1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda.

The sole principal activity of the Group is the design, manufacture and sale of cigarette lighters and lighter-related accessories.

In the opinion of the directors, the ultimate holding company is Four Guard Int'l Limited, a company incorporated in the British Virgin Islands.

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

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

- SSAP 9 (Revised) : "Events after the balance sheet date"
- 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"
- Interpretation 12 : "Business combinations – subsequent adjustment of fair values and goodwill initially reported"
- Interpretation 13 : "Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves"

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 and Interpretations 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. The revised SSAP has not had any material impact on the financial statements for the years ended 30 June 2002 and 30 June 2001.

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. As explained in note 4 to the financial statements, the Group has not presented its business segment information for the years ended 30 June 2002 and 2001, because it has only one business segment.

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.

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

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 presentation 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 financial statements of the Company and its subsidiaries for the year ended 30 June 2002. 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.

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.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;

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

Joint venture companies *(continued)*

(c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Jointly-controlled entity

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

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.

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.

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

Fixed assets and depreciation

Fixed assets, other than investment properties, construction in progress and certain leasehold land and buildings, are stated at cost less accumulated depreciation and any impairment losses. 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of certain fixed assets, other than investment properties, are dealt with as movements in the 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 over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	2% – 4%
Plant and machinery	10% – 25%
Leasehold improvements and others	10% – 25%

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.

Construction in progress represents buildings, plant and machinery, moulds and other fixed assets under construction or installation. It is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction, installation and testing as well as capitalised borrowing costs on related borrowed funds during the period of construction or installation. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

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

Intangible assets

Intangible assets represent expenses incurred for the application and registration of trademarks and patents. They are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on a straight-line basis over periods not exceeding five years.

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 are 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 leases 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 term. 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.

Long term investment

Long term investment is a non-trading investment in listed equity security or unlisted debt security intended to be held for a continuing strategic or long term purpose. It is stated at cost less impairment losses on an individual basis.

When such impairment in value has occurred, the carrying amount of the security is reduced to its fair value, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value ceases to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount 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 overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

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

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

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 non-Hong Kong subsidiaries and the jointly-controlled entity are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

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 amortised using the straight-line basis over the commercial lives of the underlying products of not exceeding five years, commencing from the date when the products are put into commercial production.

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:

(a) 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;

(b) rental income, on a time proportion basis over the lease terms; and

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Scheme Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF 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 MPF Scheme. The assets of the MPF 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 MPF Scheme.

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

Retirement benefits scheme *(continued)*

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "prior scheme") for those employees who were eligible to participate in this scheme. This prior scheme operated in a similar way to the MPF Scheme, except that when an employee left the prior scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions. With effect from 1 December 2000, the prior scheme was terminated with all the underlying assets of the prior scheme transferred to the MPF Scheme.

Certain employees of the Group's subsidiary which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. Contributions are made based on a percentage of the eligible employees' salaries pursuant to relevant pension regulations. Contributions to the central pension scheme are charged to profit and loss accounts as incurred.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's primary segment is the design, manufacture and sale of cigarette lighters and lighter-related accessories. Since this is the only business segment of the Group, no further analysis thereof is presented.

Segment information is presented below in respect of the Group's geographical segment, which is regarded as the secondary segment. In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

	United States of America		Hong Kong		Elsewhere in the PRC		Asia		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:														
Sales to external customers	**49,746**	62,108	**18,725**	28,033	**11,351**	21,264	**23,342**	36,413	**19,396**	23,582	**-**	-	**122,560**	171,400
Other revenue	**-**	-	**1,388**	3,410	**2,530**	2,305	**-**	-	**1,301**	1,469	**-**	-	**5,219**	7,184
Total revenue	**49,746**	62,108	**20,113**	31,443	**13,881**	23,569	**23,342**	36,413	**20,697**	25,051	**-**	-	**127,779**	178,584

4. SEGMENT INFORMATION *(continued)*

Geographical segments *(continued)*

Group *(continued)*

	United States of America		Hong Kong		Elsewhere in the PRC		Asia		Others		Eliminations		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:														
Segment assets	**–**	–	**64,872**	67,919	**39,051**	45,419	**82**	–	**–**	–	**–**	–	**104,005**	113,338
Capital expenditure	**–**	–	**60**	946	**9,871**	16,452	**–**	–	**–**	–	**–**	–	**9,931**	17,398

The contribution to loss from operating activities by geographical area is substantially in line with the overall rate of contribution to turnover and, accordingly, a geographical analysis of contribution, which is discloseable pursuant to the Rules Governing the Listing of Securities in The Stock Exchange of Hong Kong Limited (the "Listing Rules"), is not presented.

