

Notes to the Financial Statements

For the year ended 31 December 2000

1. GENERAL

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law and registered thereunder as an exempted company. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of PVC and fabric household products and PVC pipes and fittings.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and trading securities.

The financial statements have been prepared 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 (collectively hereinafter referred to as the "Group") made up to 31 December each year.

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

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary and is written off to reserves immediately on acquisition. Capital reserve represents the excess of the fair value ascribed to the Group's share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration and is credited to reserves on acquisition.

On disposal of a subsidiary, the attributable amount of goodwill or capital reserve previously written off or credited to reserves is included in the determination of the profit or loss on disposal.

Notes to the Financial Statements

For the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Turnover

Turnover represents the net amounts received and receivable for goods sold by the Group, less returns and allowances, to outside customers during the year.

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 basis:

- (i) income from sales of goods is recognised when the goods are delivered and title has passed;
- (ii) interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest; and
- (iii) dividends from trading securities are recognised when the Group's right to receive payment is established.

Investment in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of its board of directors or equivalent governing body.

Investment in subsidiaries are stated at cost as reduced by any decline in the value of the subsidiary that is other than temporary. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable during the year.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income derived therefrom is negotiated at arm's length.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties are held on leases with unexpired term of 20 years or less, depreciation is provided on the carrying amount over the remaining term of the lease.

Notes to the Financial Statements

For the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investment properties *(Continued)*

Investment properties are stated at open market value based on annual professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance in this reserve is insufficient to cover a deficit in which case the excess of the deficit over the balance in the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

Other properties, plant and equipment

Other properties, plant and equipment (other than buildings under construction) are stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to the present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement 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 asset, the expenditure is capitalised as an additional cost of the asset.

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

When the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

The cost of leasehold land and buildings situated in the People's Republic of China (the "PRC"), including Hong Kong, is depreciated over twenty to fifty years on a straight line basis.

Buildings under construction, comprising all direct costs incurred in construction, are stated at cost. No depreciation is provided until construction is complete and the buildings are ready for their intended use.

Notes to the Financial Statements

For the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Other properties, plant and equipment *(Continued)*

Depreciation is provided to write off the cost of other assets over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Plant and machinery	9-20%
Furniture, fixtures and equipment	18-20%
Leasehold improvements	20%
Motor vehicles	20%

Assets held under hire purchase contracts are depreciated over their estimated useful lives on the same basis as assets owned by the Group.

Capitalisation of borrowing costs

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

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair value at the dates of inception of the contracts. Any outstanding principal amounts are shown as obligations of the Group in the balance sheet. The difference between the total commitments and the original principal amount at the time of inception of a contract is charged to the income statement at a constant rate over the period of the contract as finance charges.

Notes to the Financial Statements

For the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in, first-out method. Net realisable value is calculated as the actual or estimated selling price less estimated future costs of production and related costs of selling and distribution.

Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value. Cost comprises expenditure incurred for construction and other incidental expenses that have been incurred in bringing the properties to their present location and condition. Net realisable value represents the actual or estimated selling price less estimated selling and marketing costs.

Trading securities

Investments in trading securities are carried at fair value at the balance sheet date. All unrealised gains or losses are dealt with in the income statement.

Convertible redeemable notes

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

Cash equivalents

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 advances.

Operating leases

Rental receipts or payments under operating leases are credited or charged to the income statement on a straight line basis over the duration of the leases.

Notes to the Financial Statements

For the year ended 31 December 2000

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Quota

The cost of permanent quota is charged to the income statement in the year of purchase. Temporary quota charges are charged to the income statement on shipment of goods or expiry of the quota, whichever is the earlier.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expenses are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed under the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Foreign currencies

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

Translation of foreign currency financial statements

In preparing consolidated financial statements, financial statements which are not denominated in Hong Kong dollars in respect of operations outside of Hong Kong are translated using the temporal or the closing rate method as appropriate. Exchange differences arising on consolidation using the temporal method are dealt with in the income statement whereas exchange differences arising under the closing rate method are dealt with in the translation reserve.

