares for the purposes of basic earnings per share	2,079,342,296	1,927,948,011
Effect of dilutive potential shares:		
Options	–	5,006,239
Warrants	188,087,593	77,842,153
Convertible note payable	1,774,364,651	976,522,971
Weighted average number of shares for the purposes of diluted earnings per share	4,041,794,540	2,987,319,374

14. INVESTMENT PROPERTY

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
At 1 January	1,100	1,200
Deficit arising on revaluation	–	(100)
Transfer to leasehold properties	(1,100)	–
At 31 December	–	1,100

At 31 December, 2000, the investment property which is situated in Hong Kong and held under a medium-term lease was revalued by Vigers Hong Kong Limited, a firm of international property consultants, on an open market value existing state basis.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Electricity supply system HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Construction in progress HK\$'000	Total HK\$'000
THE GROUP									
COST OR VALUATION									
At 1 January, 2001	2,900	3,857	18,504	-	9,565	4,844	1,995	67,447	109,112
Reclassifications	65,237	855	56	672	627	-	-	(67,447)	-
Additions	9,386	447	2,076	2,045	1,705	416	1,243	-	17,318
Transfer from investment properties	1,100	-	-	-	-	-	-	-	1,100
Disposals	-	-	(53)	-	-	-	(350)	-	(403)
At 31 December, 2001	78,623	5,159	20,583	2,717	11,897	5,260	2,888	-	127,127
Comprising:									
At cost	-	5,159	20,583	2,717	11,897	5,260	2,888	-	48,504
At valuation - 2001	78,623	-	-	-	-	-	-	-	78,623
	78,623	5,159	20,583	2,717	11,897	5,260	2,888	-	127,127
DEPRECIATION AND AMORTISATION									
At 1 January, 2001	-	3,857	9,845	-	3,853	1,960	948	-	20,463
Provided for the year	266	20	1,600	113	919	664	527	-	4,109
Written back on revaluation	(77)	-	-	-	-	-	-	-	(77)
Eliminated on disposals	-	-	(24)	-	-	-	(241)	-	(265)
At 31 December, 2001	189	3,877	11,421	113	4,772	2,624	1,234	-	24,230
NET BOOK VALUES									
At 31 December, 2001	78,434	1,282	9,162	2,604	7,125	2,636	1,654	-	102,897
At 31 December, 2000	2,900	-	8,659	-	5,712	2,884	1,047	67,447	88,649

The leasehold properties were revalued at 31 December, 2001 by Vigers Hong Kong Limited, a firm of international property consultants, on an open market value existing state basis.

The Group's leasehold properties are situated in Hong Kong and the PRC of HK\$4,000,000 and HK\$74,434,000 respectively and these leasehold properties are held under medium-term leases. The surplus arising on revaluation amounting to approximately HK\$77,000 has been credited to the income statement.

The construction in progress comprises factory buildings and staff quarters and is situated in the PRC for which the land use rights for a period of 50 years up to 2047 have been granted to the Group. No borrowing costs were capitalised for the construction in progress during the year.

Had the leasehold properties, as stated at revalued amounts, been carried at cost less accumulated depreciation and amortisation, the carrying value of these assets would have been stated at approximately HK\$81,893,000 (2000: HK\$68,715,000).

Notes to the Financial Statements
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16. INTEREST IN PROPERTIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Expenditure incurred, at cost	10,701	10,701
Accumulated amortisation	(1,394)	(1,223)
Less: Provision for impairment loss	9,307	9,478
	(2,347)	(2,347)
	6,960	7,131

Pursuant to respective lease agreements entered into by the Group with relevant parties of the PRC in 1991, the Group has leased, for a period of 50 years up to 2042, the leasehold properties which are erected on land designated to the relevant PRC parties, who had the rights to sub-let the leasehold properties during the terms of the leases. These leasehold properties are used by the Group for the processing of the Group's products.