5. TURNOVER, REVENUE AND GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

An analysis of turnover, other revenue and gains is as follows:

	2002	2001
	HK$'000	*HK$'000*
Turnover		
Sale of lighters and related accessories	**122,560**	171,400
Other revenue		
Amortisation of deferred income	**2,610**	2,287
Net rental income	**851**	864
Interest income	**75**	704
Freight and service income	**631**	863
Insurance claim received	**–**	313
Surplus on revaluation of investment properties, land and buildings	**176**	1,546
Others	**876**	607
	5,219	7,184
Gains		
Gain on disposal of fixed assets, net	**765**	371
Exchange gains, net	**311**	850
	1,076	1,221
	6,295	8,405

6. LOSS FROM OPERATING ACTIVITIES

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

	2002 HK$'000	2001 HK$'000
Auditors' remuneration	**600**	650
Depreciation	**4,942**	5,763
Amortisation of intangible assets *	**627**	476
Research and development costs	**–**	512
Staff costs (excluding directors' remuneration – note 8):		
Salaries and wages	**9,329**	10,883
Pension contributions	**110**	228
Less: Forfeited contributions	**–**	(29)
Net pension contributions	**110**	199
PRC pension contributions	**592**	373
	10,031	11,455
Minimum lease payments under operating leases in respect of land and buildings	**675**	1,677
Fixed assets written off	**2,300**	3,056
Construction in progress written off	**218**	765
Loss on dissolution of a subsidiary	**376**	–
Loss on disposal of long term listed investment	**839**	–
Revaluation surplus on:		
Leasehold land and buildings	**(94)**	(406)
Investment properties	**(82)**	(1,140)
Exchange gains, net	**(311)**	(850)
Gain on disposal of fixed assets, net	**(765)**	(371)
Gross rental income	**(879)**	(964)
Less: Outgoings	**28**	100
Net rental income	**(851)**	(864)
Interest income	**(75)**	(704)
Amortisation of deferred income	**(2,610)**	(2,287)

* *The amortisation of intangible assets for the year is included in "Administrative expenses" on the face of the profit and loss account.*

7. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**1,204**	1,366
Interest on finance leases	**86**	54
Total finance costs	**1,290**	1,420

8. DIRECTORS' REMUNERATION

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

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**4,377**	3,332
Performance related bonuses	**–**	1,500
Pension scheme contributions	**48**	36
	4,425	4,868

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

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**6**	7
HK$2,500,001 – HK$3,000,000	**1**	1

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid individuals during the year were all directors of the Company.

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	Group	
	2002	2001
	HK$'000	*HK$'000*
Hong Kong		
Tax charge for the year	**168**	79

There was no unprovided deferred tax in respect of the year (2001: nil).

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 30 June 2002 dealt with in the financial statements of the Company is approximately HK$3,486,000 (2001: HK$4,162,000).

12. LOSS PER SHARE

The calculation of the basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK$9,763,000 (2001: HK$8,541,000) and the weighted average number of 150,000,000 (2001: 150,000,000) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 30 June 2002 and 2001 have not been calculated as no diluting events existed during these years.

13. FIXED ASSETS

Group

	Investment properties	Leasehold land and buildings	Plant and machinery	Leasehold improvements and others	Construction in progress	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:						
At beginning of year	10,830	5,306	45,638	4,091	5,123	70,988
Additions	–	1,120	1,822	206	6,783	9,931
Disposals	–	–	(1,535)	–	–	(1,535)
Write-off *	–	–	(3,607)	(177)	(218)	(4,002)
Transfer of construction in progress	–	9,023	1,720	–	(10,743)	–
Surplus/(deficit) on revaluation	82	(12)	–	–	–	70
At 30 June 2002	**10,912**	**15,437**	**44,038**	**4,120**	**945**	**75,452**
Analysis of cost or valuation:						
At cost	–	10,143	44,038	4,120	945	59,246
At 30 June 2002 valuation	10,912	5,294	–	–	–	16,206
	10,912	15,437	44,038	4,120	945	75,452
Accumulated depreciation:						
At beginning of year	–	–	21,239	2,841	–	24,080
Provided during the year	–	345	4,350	247	–	4,942
Disposals	–	–	(1,375)	–	–	(1,375)
Write-off *	–	–	(1,343)	(141)	–	(1,484)
Surplus on revaluation	–	(106)	–	–	–	(106)
At 30 June 2002	**–**	**239**	**22,871**	**2,947**	**–**	**26,057**
Net book value:						
At 30 June 2002	**10,912**	**15,198**	**21,167**	**1,173**	**945**	**49,395**
At 30 June 2001	10,830	5,306	24,399	1,250	5,123	46,908

