

◀ **Notes to the Financial Statements** ▶

For the year ended 31 December 2002

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is S.T.J. Technology Limited ("STJ"), a company incorporated in British Virgin Islands.

The Company acts as an investment holding company. The principal activities of its subsidiaries and associates are the manufacture and sale of wooden products and provision of Integrated Circuit ("IC") design services.

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

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAP"s) issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the consolidated cash flow statement and the introduction of the consolidated statement of changes in equity. Under SSAP 15 (Revised), cash flows are classified under three headings – operating, investing and financing, rather than the previous five headings. Interest paid and interest received which were previously presented under a separate heading, are classified as operating cash flows and investing cash flows respectively. Cash flows arising from taxes on income are classified as operating activities, unless they can be separately identified with investing or financing activities. There has had no material effect on the results of the current year or prior years. Accordingly, no prior period adjustment is required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

◀ **Notes to the Financial Statements** ▶

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Turnover

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

Revenue recognition

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

Service income is recognised as services are rendered.

Interest income from bank deposits is accrued on a time basis by reference to the principal outstanding and at the interest rate applicable.

Interests in associates

The consolidated income statement includes the Group's share of the post-acquisition results of its associates for the year. In the consolidated balance sheet, interests in associates are stated at the Group's share of the net assets of the associates less any identified impairment loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in securities

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

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

Investment securities, which are securities held for an identified long term strategic purpose, are measured at subsequent reporting dates at cost less any identified impairment loss.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

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

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

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

	Rate per annum (%)
Land and buildings held under short term leases other than Hong Kong	5 to 10
Land and buildings held under medium term leases other than Hong Kong	2
Land and buildings held under long leases in Hong Kong	4
Plant and equipment and furniture and fittings	10 to 33
Motor vehicles	20

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

◀ **Notes to the Financial Statements** ▶

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in subsidiaries

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight line basis over its useful economic life of not more than twenty years.

Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary or an associate, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

Club debenture

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

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 expenses immediately.

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

Inventories

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

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

Borrowing costs

Borrowing costs are recognised in net profit or loss in the period in which they are incurred.

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

Foreign currencies

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

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

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

Operating leases

Rentals payable in respect of operating leases are charged to the income statement on a straight line basis over the period of the relevant lease terms.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

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

4. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

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

Principal activities:

Blockboard and particle board	– manufacture and trading of products of blockboard and particle board
Door skin	– manufacture and trading of door skin
Furniture	– manufacture and trading of furniture
Other wooden products	– manufacture and trading of wooden products other than those identified as above
Others	– high-technology related business

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(i) Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended 31 December 2002						Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	Inter- segment eliminations US\$'000	
TURNOVER							
External sales	25,453	1,321	-	3,698	1,033	-	31,505
Inter-segment sales	-	-	-	641	31	(672)	-
	<u>25,453</u>	<u>1,321</u>	<u>-</u>	<u>4,339</u>	<u>1,064</u>	<u>(672)</u>	<u>31,505</u>
Inter-segment sales are charged at prevailing market prices.							
RESULT							
Segment result	<u>(8,026)</u>	<u>9</u>	<u>-</u>	<u>(590)</u>	<u>(554)</u>	<u>-</u>	<u>(9,161)</u>
Unallocated corporate expenses							<u>(1,698)</u>
Loss from operations							<u>(10,859)</u>
Finance costs							<u>(1,523)</u>
Share of results of associates	(73)	-	(1,202)	-	(405)	-	<u>(1,680)</u>
Loss on partial disposal of subsidiaries	(1,081)	-	-	-	(953)	-	<u>(2,034)</u>
Loss before taxation							<u>(16,096)</u>
Taxation							<u>(147)</u>
Loss before minority interests							<u>(16,243)</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(i) Segment information about these businesses is presented below: (continued)

BALANCE SHEET

	As at 31 December 2002					Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	
ASSETS						
Segment assets	46,091	3,336	-	6,743	4,659	60,829
Interests in associates	-	-	2,566	1,740	-	4,306
Unallocated corporate assets						8,638
Consolidated total assets						<u>73,773</u>
LIABILITIES						
Segment liabilities	2,824	162	-	730	593	4,309
Unallocated corporate liabilities						25,707
Consolidated total liabilities						<u>30,016</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(i) Segment information about these businesses is presented below: (continued)

OTHER INFORMATION

	For the year ended 31 December 2002					Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	
Capital additions	666	17	-	2,764	6,346	9,793
Allowance for bad and doubtful debts	(1,521)	(8)	-	(7)	(84)	(1,620)
Amortisation of goodwill	-	-	-	(441)	(221)	(662)
Depreciation and amortisation of property, plant and equipment	(4,070)	(297)	-	(433)	(204)	(5,004)
Impairment loss recognised in respect of property, plant and equipment	(3,504)	-	-	(471)	-	(3,975)
(Loss) gain on disposal of property, plant and equipment	<u>(151)</u>	<u>(14)</u>	<u>-</u>	<u>(12)</u>	<u>22</u>	<u>(155)</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(ii) Segment information about these businesses is presented below:

INCOME STATEMENT

	For the year ended 31 December 2001						Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	Inter- segment eliminations US\$'000	
TURNOVER							
External sales	31,953	1,545	-	2,264	71	-	35,833
Inter-segment sales	1,178	-	-	4,204	-	(5,382)	-
	<u>33,131</u>	<u>1,545</u>	<u>-</u>	<u>6,468</u>	<u>71</u>	<u>(5,382)</u>	<u>35,833</u>
Inter-segment sales are charged at prevailing market prices.							
RESULT							
Segment result	<u>(2,068)</u>	<u>(96)</u>	<u>-</u>	<u>(404)</u>	<u>(4)</u>	<u>-</u>	<u>(2,572)</u>
Unallocated corporate expenses							<u>(2,066)</u>
Loss from operations							(4,638)
Finance costs							(1,769)
Share of results of associates	(2,193)	-	665	199	-	-	(1,329)
Write off of amount due from an associate	(240)	-	-	-	-	-	(240)
Net gain arising from corporate restructuring							25,959
Write back of provision for loss for bank guarantees granted to associates							4,000
Gain on deconsolidation of a subsidiary							610
Gain on buy-back of three-year loan notes at discounted price							252
Gain on disposal of an associate							18
Profit before taxation							22,863
Taxation							<u>(474)</u>
Profit before minority interests							<u>22,389</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(ii) Segment information about these businesses is presented below: (continued)

BALANCE SHEET

	As at 31 December 2001					Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	
ASSETS						
Segment assets	26,253	1,180	-	2,005	60	29,498
Interests in associates	1,838	-	3,245	987	-	6,070
Unallocated corporate assets						44,281
Consolidated total assets						<u>79,849</u>
LIABILITIES						
Segment liabilities	8,944	414	-	676	23	10,057
Unallocated corporate liabilities						23,493
Consolidated total liabilities						<u>33,550</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Business segments (continued)

(ii) Segment information about these businesses is presented below: (continued)

OTHER INFORMATION

	For the year ended 31 December 2001					Consolidated US\$'000
	Blockboard and particle board US\$'000	Door skin US\$'000	Furniture US\$'000	Other wooden products US\$'000	Others US\$'000	
Capital additions	1,633	103	-	35	27	1,798
Allowance for bad and doubtful debts	(1,456)	(65)	-	(112)	(3)	(1,636)
Depreciation and amortisation of property, plant and equipment	(4,705)	(394)	-	(200)	(138)	(5,437)
Loss on disposal of property, plant and equipment	(21)	(1)	-	-	(1)	(23)

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

4. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Geographical segments

The Group's operations are located in Hong Kong, elsewhere in the People's Republic of China (the "PRC"), Taiwan and Singapore. Manufacture of the wooden products is carried out in the PRC.

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

	Sales revenue by geographical market		Loss from operations	
	Year ended 31.12.2002 US\$'000	Year ended 31.12.2001 US\$'000	Year ended 31.12.2002 US\$'000	Year ended 31.12.2001 US\$'000
The PRC	29,910	34,081	(8,493)	(2,446)
Others	1,595	1,752	(668)	(126)
	<u>31,505</u>	<u>35,833</u>	<u>(9,161)</u>	<u>(2,572)</u>
Unallocated corporate expenses			<u>(1,698)</u>	<u>(2,066)</u>
Loss from operations			<u>(10,859)</u>	<u>(4,638)</u>

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

	Carrying amount of consolidated segment assets		Capital additions	
	Year ended 31.12.2002 US\$'000	Year ended 31.12.2001 US\$'000	Year ended 31.12.2002 US\$'000	Year ended 31.12.2001 US\$'000
The PRC	59,990	63,291	3,447	1,772
Others	13,373	16,522	6,346	26
	<u>73,363</u>	<u>79,813</u>	<u>9,793</u>	<u>1,798</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

5. OTHER OPERATING INCOME

Other operating income comprises:

	2002	2001
	US\$'000	US\$'000
Interest income	51	53
Value added tax refund (<i>note</i>)	1,787	2,147
Net realised gain on disposals of investments in securities	54	–
Others	378	844
	<u>2,270</u>	<u>3,044</u>

Note:

Certain subsidiaries of the Company established in the PRC are involved in the production of wooden products which require the use of raw materials that are environmental friendly. Pursuant to the relevant rules and regulations of the PRC governing the value added tax (“VAT”) treatment of such subsidiaries, such subsidiaries entitled to VAT refund totalling US\$1,787,000 (2001: US\$2,147,000) for the year ended 31 December 2002.