The consideration for entering the respective lease agreements are capitalised as interest in properties. These amounts and the construction costs incurred subsequently are amortised to the income statement on a straight line basis over the unexpired lease terms.

17. CONVERTIBLE NOTE RECEIVABLES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Unlisted debt securities, at cost	53,000	–

During the year, the Group acquired two convertible notes amounting to HK\$28,000,000 and HK\$25,000,000 respectively, which were issued by companies with their shares listed on the Stock Exchange. The convertible notes bear interest rates at 5% and 7% per annum respectively and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of the companies at the conversion prices, subject to adjustments, which range from HK\$0.088 to HK\$0.090 per share and HK\$0.028 to HK\$0.034 per share respectively in different defined periods.

These convertible notes can only be redeemed at their face value upon maturity in January 2003 and July 2004 respectively to the extent of the amount not previously converted.

In the opinion of the directors, the above convertible notes are worth at least their respective carrying values.

Notes to the Financial Statements
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18. CLUB MEMBERSHIP

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
COST		
At 1 January	620	–
Acquired during the year	–	620
At 31 December	620	620
AMORTISATION		
At 1 January	(103)	–
Provided for the year	(124)	(103)
At 31 December	(227)	(103)
NET BOOK VALUE		
At 31 December	393	517

19. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted shares, at cost	159,531	159,531

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to the group reorganisation which took place on 9 April, 1999 (the "Group Reorganisation").

Particulars of the Company's subsidiaries are set out in note 37.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

20. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
COST		
Raw materials	20,529	21,922
Work in progress	10,809	8,447
Finished goods	7,312	9,654
	38,650	40,023

21. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$20,065,000 (2000: HK\$38,362,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0 to 30 days	8,547	19,880
31 to 60 days	4,958	5,451
Over 60 days	6,560	13,031
	20,065	38,362

Notes to the Financial Statements

(For the year ended 31 December, 2001)

22. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$13,278,000 (2000: HK\$16,855,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
0 to 30 days	4,741	6,843
31 to 60 days	2,576	4,540
Over 60 days	5,961	5,472
	13,278	16,855

23. DEFERRED TAXATION

	THE GROUP 2001 & 2000 <i>HK\$'000</i>
<u>Balance at 1 January and 31 December</u>	<u>541</u>

At the balance sheet date, the major components of the deferred taxation liability of the Group are analysed as follows:

	THE GROUP 2001 & 2000 <i>HK\$'000</i>
Tax effect of timing differences attributable to excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	480
Other timing differences	61
	<u>541</u>

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

*Notes to the Financial Statements**(For the year ended 31 December, 2001)***23. DEFERRED TAXATION (continued)**

Deferred taxation has not been provided on the surplus or deficit arising on revaluation of property, plant and equipment as profits or losses arising on the disposals of these assets would not be subject to taxation or tax deduction. Accordingly, the revaluation does not constitute a timing difference for deferred tax purposes.

24. CONVERTIBLE NOTE PAYABLE

On 22 June, 2000, the Company issued a convertible note ("the Note Payable") of HK\$150,000,000 to Faircom Limited, a wholly owned subsidiary of Yugang. The Note Payable is unsecured and bears interest at 5% per annum, accrued on a daily basis and payable every six months in arrears, at an issue price of 100% of the principal amount.

The outstanding principal amount of the Note Payable may be converted into shares of the Company in amounts not less than HK\$1,000,000 at an initial conversion price of HK\$0.81 per share and the conversion prices will be HK\$0.88 and HK\$0.96 per share for the period from the date immediately following the first anniversary of the date of issue of the Note Payable and for the period from the date immediately following the second anniversary of the date of issue of the Note Payable to the third anniversary of the date of issue of the Note Payable respectively. The conversion prices have been adjusted to HK\$0.081, HK\$0.088 and HK\$0.096 per share for the respective periods after subdivision of the Company's shares which became effective on 13 June, 2000, subject to adjustment, for the three years from the date of issue of the Note Payable. To the extent not previously converted or redeemed, the Note Payable will be redeemed at its face value on 22 June, 2003.