Notes to the Financial Statements

For the year ended 31 December 2000

3. TURNOVER

	Turnover		Profit (loss) from operations	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Sales of household products	539,314	588,318	44,084	57,888
Sales of PVC pipes and fittings	152,103	120,808	(4,017)	11,752
Sales of other products	8,553	9,716	(1,746)	(937)
	<u>699,970</u>	<u>718,842</u>	<u>38,321</u>	<u>68,703</u>
(Loss) gain on trading securities			(4,177)	4,745
Deficit arising on revaluation of investment properties			(805)	—
			<u>33,339</u>	<u>73,448</u>

Except for household products, substantially all of the sales of the Group's other products were made to customers in the PRC, including Hong Kong. An analysis of the Group's sales of household products by geographical market is as follows:

	Turnover	
	2000	1999
	HK\$'000	HK\$'000
Sales of household products to:		
United States of America	357,318	410,785
Asia	108,921	84,832
Europe	22,823	33,871
Latin America	22,672	23,377
Canada	17,229	17,786
Australia	8,727	12,342
Other areas	1,624	5,325
	<u>539,314</u>	<u>588,318</u>

An analysis of contribution by geographical market has not been presented in respect of household products as, in the opinion of the directors, the contribution to operating profit from each market is substantially in proportion to its share of the Group's turnover.

Notes to the Financial Statements

For the year ended 31 December 2000

4. PROFIT FROM OPERATIONS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,673	1,550
Depreciation on		
— owned assets	49,999	45,856
— assets held under hire purchase contracts	—	87
Staff costs, including directors' remuneration	84,466	83,624
Temporary quota charges	1,233	6,874
Rental payments for land and buildings	7,942	7,221
Unrealised loss on trading securities	4,883	—
and after crediting:		
Dividend income from trading securities	104	—
Interest income	548	1,342
Gain on disposal of property held for sale	150	—
Gross rental income, before deduction of outgoing's of HK\$99,000 (1999: HK\$5,000)	486	238
Gain on sale of trading securities	602	—
Unrealised gain on trading securities	—	4,745
	<u> </u>	<u> </u>

5. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on bank borrowings wholly repayable within five years	9,386	8,959
Interest on bank borrowings not wholly repayable within five years	1,720	—
Interest on convertible redeemable note	1,880	—
Finance charges in respect of hire purchase contracts	8	99
	<u> </u>	<u> </u>
	12,994	9,058
Less: Amount capitalised in buildings under construction	(840)	(1,137)
	<u> </u>	<u> </u>
	12,154	7,921

Notes to the Financial Statements

For the year ended 31 December 2000

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2000 HK\$'000	1999 HK\$'000
(i) Information regarding directors' emoluments		
Directors' fees:		
Executive	—	—
Non-executive	300	390
	<u>300</u>	<u>390</u>
Other emoluments paid to executive directors:		
Salaries	7,598	7,392
Performance related incentive payments	1,000	3,000
	<u>8,598</u>	<u>10,392</u>
Total directors' emoluments	<u><u>8,898</u></u>	<u><u>10,782</u></u>
The emoluments of the directors fall within the following bands:		
	2000 Number of directors	1999 Number of directors
Up to HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,500,001 to HK\$5,000,000	1	—
HK\$6,500,001 to HK\$7,000,000	—	1
	<u><u>7</u></u>	<u><u>8</u></u>

During the year, the Group also provided one of its leasehold properties in Hong Kong as quarters for an executive director. The estimated monetary value of such accommodation is approximately HK\$431,000 (1999: nil).

Notes to the Financial Statements

For the year ended 31 December 2000

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(ii) Information regarding employees' emoluments

The five highest paid employees of the Group in both years included three executive directors whose emoluments are included in (i) above. The emoluments of the other two highest paid employees, not being directors, are as follows:

	2000 HK\$'000	1999 HK\$'000
Salaries	<u>1,917</u>	<u>2,075</u>

The emoluments of these two employees fall within the following bands:

	2000 Number of employees	1999 Number of employees
Up to HK\$1,000,000	1	—
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>2</u>

7. TAXATION

	2000 HK\$'000	1999 HK\$'000
Hong Kong Profits Tax calculated at 16% on the estimated assessable profits of the year		
— charge for the year	—	1,123
— overprovision in prior years	<u>(55)</u>	<u>(3,348)</u>
	(55)	(2,225)
Non Hong Kong taxation charge for the year	3,549	7,587
Deferred taxation credit (note 24)	<u>(850)</u>	<u>(710)</u>
Net taxation charge	<u>2,644</u>	<u>4,652</u>

The overprovision of Hong Kong Profits Tax in 1999 represented the effect of tax concessions granted to certain members of the Group in respect of profits derived from manufacturing operations in the PRC in prior years.