6. LOSS FROM OPERATIONS

Loss from operations has been arrived at after charging:

	2002	2001
	US\$'000	US\$'000
Directors' remuneration (<i>note a</i>)		
– Fees	72	–
– Other emoluments	122	173
Other staff costs	2,524	2,924
Retirement benefits scheme contributions for other staff (<i>note b</i>)	234	450
	<u>2,952</u>	<u>3,547</u>
Allowance for bad and doubtful debts	1,620	1,636
Amortisation of goodwill (included in administrative expenses)	662	–
Auditors' remuneration	190	201
Depreciation and amortisation of property, plant and equipment	5,004	5,437
Loss on disposal of property, plant and equipment	155	23
Minimum lease payments under operating leases		
in respect of rented premises	309	245
Research and development costs	383	–
Cost of inventories recognised as expenses	<u>27,023</u>	<u>28,350</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

6. LOSS FROM OPERATIONS (continued)

Notes:

(a) Emoluments of directors and highest paid employees

(i) Details of emoluments paid by the Group to the directors of the Company are as follows:

	2002 US\$'000	2001 US\$'000
Fees:		
Executive	48	–
Non-executive	24	–
	<u>72</u>	<u>–</u>
Other emoluments to executive directors:		
Salaries and other benefits	120	160
Retirement benefits scheme contributions	2	1
	<u>122</u>	<u>161</u>
Other emoluments to independent non-executive directors:		
Salaries and other benefits	–	11
Retirement benefits scheme contributions	–	1
	<u>–</u>	<u>12</u>
	<u>194</u>	<u>173</u>

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

	2002 Number of directors	2001 Number of directors
Bands		
Nil – HK\$500,000	4	9
HK\$500,001 – HK\$1,000,000	1	2
	<u>1</u>	<u>2</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

6. LOSS FROM OPERATIONS (continued)

Notes: (continued)

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

- (iii) Of the five individuals with the highest emoluments in the Group, one (2001: two) is director(s) of the Company whose emolument is included in the disclosures in note (a)(i) and (ii) above. The emoluments of the remaining four (2001: three) individuals are as follows:

	2002 US\$'000	2001 US\$'000
Salaries and other benefits	372	315
Compensation for loss of office	30	–
Retirement benefit scheme contributions	6	3
	<u>408</u>	<u>318</u>

Their emoluments were within the following bands:

Bands	2002 Number of individuals	2001 Number of individuals
Nil – HK\$500,000	1	–
HK\$500,001 – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	1	1

(b) Retirement benefits schemes

The Group operates MPF scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

In addition, pursuant to government regulations, for the Group's employees in the PRC, relevant subsidiaries are required to contribute amounts ranging from approximately 14% to 30% of the aggregate staff wages to certain retirement benefit schemes. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contribution.

The total cost charged to the income statement of US\$236,000 (2001: US\$452,000) represents contributions to the schemes by the Group at rates specified in the rules of respective schemes. The amount paid during the year relates to contributions made in connection with the directors of the Company are disclosed in (a)(i) above.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

7. FINANCE COSTS

	2002	2001
	US\$'000	US\$'000
Interest on:		
– bank and other borrowings wholly repayable within five years	1,347	1,570
– three-year loan notes	174	199
	1,521	1,769
Net exchange loss	2	–
	1,523	1,769

8. LOSS ON PARTIAL DISPOSAL OF SUBSIDIARIES

The amount represents the loss on partial disposal of a subsidiary upon issuance of preference shares to minority shareholders by this subsidiary and the dilution of equity interest in a subsidiary upon the merger of business with another subsidiary.

9. NET GAIN ARISING FROM CORPORATE RESTRUCTURING

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

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

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

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

11. GAIN ON DECONSOLIDATION OF A SUBSIDIARY

Since January 2001, the Group had been unable to exercise its rights as a controlling shareholder of 廊坊福洋木業有限公司 Langfang Fuyang Timber Co., Ltd. ("LFT"), a former subsidiary engaged in manufacturing and sale of wooden products of which the Group had 51% equity interest. As the Group could not obtain any financial information of LFT since January 2001, the directors considered that for accounting purposes, LFT should be deconsolidated from the Group's financial statements from 1 January 2001 and resulted in a gain on deconsolidation of US\$610,000. Accordingly, no investment in this former subsidiary was accounted for since then.

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

In 2001, the Group bought back certain of its three-year loan notes with a principal amount of US\$840,000 which issued as part of the Restructuring Scheme, at a consideration of US\$588,000. The consideration paid was 70% of the face value of the three-year loan notes being bought and this resulted in the recognition of a gain of US\$252,000 in the income statement of the Group.

13. TAXATION

The charge comprises:

	2002 US\$'000	2001 US\$'000
The Company and subsidiaries:		
Hong Kong Profits Tax (<i>note a</i>)	-	-
PRC Enterprise Income Tax (<i>note b</i>)	(63)	(233)
Deferred taxation (<i>note 22</i>)	-	(47)
	<u>(63)</u>	<u>(280)</u>
Share of taxation of associates:		
PRC Enterprise Income Tax (<i>note b</i>)	(84)	(194)
	<u>(84)</u>	<u>(194)</u>
	<u>(147)</u>	<u>(474)</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

13. TAXATION (continued)

Notes:

- (a) No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries incorporated in Hong Kong had no assessable profits for the year.
- (b) The subsidiaries and associates established in the PRC are exempted from paying PRC Enterprise Income Tax for the first two profit-making years followed by a 50% reduction in the enterprise income tax rates in the following three years. PRC Enterprise Income Tax is provided for with reference to the applicable tax rates prevailing in the respective regions of the PRC on the estimated assessable profits of those subsidiaries and associates.