* *The plant and machinery and leasehold improvements and others with carrying values of approximately HK$2 million have been written off as a result of the dissolution of Poly Action Plastics & Metal Manufacture Limited, a wholly-owned subsidiary of the Group.*

13. FIXED ASSETS *(continued)*

The Group's investment properties are situated in Hong Kong and held under long term leases. The investment properties were revalued on 30 June 2002 by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at HK$10,912,000 on an open market value, existing use basis.

The Group's leasehold land and buildings are situated in Hong Kong and the PRC. Except for certain leasehold land and buildings of approximately HK$10,966,000 (2001: HK$1,456,000) which are held under medium term leases, the remaining leasehold land and buildings of HK$4,232,000 (2001: HK$3,850,000) are held under long term leases.

The Group's leasehold land and buildings, except those situated in the PRC, were revalued individually at the balance sheet date by LCH (Asia-Pacific) Surveyors Limited, independent professionally qualified valuers, at an aggregate open market value of HK$5,294,000 (2001: HK$5,306,000) based on their existing use. A revaluation surplus of HK$94,000 (2001: surplus of HK$406,000) resulting from the above valuations has been credited to the profit and loss account.

In the opinion of the directors, the fair values of the Group's leasehold land and buildings situated in the PRC did not differ materially from the carrying values of the respective assets at the balance sheet date and no revaluation was therefore performed.

Had these revalued leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$6,898,000 (2001: HK$7,054,000).

At 30 June 2002, all of the Group's investment properties and leasehold land and buildings situated in Hong Kong with an aggregate carrying value of HK$16,206,000 (2001: HK$16,136,000), were pledged as securities for the banking facilities granted to the Group (note 24).

The net book values of machinery and a motor vehicle held under finance leases as at 30 June 2002 amounted to approximately HK$1,692,000 (2001: Nil) and HK$311,000 (2001: HK$436,000) respectively.

14. INTANGIBLE ASSETS

Group

	Trademark and patents HK$'000
Cost:	
At beginning of year	2,376
Additions	759
At 30 June 2002	**3,135**
Accumulated amortisation:	
At beginning of year	1,085
Provided during the year	627
At 30 June 2002	**1,712**
Net book value:	
At 30 June 2002	**1,423**
At 30 June 2001	1,291

15. INTERESTS IN SUBSIDIARIES

	Company	
	2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**62,515**	62,515
Due from subsidiaries	**15,413**	16,762
	77,928	79,277

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

15. INTERESTS IN SUBSIDIARIES *(continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Issued and paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Classic Line International Limited	British Virgin Islands	US$16	100	–	Investment holding
Eversun Corporation Limited **	Hong Kong	HK$2	–	100	Trading of cigarette lighters
Headjoin Limited	Hong Kong	HK$2	–	100	Property investment
Longnan County Poly Action Plastic & Metal Products Co., Limited	PRC	US$4,500,000	–	100	Manufacture of cigarette lighters and lighter parts
Poly Action Plastics & Metal Manufacture Limited *	PRC	HK$58,570,000	–	100	Manufacture of cigarette lighters and lighter parts
Polycity Enterprise Limited	Hong Kong	HK$2	–	100	Trading of cigarette lighters
PT. Magastand Industries **	Indonesia	US$250,000	–	99	Assembling of cigarette lighters
Ribbon Worldwide Limited **	British Virgin Islands	US$1	–	100	Investment holding
Tak Fi Brothers Limited	British Virgin Islands	US$2	–	100	Investment holding, product design and trading of cigarette lighters and related products

* *Poly Action Plastics & Metal Manufacture Limited has ceased its operation during the year and is in the process of dissolution.*

** *Newly incorporated during the year.*

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	**3,650**	9,425
Due from a jointly-controlled entity	**3,132**	3,132
Deferred income	**(6,292)**	(7,913)
	490	4,644

The amount due from a jointly-controlled entity is unsecured, interest-free and has no fixed terms of repayment.