Non Hong Kong taxation represents income tax calculated on income derived from other parts of the PRC outside of Hong Kong.

Notes to the Financial Statements

For the year ended 31 December 2000

8. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders, a profit of HK\$7,972,000 (1999: HK\$7,394,000) has been dealt with in the income statement of the Company.

9. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim paid: 0.5 cent per share (1999: 0.5 cent per share)	3,348	3,339
Final proposed: 0.5 cent per share (1999: 0.5 cent per share)	3,361	3,345
	<u>6,709</u>	<u>6,684</u>

10. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are as follows:

	2000 HK\$'000	1999 HK\$'000
Earnings for the purpose of calculating basic earnings per share	18,761	65,395
Interest on convertible redeemable note	1,880	—
Earnings for the purpose of calculating diluted earnings per share	<u>20,641</u>	<u>65,395</u>

	Number of shares	
	2000	1999
Number of shares for the purpose of calculating basic earnings per share	669,570,479	<u>664,588,531</u>
Potential dilutive shares issuable under the convertible redeemable note	<u>102,426,230</u>	
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>771,996,709</u>	
Basic earnings per share	<u>2.8 cents</u>	<u>9.8 cents</u>
Diluted earnings per share	<u>2.7 cents</u>	<u>N/A</u>

The computation of diluted earnings per share does not take into consideration the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price of the Company's shares during the year.

Notes to the Financial Statements

For the year ended 31 December 2000

11. INVESTMENT PROPERTIES

	2000 HK\$'000	1999 <i>HK\$'000</i>
Balance at 1 January	9,845	—
Additions	8,262	9,845
Reclassification from leasehold land and buildings (<i>note 12</i>)	1,448	—
Deficit arising on valuation at 31 December	(805)	—
	<hr/>	<hr/>
Balance at 31 December	<u>18,750</u>	<u>9,845</u>

The investment properties are situated in Hong Kong and are held under medium-term leases.

The Group's investment properties were valued as at 31 December 2000 on an open market value basis by Knight Frank, an independent firm of professional valuers. The deficit arising on valuation is charged to the income statement.

No professional valuation of the investment properties was carried out at 31 December 1999 as the properties were acquired in November 1999 and, in the opinion of the directors, the cost of the investment properties was a close approximation of the open market value at 31 December 1999.

Notes to the Financial Statements

For the year ended 31 December 2000

12. OTHER PROPERTIES, PLANT AND EQUIPMENT

	Leasehold land and buildings <i>HK\$'000</i>	Buildings under construction <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and equipment <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE GROUP							
COST							
At 1 January 2000	186,156	79,971	432,659	66,075	52,664	21,616	839,141
Additions	61,338	27,748	32,917	1,482	2,530	814	126,829
Reclassification to investment properties (note 11)	(1,600)	—	—	—	—	—	(1,600)
Other reclassifications	8,587	(10,500)	—	—	1,913	—	—
Disposals	(281)	—	(984)	(1,134)	(195)	(2,455)	(5,049)
At 31 December 2000	<u>254,200</u>	<u>97,219</u>	<u>464,592</u>	<u>66,423</u>	<u>56,912</u>	<u>19,975</u>	<u>959,321</u>
DEPRECIATION							
At 1 January 2000	30,263	—	163,513	35,750	32,598	13,243	275,367
Provided for the year	7,371	—	30,242	5,846	4,701	1,839	49,999
Reclassification to investment properties	(152)	—	—	—	—	—	(152)
Eliminated on disposals	(50)	—	(845)	(483)	(89)	(2,002)	(3,469)
At 31 December 2000	<u>37,432</u>	<u>—</u>	<u>192,910</u>	<u>41,113</u>	<u>37,210</u>	<u>13,080</u>	<u>321,745</u>
NET BOOK VALUES							
At 31 December 2000	<u>216,768</u>	<u>97,219</u>	<u>271,682</u>	<u>25,310</u>	<u>19,702</u>	<u>6,895</u>	<u>637,576</u>
At 31 December 1999	<u>155,893</u>	<u>79,971</u>	<u>269,146</u>	<u>30,325</u>	<u>20,066</u>	<u>8,373</u>	<u>563,774</u>