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

14. NET (LOSS) PROFIT FOR THE YEAR

Of the net loss for the year of US\$13,892,000 (2001: a profit of US\$24,255,000), a profit of US\$5,472,000 (2001: a loss of US\$5,816,000) has been dealt with in the financial statements of the Company.

15. (LOSS) EARNINGS PER SHARE

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

	2002	2001
	US\$'000	US\$'000
Net (loss) profit for the year and (loss) earnings for the purposes of basic and diluted earnings per share	(13,892)	24,255
	Number of shares	Number of shares
Weighted average number of shares for the purpose of basic (loss) earnings per share	8,368,807,653	5,591,565,611
Effect of dilutive potential shares arising from:		
– Warrants		567,556,371
– Share options		102,914
Weighted average number of shares for the purpose of diluted (loss) earnings per share		6,159,224,896

No diluted loss per share is presented for the year ended 31 December 2002 as the exercise of the outstanding options, warrants and convertible note would result in a decrease in the loss per share.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings	Plant and equipment	Furniture and fittings	Motor vehicles	Construction in progress	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
THE GROUP						
COST						
At 1 January 2002	18,376	44,632	272	1,748	758	65,786
Currency realignment	–	–	1	–	–	1
Additions	–	287	342	5	449	1,083
Reclassifications	15	284	–	–	(299)	–
Purchase of subsidiaries	653	3,116	1,142	75	10	4,996
Disposals	(16)	(1,218)	(54)	(281)	(10)	(1,579)
At 31 December 2002	19,028	47,101	1,703	1,547	908	70,287
DEPRECIATION AND AMORTISATION AND IMPAIRMENT LOSSES						
At 1 January 2002	3,710	18,463	118	1,374	–	23,665
Provided for the year	959	3,719	122	204	–	5,004
Purchase of subsidiaries	108	1,241	385	35	–	1,769
Impairment loss recognised	1,544	2,305	48	78	–	3,975
Eliminated on disposals	(8)	(67)	(50)	(216)	–	(341)
At 31 December 2002	6,313	25,661	623	1,475	–	34,072
NET BOOK VALUES						
At 31 December 2002	12,715	21,440	1,080	72	908	36,215
At 31 December 2001	14,666	26,169	154	374	758	42,121

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	2002	2001
	US\$'000	US\$'000
The net book value of the Group's leasehold land and buildings are held under:		
Long lease in Hong Kong	1,745	1,840
Medium term lease in Taiwan	144	–
	1,889	1,840
Short term lease in the PRC	10,826	12,826
	12,715	14,666
		Furniture and fittings
		US\$'000

THE COMPANY

COST

Additions during the year and balance at 31 December 2002 2

DEPRECIATION

Provided for the year and balance at 31 December 2002 1

NET BOOK VALUE

At 31 December 2002 **1**

At 31 December 2001 –

Impairment loss was recognised based on the recoverable amounts of property, plant and equipment which were determined by the estimated discounted net future cash flows from these property, plant and equipment. The carrying amounts of the property, plant and equipment are reduced to the respective recoverable amounts which are estimated using market borrowing rates.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

17. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	US\$'000	US\$'000
Unlisted shares, at cost	6,646	3,356
<i>Less:</i> Impairment loss recognised	(6,646)	(3,304)
	–	52
Amounts due from subsidiaries	97,148	96,038
<i>Less:</i> Allowance for amounts due from subsidiaries	(70,223)	(80,454)
	26,925	15,636

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

Impairment loss was recognised based on the recoverable amounts of subsidiaries which were determined by the estimated discounted net future cash flows from these subsidiaries. The carrying amounts of the subsidiaries are reduced to the respective recoverable amounts which are estimated using market borrowing rates.

Particulars of the Company's subsidiaries as at 31 December 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Directly held by the Company</i>					
Ta Fu Strategic Investment Limited	British Virgin Islands	Hong Kong	100	US\$10,000	Investment holding
Wood Art International Corporation	British Virgin Islands	Hong Kong	100	US\$10,000	Investment holding

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Directly held by the Company (continued)</i>					
TGT Holdings Corporation	British Virgin Islands	Hong Kong	100	US\$2	Investment holding
Fulbond Business Services Limited	Hong Kong	Hong Kong	100	HK\$2	Provision of management services
Fulbond Digital Systems Limited	Hong Kong	Hong Kong	100	HK\$2	Trading of electronic products
Fulbond System Pte Ltd.	Singapore	Singapore	60	S\$150,000	Trading of electrical and electronic components
Fulhua Microelectronics Corporation 福鐮微電子股份有限公司	Cayman Islands	Taiwan	57.46	Ordinary US\$100,000 and Series A preference* US\$8,390,572	Investment holding
<i>Indirectly held by the Company</i>					
Ta Fu Timber Company Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred** HK\$5,000,000	Investment holding
Ta Fu Flooring Company Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred** HK\$1,000,000	Investment holding