No Note Payable was converted or redeemed during the year.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

25. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Shares of HK\$0.10 each for the period from 1 January, 2000 to 12 June, 2000 or HK\$0.01 each for the period from 13 June, 2000 to 31 December, 2001		
Authorised share capital:		
At 1 January, 2000	1,000,000	100,000
Increase of shares resulting from subdivision of shares	9,000,000	–
	<hr/>	<hr/>
At 31 December, 2000 and at 31 December, 2001	10,000,000	100,000
Issued and fully paid:		
Balance at 1 January, 2000	161,000	16,100
Issue of shares resulting from exercise of share options	5,150	515
Issue of shares pursuant to a subscription agreement	32,000	3,200
Issue of shares resulting from subdivision of shares	1,783,350	–
Issue of shares resulting from exercise of the Company's warrants	89,320	893
	<hr/>	<hr/>
At 31 December, 2000 and 1 January, 2001	2,070,820	20,708
Issue of shares resulting from exercise of the Company's warrants	26,274	263
	<hr/>	<hr/>
At 31 December, 2001	2,097,094	20,971

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

The new shares allotted and issued as set out above rank pari passu in all respects with the then existing shares.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

26. WARRANTS

Pursuant to a bonus issue proposal approved by the Company on 12 June, 2000, an amount of warrants of HK\$25,759,500 was issued to the shareholders whose names appeared on the register of members of the Company on 12 June, 2000 on the basis of one warrant for every five shares held on that day. The warrants entitle the holders to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065 per share, subject to adjustment, from the date of issue thereof until 11 June, 2002.

During the year, an aggregate amount of warrants of HK\$1,707,815 (2000: HK\$5,805,804) was exercised at the subscription price of HK\$0.065 per share, resulting in the issue by the Company of 26,274,080 (2000: 89,320,060) shares of HK\$0.01 each in the Company.

At 31 December, 2001, the Company had an amount of outstanding warrants of HK\$18,245,881 (2000: HK\$19,953,696) entitling the holders thereof to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065, subject to adjustment, on or before 11 June, 2002. Exercise in full of these outstanding warrants would, under the present capital structure, result in receipt by the Company of HK\$18,245,881 in subscription monies and the issue of 280,705,860 additional shares of HK\$0.01 each in the Company.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

27. RESERVES

	Share premium HK\$'000	Surplus account HK\$'000	Asset revaluation reserve HK\$'000	Accumu- lated profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE GROUP						
At 1 January, 2000						
– as originally stated	19,583	90,554	1,000	91,186	–	202,323
– derecognition of liability for 1999 final dividend (note 2)	–	–	–	–	9,715	9,715
– as restated	19,583	90,554	1,000	91,186	9,715	212,038
Premium arising on issue of shares resulting from exercise of share options	2,781	–	–	–	–	2,781
Premium arising on issue of shares pursuant to a subscription agreement	21,760	–	–	–	–	21,760
Expenses incurred in connection with issue of shares pursuant to a subscription agreement	(353)	–	–	–	–	(353)
Premium arising on issue of shares resulting from exercise of warrants	4,913	–	–	–	–	4,913
Net profit for the year	–	–	–	48,585	–	48,585
Underprovision for dividend	–	–	–	(193)	193	–
Dividends paid	–	–	–	–	(9,908)	(9,908)
Declaration of 2000 final dividend	–	–	–	(10,379)	10,379	–
At 31 December, 2000 and 1 January, 2001	48,684	90,554	1,000	129,199	10,379	279,816
Premium arising on issue of shares resulting from exercise of warrants	1,445	–	–	–	–	1,445
Net profit for the year	–	–	–	24,440	–	24,440
Underprovision for dividend	–	–	–	(16)	16	–
Dividends paid	–	–	–	–	(10,395)	(10,395)
Declaration of 2001 final dividend	–	–	–	(6,295)	6,295	–
At 31 December, 2001	50,129	90,554	1,000	147,328	6,295	295,306