Notes to the Financial Statements

For the year ended 31 December 2000

12. OTHER PROPERTIES, PLANT AND EQUIPMENT *(Continued)*

The net book values of the Group's leasehold land and buildings comprise:

	2000 HK\$'000	1999 <i>HK\$'000</i>
Leasehold land and buildings in Hong Kong under medium term leases	45,256	8,387
Land and buildings elsewhere in the PRC on land for which the Group has been granted land use right, the remaining term of which is less than 50 years but exceeding 20 years	<u>171,512</u>	<u>147,506</u>
	<u>216,768</u>	<u>155,893</u>

The buildings under construction at 31 December 2000 are in the PRC, including Hong Kong. The balance shown includes capitalised interest of HK\$4,475,000 (1999: HK\$3,635,000).

At 31 December 1999, included in the net book value of other properties, plant and equipment was approximately HK\$348,000 (2000: nil) in respect of assets held under hire purchase contracts.

13. INVESTMENT IN SUBSIDIARIES

	THE COMPANY 2000 HK\$'000	1999 <i>HK\$'000</i>
Unlisted shares, at cost	<u>32,917</u>	<u>32,917</u>

Notes to the Financial Statements

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13. INVESTMENT IN SUBSIDIARIES (Continued)

The details of the Company's principal subsidiaries at 31 December 2000 are as follows:

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Proportion of nominal value of issued shares held by the Company	Principal activities
Action Land Limited	Hong Kong	HK\$6,000,000	100%	Provision of transportation services
Asian Fabulous Enterprise (Shenzhen) Company Limited	PRC	**	100%	Manufacturing of PVC household products
Fundbor Industries Limited	Hong Kong	HK\$7,000,000	100%	Manufacturing of polyester fibres
Greatflow Investments Limited	British Virgin Islands ("BVI")	US\$1	100%	Property holding
Hanchun Printing and Packing Company Limited	Hong Kong	HK\$500	100%	Manufacturing of printing and packing materials
Hong Kong Polythene Bags Manufacturing Limited	Hong Kong	HK\$100,000	100%	Trading in polythene bags
Hopemain Industries Limited	Hong Kong	HK\$5,000,000	100%	Trading of PVC products and investment holding
Hopemain Industries (Shenzhen) Limited	PRC	HK\$5,000,000	100%	Manufacturing of PVC products
Hopemain PVC Products Limited	Hong Kong	HK\$5,000,000	100%	Trading of PVC products
Hopestar Industries Limited	Hong Kong	HK\$1,000	100%	Trading in moulds

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13. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Proportion of nominal value of issued shares held by the Company	Principal activities
Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd.	PRC	***	100%	Manufacturing of PVC pipes and fittings and moulds
Shiu On Metal Company Limited	Hong Kong	HK\$10,000,000	100%	Trading in building materials and supplies
South China Plastic Building Material Manufacturing Limited	Hong Kong	HK\$2	100%	Trading in PVC pipes and fittings
Welidy Limited	Hong Kong	HK\$10,000	100%	Property holding
World Chemical Industrial Company Limited	Hong Kong	HK\$2	100%	Trading in PVC products
World Home Linen Manufacturing Company Limited	Hong Kong	HK\$200 Deferred non- voting shares HK\$10,000	100% ****	Property holding
World Houseware (B.V.I.) Limited	BVI	HK\$50,000	100%	Investment holding
World Houseware Producing (China) Company Limited	Hong Kong	HK\$1,500,000 Deferred non- voting shares HK\$500,000	100% ****	Manufacturing of fabric household products

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13. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Proportion of nominal value of issued shares held by the Company	Principal activities
World Houseware Producing Company Limited	Hong Kong	HK\$200 Deferred non-voting shares HK\$160,500	100% ****	Trading in household products
World Plastic Mat (Baoan) Company Limited	PRC	HK\$330,805,712	100%	Manufacturing of PVC household products
World Plastic-ware Manufacturing Limited	Hong Kong	HK\$32,500,000	100%	Investment holding

* All are ordinary share/registered capital unless otherwise stated.