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Indirectly held by the Company (continued)</i>					
Ta Fu International Development Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred ** HK\$10,000	Inactive
Fulbond High-Tech Investment Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred ** HK\$200	Inactive
Ta Fu Furniture Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred ** HK\$20	Investment holding
Senbond Building Materials Limited	Hong Kong	Hong Kong	100	Ordinary HK\$200 and deferred ** HK\$10,000	Provision of management services
Ta Fu Properties Co., Limited	Hong Kong	Hong Kong	100	Ordinary HK\$20 and deferred ** HK\$20	Property investment
Sota Design Technology Inc. 源捷科技股份有限公司	Taiwan	Taiwan	29.65	NT\$147,900,000	Provision of IC design services
瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Clipboard Co., Ltd. (note)	PRC	PRC	51	US\$3,000,000	Manufacture and sale of wooden products

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

17. INTERESTS IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration	Place of operation	Percentage of issued share capital/ registered capital held %	Issued and fully paid capital/ registered capital	Principal activities
<i>Indirectly held by the Company (continued)</i>					
湖北福江木業有限公司 Hubei Full-joint Timber Co., Ltd. (note)	PRC	PRC	51	US\$6,800,000	Manufacture and sale of wooden products
吉林省福春木業有限公司 Jilin Province Fuchun Timber Co., Ltd. (note)	PRC	PRC	55	RMB17,464,000	Manufacture and sale of wooden products
保定福河木業有限公司 Baoding Fuhe Timber Co., Ltd. (note)	PRC	PRC	69.95	US\$4,500,000	Manufacture and sale of wooden products
吉林福敦木業有限公司 Jilin Fudun Timber Co., Ltd. (note)	PRC	PRC	67	RMB223,158,165	Manufacture and sale of wooden products

* The Series A preference shares are non-voting. They are entitled to receive non-cumulative dividends in preference to the ordinary shares for a value of US\$0.01 per share each year, when and if dividends are declared by the board of directors of this subsidiary.

In the event of liquidation or winding up of this subsidiary, the holders of the Series A preference shares shall be entitled to receive, pari passu among themselves, but prior to and in preference to the holders of ordinary shares, out of the assets of this subsidiary that is legally available for distribution, an amount equals to the US\$0.05 per shares, together with any declared but unpaid dividends. All remaining assets of this subsidiary, if any, shall be distributed to the holders of Series A preference shares and ordinary shares pro rata.

** The deferred shares are non-voting and are not entitled to participate in the distribution of profits in any financial year and are only entitled to a return of capital on liquidation when the net assets of the relevant company available for distribution are in excess of HK\$100,000,000,000,000,000.

Note: The Company is a Sino-foreign equity joint venture.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

18. INTERESTS IN ASSOCIATES

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
Share of net assets of the associates	4,306	6,070

Particulars of the Group's associates as at 31 December 2002 are as follows:

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

Note: The Company is a Sino-foreign equity joint venture.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

19. GOODWILL

US\$'000

THE GROUP

COST

Purchase of subsidiaries	5,483
Eliminated on partial disposal of a subsidiary	(1,742)

At 31 December 2002

3,741

AMORTISATION

Provided for the year and at 31 December 2002	662
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NET BOOK VALUE

At 31 December 2002

3,079

At 31 December 2001

-

The goodwill represents the goodwill arising on the purchase of subsidiaries during the year (see note 36) and is amortised over a period of five years.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

20. INVESTMENTS IN SECURITIES

	THE GROUP		THE COMPANY	
	2002	2001	2002	2001
	US\$'000	US\$'000	US\$'000	US\$'000
Investment securities:				
Unlisted equity securities	<u>1,974</u>	<u>1,974</u>	<u>1,974</u>	<u>1,974</u>
Other investment:				
Overseas listed managed investment funds, at market value	<u>945</u>	<u>–</u>	<u>–</u>	<u>–</u>

Particulars of the investment securities as at 31 December 2002 are as follows:

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

21. CLUB DEBENTURE

THE GROUP

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

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

22. DEFERRED TAXATION

	THE GROUP	
	2002 US\$'000	2001 US\$'000
Balance at beginning of the year	36	83
Purchase of subsidiaries	374	–
Charge for the year (note 13)	–	(47)
	<u> </u>	<u> </u>
Balance at end of the year	<u>410</u>	<u>36</u>

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

	THE GROUP	
	2002 US\$'000	2001 US\$'000
Tax effect of timing differences attributable to:		
Tax loss	121	–
Other timing differences	289	36
	<u> </u>	<u> </u>
	<u>410</u>	<u>36</u>

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

23. DEPOSIT PAID FOR AN INVESTMENT ACQUISITION

THE GROUP

As at 31 December 2001, the amount represented a deposit of NT\$3,000,000 (equivalent to US\$86,000) paid by the Group for the acquisition of a 51% equity interest in 瀋陽福昇中密度板有限公司 Shenyang Fusheng Wood Chipboard Co., Ltd., ("Fusheng"), a Sino-foreign joint venture company established in the PRC for the manufacture and sale of medium density fibre board. Accordingly, the deposit was classified as non-current. On 6 August 2002, the acquisition of a 51% equity interest in Fusheng was completed (see note 42).