The surplus account represents the aggregate of reserves other than accumulated profits of the subsidiaries as at 1 April, 1998 and the excess of the nominal value of the shares issued and issuable by the Company over the nominal value of the issued share capital of the subsidiaries acquired pursuant to the Group Reorganisation.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

27. RESERVES (continued)

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated profits (losses) HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January, 2000					
- as originally stated	19,583	158,331	23,398	-	201,312
- derecognition of asset for 1999 final dividend declared by a subsidiary (note 2)	-	-	(33,000)	-	(33,000)
- derecognition of liability for 1999 final dividend (note 2)	-	-	-	9,715	9,715
- as restated	19,583	158,331	(9,602)	9,715	178,027
Premium arising on issue of shares resulting from exercise of share options	2,781	-	-	-	2,781
Premium arising on issue of shares pursuant to a subscription agreement	21,760	-	-	-	21,760
Expenses incurred in connection with issue of shares pursuant to a subscription agreement	(353)	-	-	-	(353)
Premium arising on issue of shares resulting from exercise of warrants	4,913	-	-	-	4,913
Net profit for the year	-	-	37,089	-	37,089
Underprovision for dividend	-	-	(193)	193	-
Dividends paid	-	-	-	(9,908)	(9,908)
Declaration of 2000 final dividend	-	-	(10,379)	10,379	-
At 31 December, 2000 and 1 January, 2001					
Premium arising on issue of shares resulting from exercise of warrants	1,445	-	-	-	1,445
Net profit for the year	-	-	25,774	-	25,774
Underprovision for dividend	-	-	(16)	16	-
Dividends paid	-	-	-	(10,395)	(10,395)
Declaration of 2001 final dividend	-	-	(6,295)	6,295	-
At 31 December, 2001	50,129	158,331	36,378	6,295	251,133

Notes to the Financial Statements

(For the year ended 31 December, 2001)

27. RESERVES (continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Qualipak Development Limited at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued and issuable for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Accumulated profits	36,378	16,915
Dividend reserve	6,295	10,379
Contributed surplus	158,331	158,331
	201,004	185,625

Notes to the Financial Statements
(For the year ended 31 December, 2001)

28. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
Profit before taxation	27,176	52,985
Interest income	(11,213)	(10,722)
Interest expenses	7,594	4,003
Depreciation and amortisation	4,404	3,951
Gain on disposals of property, plant and equipment	(52)	–
(Surplus) deficit arising on revaluation of properties	(77)	336
Decrease (increase) in inventories	1,373	(2,960)
Decrease (increase) in trade and other receivables	25,576	(10,506)
(Decrease) increase in trade and other payables	(3,325)	4,915
Net cash inflow from operating activities	51,456	42,002

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and premium HK\$'000	Convertible note payable HK\$'000
Balance at 1 January, 2000	35,683	–
Proceeds from issue of convertible note	–	150,000
Proceeds from issue of shares pursuant to a subscription agreement, net of expenses	24,607	–
Proceeds from issue of shares resulting from exercise of warrants	5,806	–
Proceeds from issue of shares resulting from exercise of share options	3,296	–
Balance at 31 December, 2000	69,392	150,000
Proceeds from issue of shares resulting from exercise of warrants	1,708	–
Balance at 31 December, 2001	71,100	150,000

Notes to the Financial Statements

(For the year ended 31 December, 2001)

30. PLEDGE OF ASSETS

At 31 December, 2001, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$4,000,000 (2000: HK\$4,000,000) as securities for general banking facilities granted to the Group.

The Company had not pledged any of its assets at 31 December, 2001 and 2000.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	52	9,730

At 31 December, 2001, the Group did not have any outstanding capital commitments in respect of the construction of factory premises.