** The registered capital of Asian Fabulous Enterprise (Shenzhen) Company Limited is HK\$100,000,000. As at 31 December 2000, HK\$21,594,649 had been contributed to this company.

*** The registered capital of Nam Sok Building Material and Plastic Products (Shenzhen) Co., Ltd. is HK\$230,000,000. As at 31 December 2000, HK\$188,045,650 had been contributed to this company.

**** None of the deferred non-voting shares is held by the Group.

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Only World Houseware (B.V.I.) Limited is directly held by the Company.

All the subsidiaries operate in their respective places of incorporation/registration except World Houseware Producing (China) Company Limited which operates in the PRC and Greatflow Investments Limited which holds properties in Hong Kong.

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

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14. NON-CURRENT DEPOSITS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
For acquisition of properties	—	24,526
For acquisition of plant and equipment	—	1,207
	<u>—</u>	<u>25,733</u>
	<u><u>—</u></u>	<u><u>25,733</u></u>

15. INVENTORIES

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Raw materials	81,382	84,083
Work in progress	17,208	5,851
Finished goods	31,903	38,219
	<u>130,493</u>	<u>128,153</u>
	<u><u>130,493</u></u>	<u><u>128,153</u></u>

Finished goods of approximately HK\$15,750,000 (1999: HK\$21,920,000) included above are carried at net realisable value.

16. PROPERTY HELD FOR SALE

The factory building in Malaysia was disposed of during the year.

Notes to the Financial Statements

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17. DEBTORS, DEPOSITS AND PREPAYMENTS

The Group allows credit periods of up to 90 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at 31 December:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Invoice date		
0-30 days	39,502	62,831
31-60 days	15,970	13,042
61-90 days	9,486	11,101
Over 90 days	15,278	17,196
	<hr/>	<hr/>
	80,236	104,170
Other debtors, deposits and prepayments	23,901	33,233
	<hr/>	<hr/>
	104,137	137,403
	<hr/>	<hr/>

18. TRADING SECURITIES

Trading securities comprise equity shares listed on The Stock Exchange of Hong Kong Limited and are carried at market value at the balance sheet date.

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19. CREDITORS AND ACCRUED CHARGES

The following is an aged analysis of the Group's trade payables at 31 December:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
0-30 days	25,985	16,301
31-60 days	7,323	8,178
61-90 days	3,621	6,472
Over 90 days	272	2,540
	<hr/>	<hr/>
	37,201	33,491
Other creditors and accrued charges (note 23)	37,723	47,209
	<hr/>	<hr/>
	74,924	80,700
	<hr/>	<hr/>

20. BANK BORROWINGS — AMOUNT DUE WITHIN ONE YEAR

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Bank overdrafts	22,650	19,379
Trust receipts and import loans	25,626	40,140
Short term loans	37,137	59,406
Other loans — amount due within one year (note 22)	9,972	10,535
	<hr/>	<hr/>
	95,385	129,460
	<hr/>	<hr/>
Analysed as:		
Secured	63,430	60,366
Unsecured	31,955	69,094
	<hr/>	<hr/>
	95,385	129,460
	<hr/>	<hr/>

Notes to the Financial Statements

For the year ended 31 December 2000

21. CONVERTIBLE REDEEMABLE NOTE

As announced by the Company on 4 March 2000, the Company entered into a conditional agreement on 3 March 2000 to issue a convertible redeemable note (the “Note”) in the principal sum of HK\$46,200,000 to Metro Luck Limited. Metro Luck Limited is independent of the directors, chief executive or substantial shareholders of the Company, any of its subsidiaries or their respective associates as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Note was subsequently issued on 23 March 2000 and the proceeds from the issue were used as general working capital.

The Note bears interest from its date of issue at the rate of 5.25% per annum. The interest rate was determined after arm’s length negotiation with reference to the then existing prime rate. Interest is payable semi-annually on the principal amount of the Note outstanding from time to time.