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

24. INVENTORIES

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
Raw materials	2,369	4,260
Work in progress	876	1,797
Finished goods	4,614	5,329
	<u>7,859</u>	<u>11,386</u>

As at 31 December 2002, included above are raw materials of US\$229,000 (2001: nil), work in progress of US\$242,000 (2001: nil) and finished goods of US\$1,530,000 (2001: US\$569,000) which are carried at net realisable values.

25. TRADE AND OTHER RECEIVABLES

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

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

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
0 – 90 days	2,277	7,168
91 – 180 days	2,264	1,049
More than 180 days	1,510	469
	<u>6,051</u>	<u>8,686</u>
Other receivables	5,346	3,680
	<u>11,397</u>	<u>12,366</u>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

26. AMOUNTS DUE FROM ASSOCIATES

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

27. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
0 – 90 days	1,752	2,573
91 – 180 days	435	505
More than 180 days	1,152	847
	<hr/>	<hr/>
	3,339	3,925
Other payables	3,693	5,811
	<hr/>	<hr/>
	7,032	9,736
	<hr/> <hr/>	<hr/> <hr/>

28. AMOUNTS DUE TO SUBSIDIARIES

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

29. AMOUNT DUE TO ULTIMATE HOLDING COMPANY

THE GROUP AND THE COMPANY

The amount represents the balance payable to STJ upon acquisition of a 51% equity interest in Fusheng (see note 42). The amount is unsecured, interest free and should be fully repaid not later than 31 December 2003.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

30. BANK AND OTHER BORROWINGS

	THE GROUP		THE COMPANY	
	2002 US\$'000	2001 US\$'000	2002 US\$'000	2001 US\$'000
Bank loans				
– Secured	18,278	2,623	–	–
– Unsecured	517	17,598	–	–
	18,795	20,221	–	–
Three-year loan notes, unsecured (<i>note</i>)	2,241	2,967	2,241	2,967
Bank overdrafts, unsecured	28	81	–	–
	21,064	23,269	2,241	2,967
The bank and other borrowings are repayable within a period of:				
Within one year	16,020	17,051	725	1,187
Between one to two years	4,317	5,625	1,055	1,187
Between two to five years	461	593	461	593
After five years	266	–	–	–
	21,064	23,269	2,241	2,967
Less: Amount due within one year shown under current liabilities	(16,020)	(17,051)	(725)	(1,187)
Amount due after one year	5,044	6,218	1,516	1,780

Note:

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

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

31. SHARE CAPITAL

	Number of shares	Amount US\$'000
Authorised:		
At 1 January 2001, ordinary shares of US\$0.020 each	5,000,000,000	100,000
Increase in number of shares as a result of the Restructuring Scheme	<u>95,000,000,000</u>	<u>–</u>
At 31 December 2001 and 31 December 2002, ordinary shares of US\$0.001 each	<u>100,000,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 January 2001, ordinary shares of US\$0.020 each	828,448,317	16,569
Reduction of nominal value	–	(15,741)
Issue of shares pursuant to the Restructuring Scheme	5,422,564,000	5,423
Participation offer of shares	539,178,317	539
Issue of shares upon subscription from an existing shareholder	790,000,000	790
Issue of shares upon the exercise of warrants	<u>18,684,744</u>	<u>19</u>
At 31 December 2001 and 1 January 2002, ordinary shares of US\$0.001 each	7,598,875,378	7,599
Issue of shares upon subscription from an existing shareholder (<i>note a</i>)	784,500,000	784
Issue of shares upon the exercise of warrants (<i>note b</i>)	<u>751,056,576</u>	<u>751</u>
At 31 December 2002, ordinary shares of US\$0.001 each	<u>9,134,431,954</u>	<u>9,134</u>

Notes:

- (a) On 19 August 2002, Global Innovation Investment Limited ("GIIL"), the major shareholder of the Company, entered into a subscription agreement with the Company. Pursuant to the subscription agreement, GIIL agreed to subscribe for 784,500,000 new ordinary shares of the Company of US\$0.001 each at a subscription price of HK\$0.032 per share. On 2 September 2002, 784,500,000 ordinary shares of the Company of US\$0.001 each were issued and allotted by the Company to GIIL for a total consideration of approximately HK\$25,000,000. These shares issued rank pari-passu in all respects with the existing issued shares of the Company.
- (b) During the year, the registered holders of 751,056,576 units of warrants exercised their rights to subscribe for ordinary shares of the Company. All shares issued rank pari passu with the then existing shares in issue in all respects.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

32. SHARE OPTION SCHEMES

Under the terms of the Company's old share option scheme which became effective on 11 December 1996 (the "Old Share Option Scheme"), the board of directors of the Company may offer to any executive directors and full time employees of the Company, or any of its subsidiaries, options to subscribe for shares in the Company at a price equal to the higher of the nominal value of the shares and 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

The options are exercisable from the date of grant of such options to 10 February 2007. Details of the movements of the share options granted under the Old Share Option Scheme during the year are as follows:

Date of grant	Exercise price	Number of share options		
		Outstanding at 1 January 2001	Cancelled during the year	Outstanding at 31 December 2001
11 February 1997	HK\$1.85	45,574,000	(24,858,000)	20,716,000
20 November 1999	US\$0.02	5,000,000	(5,000,000)	–
		<u>50,574,000</u>	<u>(29,858,000)</u>	<u>20,716,000</u>
Date of grant	Exercise price	Outstanding at 1 January 2002	Cancelled during the year	Outstanding at 31 December 2002
20 November 1999	US\$0.02	<u>20,716,000</u>	<u>(20,716,000)</u>	<u>–</u>

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

- (i) The closing price of the shares of the Company as stated in the daily quotations sheets issued by the Stock Exchange on the date of grant of the options;

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

32. SHARE OPTION SCHEMES (continued)

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

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

A consideration of HK\$1 is payable on the grant of an option. The financial impact of the share options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their costs. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded in the share premium account.

The options are exercisable from the date of grant of such options to 29 April 2012. Details of the movements of the share options granted under the New Share Option Scheme during the year are as follows:

Date of grant	Exercise price	Number of share options		
		Outstanding at 1 January 2002	Granted during the year	Outstanding at 31 December 2002
30 April 2002	HK\$0.05	—	328,000,000	328,000,000

33. WARRANTS

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

During the year, warrants carrying subscription rights of approximately US\$1,940,000 (2001: US\$49,000) were exercised.

At 31 December 2002, exercise in full of the outstanding warrants will result in the issue of an additional 576,310,006 (2001: 1,327,366,582) shares of US\$0.001 each of the Company.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

34. RESERVES

THE COMPANY

	Share premium US\$'000	Warrant reserve US\$'000	Contributed surplus US\$'000	Capital redemption reserve US\$'000	Accumulated losses US\$'000	Total US\$'000
At 1 January 2001	26,428	–	1,614	4	(50,063)	(22,017)
Share premium and warrant reserve arising from corporate restructuring	11,936	3,652	–	–	–	15,588
Share premium arising on issue of shares upon subscription	3,293	–	–	–	–	3,293
Share premium arising upon exercise of warrants	30	–	–	–	–	30
Transfer of warrant reserve upon exercise of warrants	50	(50)	–	–	–	–
Transfer from share capital upon capital reduction	–	–	–	–	15,741	15,741
Net loss for the year	–	–	–	–	(5,816)	(5,816)
At 31 December 2001 and at 1 January 2002	41,737	3,602	1,614	4	(40,138)	6,819
Share premium arising on issue of shares upon subscription	2,459	–	–	–	–	2,459
Share premium arising upon – exercise of warrants	1,189	–	–	–	–	1,189
– upon exercise of warrants	2,038	(2,038)	–	–	–	–
Net profit for the year	–	–	–	–	5,472	5,472
At 31 December 2002	47,423	1,564	1,614	4	(34,666)	15,939

The Company has no reserves available for distribution as at 31 December 2002 and at 31 December 2001.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

34. RESERVES (continued)

THE GROUP

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

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

35. CONVERTIBLE NOTE

	THE GROUP AND THE COMPANY	
	2002	2001
	US\$'000	US\$'000
Convertible note (<i>note 36</i>)	<u>1,204</u>	<u>–</u>

On 6 August 2002, the acquisition agreement with STJ in connection with the purchase of a 51% equity interest in Fusheng was completed. On the same date, pursuant to the completion of the acquisition, the Company issued a convertible note in the principle amount of HK\$9,315,000 (equivalent to approximately US\$1,204,000) as part of the consideration in accordance with the terms as set out and disclosed in the Company's circular dated 1 November 2001 (the "Circular"). The convertible note will mature and will be repaid to the holder of the convertible note on the date falling two years after the date of issue of the convertible note. There is no early redemption option for the convertible note.

The holder of the convertible note has been granted with the rights at any time during the period from the date of issue to and including the date 14 days prior to and excluding the maturity date to convert in whole the convertible note into new ordinary share of the Company of US\$0.001 each at a conversion price of HK\$0.04 per share.

The convertible note does not bear interest.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

36. PURCHASE OF SUBSIDIARIES

The purchase of subsidiaries has been accounted for by the purchase method of accounting.

	2002	2001
	US\$'000	US\$'000
Net asset acquired:		
Property, plant and equipment	3,227	17
Deferred taxation asset	374	–
Inventories	160	2
Trade and other receivables	1,339	9
Investments in securities	1,477	–
Bank balances and cash	1,008	71
Trade and other payables	(643)	(12)
	<hr/>	<hr/>
	6,942	87
Goodwill arising from the acquisition	5,483	–
Less: Minority interest arising from the acquisition	(3,740)	(35)
	<hr/>	<hr/>
	8,685	52
	<hr/> <hr/>	<hr/> <hr/>
Satisfied by:		
Cash	7,038	52
Issuance of convertible note (note 35)	1,204	–
Amount due to ultimate holding company (note 29)	357	–
Deposit paid for acquisition (note 23)	86	–
	<hr/>	<hr/>
	8,685	52
	<hr/> <hr/>	<hr/> <hr/>
Analysis of net (outflow) inflow of cash and cash equivalents in connection with the purchase of the subsidiaries:		
Cash consideration paid	(7,038)	(52)
Bank balances and cash acquired	1,008	71
	<hr/>	<hr/>
	(6,030)	19
	<hr/> <hr/>	<hr/> <hr/>