The Company did not have any outstanding capital commitments at 31 December, 2001 and 2000.

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000 <i>(restated)</i>
Within one year	1,954	1,930
In the second to fifth year inclusive	1,673	-
	3,627	1,930

Operating lease payments represent rental payable by the Group for certain of its manufactory plants, office properties and quarters. These leases are negotiated for an average terms of two to five years.

The Company did not have any commitments for future minimum lease payments under non-cancellable operating leases at 31 December, 2001 and 2000.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

33. CONTINGENT LIABILITIES

THE COMPANY

At 31 December, 2001, the Company executed guarantees amounting to HK\$20,000,000 (2000: HK\$30,500,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at 31 December, 2001.

34. RETIREMENT BENEFIT SCHEME

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefit scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

In light of the introduction of the Mandatory Provident Fund ("MPF") Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the retirement benefit scheme and participated in an approved MPF scheme with HSBC Life (International) Limited effective 1 December, 2000 to provide scheme choice to existing employees. All new employees after 1 December, 2000 are required to participate in the MPF Scheme. Mandatory and voluntary benefits are being provided under the MPF Scheme.

The details of retirement benefit scheme contributions for the Company's directors and the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Gross retirement benefit scheme contributions	680	432
Less: Forfeited contributions utilised to offset contributions	(51)	(148)
Net retirement benefit scheme contributions	629	284

At 31 December, 2001, there were forfeited contributions of approximately HK\$4,000 (2000: HK\$20,000) which were available to offset future employers' contributions to the scheme.

Notes to the Financial Statements

(For the year ended 31 December, 2001)

35. RELATED PARTY TRANSACTIONS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
During the year, the Group had the following significant transactions with the following related companies:		
Interest in respect of convertible note paid to Faircom Limited	7,594	4,002
<u>Issue of convertible note to Faircom Limited</u>	<u>–</u>	<u>150,000</u>

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

In the opinion of the Company's directors, the above related party transactions were carried out at terms agreed by both parties. Details of the terms are set out in note 24.

36. SUBSEQUENT EVENT

Subsequent to the balance sheet date, the Group acquired an investment property at the consideration of approximately HK\$18,500,000.

Notes to the Financial Statements
(For the year ended 31 December, 2001)

37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December, 2001 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Gainwin Packaging Limited	Hong Kong	Ordinary HK\$2	Inactive
Permate Production Inc.	British Virgin Islands/ PRC	Ordinary US\$20	Manufacture of gift boxes, spectacles cases and bags and pouches
Qualipak Development Limited (Note a)	British Virgin Islands	Ordinary US\$10,000	Investment holding
Qualipak Enterprises Limited	Republic of Mauritius	Ordinary US\$1,000	Inactive
Qualipak Finance Limited	Hong Kong	Ordinary HK\$2	Inactive
Qualipak Fortune Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited	British Virgin Islands	Ordinary US\$1	Investment holding
Qualipak Manufacturing Limited (Note b)	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$22,303,857	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.	PRC	Registered HK\$16,000,000	Inactive

Notes to the Financial Statements

(For the year ended 31 December, 2001)

37. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Qualipak Nominees Limited	British Virgin Islands	Ordinary US\$1	Provision of nominee services
Qualipak Production Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes and gift boxes
Qualipak Vision Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes and spectacles cases
Qualipak Wonder Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes, spectacles cases and display units
Winning Hand Management Limited	British Virgin Islands/ PRC	Ordinary US\$1	Property holding
Wisdom Way Limited	Hong Kong	Ordinary HK\$2	Property holding
Worthwell Investments Limited	British Virgin Islands	Ordinary US\$50,000	Investment holding

Note:

- (a) The Company directly holds the entire interest in Qualipak Development Limited. The entire interests of all other companies are indirectly held by the Company.
- (b) The non-voting deferred shares have restricted rights on distribution of profits, capital and voting.

None of the subsidiaries had any loan capital outstanding at 31 December, 2001 or at any time during the year.