The Note is convertible into shares of the Company of HK\$0.10 each at an initial conversion price of HK\$0.35 per share, subject to adjustment. The initial conversion price of HK\$0.35 per share represents a discount of approximately 5.41% to the closing price of the Company’s share of HK\$0.37 on The Stock Exchange of Hong Kong Limited on 3 March 2000, the last trading day before the date of the Company’s announcement, and to the average closing price of HK\$0.37 in the 10 consecutive trading days ending on 3 March 2000. The initial conversion price of HK\$0.35 is equal to the average closing price of the Company’s shares during the period from 3 January 2000 to 3 March 2000 (both days inclusive).

Assuming the entire principal amount of HK\$46,200,000 of the Note is converted at the initial conversion price of HK\$0.35 per share, a total of 132,000,000 new shares in the Company will be issued, representing approximately 19.73% of the then existing issued share capital of the Company and 16.48% of the issued share capital of the Company as enlarged by the conversion.

The Note may only be assigned or transferred with the prior written consent of the Company. The holder of the Note will have the right to convert the whole or part of the principal amount of the Note into shares in the Company at any time and from time to time, after the date of issue of the Note. But unless previously converted, the outstanding principal amount of the Note, together with all unpaid and accrued interest, will be repaid by the Company upon the maturity of the Note on the last business day preceding the second anniversary of the date of issue of the Note.

The Note is not listed on any stock exchanges. The holder of the Note is not entitled to receive notice of, attend or vote at any general meetings of the Company by reason only of being the holder of the Note.

No conversion took place during the year. Any shares of the Company to be issued upon the conversion of the Note will be issued pursuant to the general mandate granted to the directors of the Company at the general meeting of the Company held on 24 June 1999.

Notes to the Financial Statements

For the year ended 31 December 2000

22. BANK BORROWINGS — AMOUNT DUE AFTER ONE YEAR

The Group has bank loans which have repayment periods in excess of one year. These loans are secured and bear interest at market rates and are repayable as follows:

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Within one year	9,972	10,535
In the second year	7,164	5,862
Between the third and fifth year	13,101	5,085
Over five years	6,175	—
	<u>36,412</u>	<u>21,482</u>
Less: Amount due after one year and shown under current liabilities (note 20)	<u>(9,972)</u>	<u>(10,535)</u>
Amount due after one year shown as non current	<u><u>26,440</u></u>	<u><u>10,947</u></u>

23. OTHER BALANCE PAYABLE

The other balance payable represents the balance of the consideration payable in connection with the acquisition of land use right in the PRC during the year. Under the purchase agreement, the remaining unpaid balance of HK\$9,327,000 is payable as follows:

	HK\$'000
Within one year and included under “Creditors and accrued charges” (note 19)	<u>3,084</u>
In the second year	3,084
In the third year	<u>3,159</u>
	<u>6,243</u>
Total	<u><u>9,327</u></u>

Notes to the Financial Statements

For the year ended 31 December 2000

24. DEFERRED TAXATION

	THE GROUP	
	2000 HK\$'000	1999 HK\$'000
Balance at 1 January	1,504	2,214
Credit for the year (note 7)	(850)	(710)
Balance at 31 December	<u>654</u>	<u>1,504</u>

The components of the deferred taxation liability (asset) at 31 December 2000 are attributable to the tax effect of the following timing differences:

	2000 HK\$'000	1999 HK\$'000
Excess of tax depreciation allowances over accounting depreciation	1,846	1,504
Taxation losses available to set-off against future profits	(1,192)	—
	<u>654</u>	<u>1,504</u>

The deferred taxation credit for the year arose as a result of the tax effect of timing differences attributable to:

	2000 HK\$'000	1999 HK\$'000
Excess of tax depreciation allowances over accounting depreciation	342	(710)
Taxation losses arising during the year	(1,192)	—
	<u>(850)</u>	<u>(710)</u>

The Group had no significant unprovided deferred taxation at 31 December 2000 except for an unrecognised deferred taxation asset of approximately HK\$6,300,000 (1999: HK\$4,400,000) arising from tax losses which are available to set-off against future assessable profits. The deferred taxation asset has not been recognised in the financial statements as it is not certain that the benefit will be realised in the foreseeable future. The amount of unrecognised deferred taxation credit for the year is approximately HK\$1,900,000 (1999: HK\$2,001,000).