Deferred income arising from sales of production machinery and moulds to the jointly-controlled entity is amortised over 5 to 10 years, which approximates the useful lives of the machinery and moulds.

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activity
Shandong Luneng Plastics & Metal Mfg. Co., Ltd. ("SDLN")	Corporate	PRC	50	50	50	Manufacture of cigarette lighters and lighter parts

The above investment in the jointly-controlled entity is indirectly held by the Company through a subsidiary.

A summary of the results for the year and the net tangible assets as at the balance sheet date of the jointly-controlled entity of the Group, SDLN, is set out below:

(a) Results for the year:

	2002 HK$'000	2001 HK$'000
Turnover	**49,641**	59,311
Net loss for the year	**11,611**	11,450

(b) Net tangible assets:

	2002 HK$'000	2001 HK$'000
Non-current assets	**32,695**	35,277
Current assets	**29,250**	33,054
Current liabilities	**(47,492)**	(42,328)
Non-current liabilities	**(7,153)**	(7,153)
	7,300	18,850

16. INTEREST IN A JOINTLY-CONTROLLED ENTITY *(continued)*

At 30 June 2002, the jointly-controlled entity had an amount due from a related company, Tak Fi International (Holdings) Limited ("Tak Fi Int'l"), a company in which Mr. Sher Tak Chi has beneficial interest, amounting to approximately HK$12,201,000 (2001: approximately HK$11,579,000) and the Group's share thereof was approximately HK$6,100,500 (2001: approximately HK$5,789,500). The amount due from the related company to SDLN bears interest ranging from 0% to 5.850% (2001: ranging from 0% to 4.875%) per annum.

The amount due from Tak Fi Int'l to SDLN was originally due on 24 June 2000 and SDLN had agreed to extend the repayment date to 30 June 2002. As at the date of approval of these financial statements, the amount due to SDLN remained unsettled. The directors of the Company have taken steps to assess the latest financial position of Tak Fi Int'l in respect of its ability to settle the amount due to SDLN. In the opinion of the directors of the Company, the recoverability of such overdue balance is considered doubtful and hence, full provision was made for this overdue amount.

17. LONG TERM INVESTMENT

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Convertible note, at cost	**–**	2,000	**–**	2,000

On 18 July 2001, the Company exercised its rights to convert the convertible note into 5,000,000 ordinary shares of B M Intelligence International Limited, a company listed on the Hong Kong Stock Exchange, at the issue price of HK$0.40 per share. All the shares were disposed of at a loss of HK$839,000 during the year.

18. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**4,683**	6,709
Work in progress	**3,818**	6,377
Finished goods	**4,378**	4,231
	12,879	17,317

The carrying amount of inventories carried at net realisable value included in the above is HK$Nil (2001: approximately HK$1,152,000).

19. TRADE AND BILLS RECEIVABLES

The Group's credit terms granted to its customers range between 30 to 90 days. An aged analysis of trade and bills receivables as at the balance sheet date, based on invoice date, and net of provisions, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 3 months	**6,283**	12,818
4-6 months	**4,069**	4,149
7-12 months	**7,367**	6,560
13-24 months	**9,513**	5,371
	27,232	28,898

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**938**	6,285	**34**	238
Time deposits	**2,028**	–	**–**	–
	2,966	6,285	**34**	238
Less: Time deposits pledged for bank facilities	**(2,028)**	–	**–**	–
Cash and cash equivalents	**938**	6,285	**34**	238

21. TRADE PAYABLES

An aged analysis of trade payables as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within 3 months	**12,845**	7,976
4-6 months	**5,425**	292
7-12 months	**1,514**	8,910
13-24 months	**349**	1,908
Over 24 months	**2,544**	1,453
	22,677	20,539

Included in trade payables is a trade payable of approximately HK$15,676,000 (2001: HK$8,705,000) due to the jointly-controlled entity, which has no fixed terms of repayment.

22. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accruals	**5,704**	9,084	**600**	638
Due to related companies	**87**	163	**77**	77
Due to a director	**225**	207	**–**	–
	6,016	9,454	**677**	715

The amounts due to related companies and a director are unsecured, interest-free and have no fixed terms of repayment.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2002	2001
	Notes	***HK$'000***	*HK$'000*
Bank overdrafts, secured	24	**7,306**	2,892
Current portion of bank loans, secured	24	**4,242**	5,533
		11,548	8,425
Current portion of finance lease payable	25	**940**	81
		12,488	8,506

24. INTEREST-BEARING BANK BORROWINGS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts, secured	**7,306**	2,892
Bank loans, secured	**6,487**	8,355
	13,793	11,247
Bank overdrafts repayable within one year or on demand	**7,306**	2,892
Bank loans repayable:		
Within one year or on demand	**4,242**	5,533
In the second year	**606**	511
In the third to fifth years, inclusive	**1,639**	1,533
Beyond five years	**–**	778
	13,793	11,247
Portion classified as current liabilities – note 23	**(11,548)**	(8,425)
Long term portion	**2,245**	2,822

24. INTEREST-BEARING BANK BORROWINGS *(continued)*

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

(i) all-monies legal charges over the Group's investment properties and certain leasehold land and buildings with an aggregate carrying value of HK$16,206,000 (2001: HK$16,136,000) at the balance sheet date as set out in note 13;

(ii) the pledge of the Group's time deposits amounting to HK$2,028,000 (2001: Nil); and

(iii) unlimited corporate guarantees granted by the Company.

25. FINANCE LEASE PAYABLES

The Group leases a motor vehicle and certain of its machinery for its business operations. These leases are classified as finance leases and have remaining lease terms ranging from 2 to 3 years.

At 30 June 2002, the total future minimum lease payments under finance leases and their present values, were as follows:

Group

	Minimum lease payments		**Present value of minimum lease payments**	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	**1,029**	120	**940**	81
In the second year	**347**	120	**319**	94
In the third to fifth years, inclusive	**60**	181	**58**	165
Total minimum finance lease payments	**1,436**	421	**1,317**	340
Future finance charges	**(119)**	(81)		
Total net finance lease payables	**1,317**	340		
Portion classified as current liabilities – note 23	**(940)**	(81)		
Long term portion	**377**	259		

The difference between the total outstanding minimum lease payments and the present value of lease payments represents the discount implicit in the leases.

26. SHARE CAPITAL

Shares

	Company 2002 HK$'000	Company 2001 HK$'000
Authorised:		
800,000,000 (2001: 800,000,000) ordinary shares of HK$0.10 each	**80,000**	80,000
Issued and fully paid:		
150,000,000 (2001: 150,000,000) ordinary shares of HK$0.10 each	**15,000**	15,000

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 15 to 16.

No share options have been granted under the Scheme.

27. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Surplus reserve funds HK$'000	Retained profits/ (accumulated losses) HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000
At 30 June 2000	6,459	5,800	92	48,521	(1,067)	59,805
Exchange realignments	–	–	–	–	384	384
Loss for the year	–	–	–	(8,541)	–	(8,541)
At 30 June 2001 and beginning of year	6,459	5,800	92	39,980	(683)	51,648
Exchange realignments	–	–	–	–	179	179
Loss for the year	–	–	–	(9,763)	–	(9,763)
Realisation of reserves on dissolution of a subsidiary	–	–	(92)	92	376	376
At 30 June 2002	**6,459**	**5,800**	**–**	**30,309**	**(128)**	**42,440**
Reserves retained by:						
Company and subsidiaries	6,459	5,800	–	69,232	(19)	81,472
Jointly-controlled entity	–	–	–	(38,923)	(109)	(39,032)
At 30 June 2002	**6,459**	**5,800**	**–**	**30,309**	**(128)**	**42,440**
Company and subsidiaries	6,459	5,800	92	73,098	(544)	84,905
Jointly-controlled entity	–	–	–	(33,118)	(139)	(33,257)
At 30 June 2001	6,459	5,800	92	39,980	(683)	51,648

27. RESERVES *(continued)*

Company

	Share premium account HK$'000	Contributed surplus HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 30 June 2000	6,459	62,315	1,195	69,969
Loss for the year	–	–	(4,162)	(4,162)
At 30 June 2001 and beginning of year	6,459	62,315	(2,967)	65,807
Loss for the year	–	–	(3,486)	(3,486)
At 30 June 2002	**6,459**	**62,315**	**(6,453)**	**62,321**

The contributed surplus of the Group originally represents the difference between the nominal value of the shares of the former Group holding company acquired pursuant to the Group reorganisation prior to the listing of the Company's shares, over the nominal value of the Company's shares issued in exchange therefor.

The contributed surplus of the Company represents the excess of the fair value of the shares of the subsidiaries acquired pursuant to the same reorganisation, over the nominal value of the Company's shares issued in exchange therefor.

28. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2002 ***HK$'000***	2001 *HK$'000*
Loss from operating activities	**(2,500)**	(1,317)
Interest income	**(75)**	(704)
Depreciation	**4,942**	5,763
Amortisation of intangible assets	**627**	476
Revaluation surplus on leasehold land and buildings and investment properties	**(176)**	(1,546)
Gain on disposal of fixed assets, net	**(765)**	(371)
Fixed assets written off	**2,300**	3,056
Construction in progress written off	**218**	765
Loss on dissolution of a subsidiary	**376**	–
Loss on disposal of long term listed investment	**839**	–
Effect of foreign exchange rate changes	**149**	104
Decrease in trade and bills receivables	**1,666**	4,653
Decrease in inventories	**4,438**	167
Decrease/(increase) in prepayments, deposits and other receivables	**(3,625)**	3,248
Decrease in deferred income	**(1,621)**	(1,456)
Increase/(decrease) in trade payables	**2,138**	(11,225)
Increase/(decrease) in other payables and accruals	**(3,438)**	2,802
Net cash inflow from operating activities	**5,493**	4,415

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

(b) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK$'000	Bank loans HK$'000	Finance lease payables HK$'000	Minority interest HK$'000
At 30 June 2000	21,459	11,589	–	–
Inception of finance lease contracts	–	–	756	–
Subsidiaries disposed of during the year	–	–	(346)	–
Cash outflow from financing, net	–	(3,367)	(70)	–
At 30 June 2001 and beginning of year	21,459	8,222	340	–
Inception of a finance lease contract	–	–	1,692	–
Cash outflow from financing, net	–	(2,742)	(715)	–
Capital contribution by a minority shareholder	–	–	–	19
At 30 June 2002	**21,459**	**5,480**	**1,317**	**19**

(c) 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$1,692,000 (2001: HK$756,000).

(d) Disposal of subsidiaries

	2002 ***HK$'000***	2001 *HK$'000*
Net assets disposed of:		
Fixed assets	**–**	392
Cash and bank balances	**–**	14
Due from immediate holding company	**–**	5,986
Other payables and accruals	**–**	(4)
Finance lease payable	**–**	(346)
	–	6,042
Gain on disposal of subsidiaries	**–**	–
Consideration	**–**	6,042
Satisfied by:		
Proceeds receivable from disposal of subsidiaries	**–**	6,042

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

(d) Disposal of subsidiaries *(continued)*

Analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries:

	2002	2001
	HK$'000	*HK$'000*
Cash and bank balances disposed of	–	(14)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	–	(14)

The subsidiaries disposed of in the prior year had no significant cash flow impact.

The results of the subsidiaries disposed of in the prior year had no material impact on the turnover, consolidated results or cash flows of the Group for the year ended 30 June 2001.

29. CONTINGENT LIABILITIES

At 30 June 2002, the Group had contingent liabilities not provided for in the financial statements in respect of bills discounted with recourse amounting to approximately HK$4.0 million (2001: HK$6.9 million).

At 30 June 2002, the Company had contingent liabilities not provided for in the financial statements in respect of unlimited corporate guarantees given to the banks for general banking facilities granted to a subsidiary amounting to HK$55,336,000 (2001: HK$55,336,000). On the same day, such facilities were utilised to the extent of approximately HK$17.8 million (2001: HK$18.2 million).

30. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases a number of its investment properties (note 13 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 2 years, without renewal options given to the leasees.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**546**	691
In the second to fifth years, inclusive	**328**	300
	874	991

30. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases certain of its godowns under operating lease arrangements. Leases for the properties are negotiated for terms within one year.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**53**	429

31. COMMITMENTS

In addition to the operating lease commitments detailed in note 30(b) above, the Group had the following commitments at the balance sheet date:

Capital commitments

	Group	
	2002	2001
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Capital contributions to a subsidiary	**29,375**	29,375
Leasehold improvements	**–**	4,293
Plant and machinery	**8,913**	4,837
	38,288	38,505

32. RELATED PARTY TRANSACTIONS

During the year, the Group had the following material transactions with its jointly-controlled entity:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Purchases of finished goods	**47,160**	56,208
Purchases of raw materials	**1,139**	–
Sales of raw materials	**(10,756)**	(22,191)
Sales of machinery and moulds	**(512)**	(1,271)

The above transactions were carried out on terms agreed between the Group and the jointly-controlled entity.

Details of the Group's trade balances with its jointly-controlled entity as at the balance sheet date, are disclosed in note 21 to the financial statements.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 29 October 2002.