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

36. PURCHASE OF SUBSIDIARIES (continued)

The subsidiaries acquired during the year generated cash flows of US\$51,000 and US\$268,000 in the operating activities and investing activities respectively. The subsidiaries acquired during the year also contributed US\$2,353,000 and US\$153,000 to the Group's turnover and loss from operations respectively.

The subsidiaries acquired in 2001 did not have significant cash flows attributed to the Group.

37. DECONSOLIDATION OF A SUBSIDIARY

	2002	2001
	US\$'000	US\$'000
Net liabilities transferred on deconsolidation:		
Property, plant and equipment	-	434
Inventories	-	161
Other receivables	-	498
Bank balances and cash	-	23
Trade and other payables	-	(1,459)
Bank and other borrowings	-	(297)
	<hr/>	<hr/>
Total net liabilities transferred	-	(640)
General reserve deconsolidated	-	(165)
Exchange reserve deconsolidated	-	195
Gain on deconsolidation	-	610
	<hr/>	<hr/>
Consideration	-	-
	<hr/> <hr/>	<hr/> <hr/>

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

Outflow of cash and cash equivalents in respect of deconsolidation of a subsidiary in 2001 was presented by a decrease in bank balances and cash of approximately US\$23,000.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

38. CAPITAL COMMITMENTS

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

	2002		2001	
	Contracted but not provided for US\$'000	Authorised but not contracted US\$'000	Contracted but not provided for US\$'000	Authorised but not contracted US\$'000
Capital expenditure in respect of acquisition of property, plant and equipment	—	—	2,201	—

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

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

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

39. LEASING ARRANGEMENTS

The Group as lessee

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

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
Within one year	78	256
In the second to fifth year inclusive	49	934
Over five years	41	928
	<u>168</u>	<u>2,118</u>

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

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

The Group as lessor

At the balance sheet date, the Group had contracted with a tenant for the following future minimum lease payments.

	THE GROUP	
	2002	2001
	US\$'000	US\$'000
Within one year	334	–
In the second to fifth year inclusive	1,334	–
	<u>1,668</u>	<u>–</u>

Certain properties held have committed a tenant for the next five years.

◀ Notes to the Financial Statements ▶

For the year ended 31 December 2002

40. PLEDGE OF ASSETS

At 31 December 2002, the Group had pledged certain properties with a carrying value of US\$322,000 (2001: US\$2,024,000) and plant and equipment of US\$18,004,000 (2001: US\$2,500,000) to various banks for securing bank loans and general banking facilities granted to the Group.

41. CONTINGENT LIABILITIES

One of the Group's associates, 天津福津木業有限公司 Tianjin Fortune Timber Co., Ltd. ("TFT") is currently being sued by its bankers to repay bank loans of approximately RMB73.6 million. This amount has not been equity accounted for by the Group as TFT has net deficit at 31 December 2002. However, this amount has been guaranteed by another associate, 天津福家家具有限公司 Tianjin Fortune Furniture Co., Ltd. ("TFFCL"). Both TFT and TFFCL are currently in negotiations with the bankers of TFT for the restructuring of the borrowings of TFT and for rearranging the guarantees granted by TFFCL. As the negotiations have not been completed as of the date of the financial statements, the ultimate outcome cannot be determined by the directors, and accordingly, the effect of this litigation on the Group's share of TFFCL's net assets of approximately US\$2,566,000 at 31 December 2002 (2001: US\$3,852,000) has not been adjusted.

42. RELATED PARTY TRANSACTIONS

Details of the Group's transactions with an associate are as follows:

	2002	2001
	US\$'000	US\$'000
Subcontracting fee paid	<u>41</u>	<u>–</u>

The above transactions were carried out at market prices.

On 6 August 2002, the acquisition of a 51% equity interest in Fusheng from STJ at a consideration of NT\$55.5 million (equivalent to US\$1,647,000) was completed (the "Acquisition"). Details of the Acquisition were set out in the Circular. STJ is the ultimate holding company of the Company and is wholly owned by Dr. Yang Ding-Yuan, the Chairman of the Company, and his family members.

In 2001, the Group made a payment of NT\$3,000,000 (equivalent to US\$86,000) to STJ as the deposit for the Acquisition (see note 23). On 6 August 2002, the date of completion of the Acquisition, the Company issued a convertible note in the principal amount of HK\$9,315,000 (equivalent to US\$1,204,000) to STJ to satisfy part of the consideration in accordance with the terms as set out and disclosed in the Circular. The remaining balance of consideration of NT\$12 million (equivalent to US\$357,000) payable to STJ is fully repayable in cash not later than 31 December 2003 (see note 29).