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2000

25. SHARE CAPITAL

2000 & 1999
HK\$'000

Authorised:

1,500,000,000 shares of HK\$0.10 each

150,000

Issued and fully paid:

Shares of HK\$0.10 each

	Number of shares	Nominal value HK\$'000
Balance at 1 January 1999	661,532,339	66,153
Shares issued to shareholders in lieu of		
(a) the 1998 final dividend, issued at HK\$0.3533 per share	6,341,152	634
(b) the 1999 interim dividend, issued at HK\$0.3211 per share	1,019,827	102
Balance at 31 December 1999	668,893,318	66,889
Shares issued to shareholders in lieu of		
(a) the 1999 final dividend, issued at HK\$0.2576 per share	767,174	77
(b) the 2000 interim dividend, issued at HK\$0.1522 per share	2,478,247	248
Balance at 31 December 2000	672,138,739	67,214

All shares issued during the year rank pari passu with the then existing shares in all respects.

26. SHARE OPTIONS

The Company has a share option scheme under which options may be granted to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company. The subscription price will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer of the option provided that in no circumstances shall the subscription price be less than the nominal value of the Company's share. The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option can be exercised six months after the date of acceptance but not later than five years from the date of the offer.

On 19 February 2000, options were granted to directors and employees of the Group to subscribe for 4,460,000 shares in the Company at an exercise price of HK\$0.32 per share. Consideration received by the Company for options granted during the year amounted to HK\$7. None of these options was exercised during the year and there were no other outstanding options.

Notes to the Financial Statements

For the year ended 31 December 2000

27. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Non- distributable reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP							
Balance at 1 January 1999	310,822	—	12,000	291	(4,595)	221,901	540,419
Premium arising from issue of shares during the year	1,832	—	—	—	—	—	1,832
Goodwill arising on increasing shareholdings in subsidiaries	—	—	—	—	(7,637)	—	(7,637)
Profit for the year, retained	—	—	—	—	—	58,711	58,711
Balance at 31 December 1999	312,654	—	12,000	291	(12,232)	280,612	593,325
Premium arising from issue of shares during the year	250	—	—	—	—	—	250
Goodwill arising on increasing shareholdings in subsidiaries	—	—	—	—	(95)	—	(95)
Capitalisation of retained profits by a subsidiary	—	—	100,806	—	—	(100,806)	—
Profit for the year, retained	—	—	—	—	—	12,052	12,052
Balance at 31 December 2000	<u>312,904</u>	<u>—</u>	<u>112,806</u>	<u>291</u>	<u>(12,327)</u>	<u>191,858</u>	<u>605,532</u>
THE COMPANY							
Balance at 1 January 1999	310,822	8,917	—	—	—	3,527	323,266
Premium arising from issue of shares during the year	1,832	—	—	—	—	—	1,832
Profit for the year (note 8)	—	—	—	—	—	7,394	7,394
Dividends (note 9)	—	—	—	—	—	(6,684)	(6,684)
Balance at 31 December 1999	312,654	8,917	—	—	—	4,237	325,808
Premium arising from issue of shares during the year	250	—	—	—	—	—	250
Profit for the year (note 8)	—	—	—	—	—	7,972	7,972
Dividends (note 9)	—	—	—	—	—	(6,709)	(6,709)
Balance at 31 December 2000	<u>312,904</u>	<u>8,917</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>5,500</u>	<u>327,321</u>

The non-distributable reserve of the Group arose as a result of capitalisation of retained profits by subsidiaries.

The special reserve of the Company arose as a result of the group reorganisation in 1993. It represents the excess of the consolidated net assets of World Houseware (B.V.I.) Limited at the date on which its shares were acquired by the Company over the nominal value of the Company's shares which were issued in the acquisition.

Under the Companies Law in the Cayman Islands and the provisions of the Memorandum and Articles of Association of the Company, all reserves of the Company are available for distribution to shareholders, either by way of dividend or bonus issue of shares, provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

Notes to the Financial Statements

For the year ended 31 December 2000

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

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Profit before taxation	21,185	65,527
Deficit arising on revaluation of investment properties	805	—
Depreciation	49,999	45,943
Interest and finance charges	12,154	7,921
Dividend income from trading securities	(104)	—
Interest income	(548)	(1,342)
Gain on sale of trading securities	(602)	—
Gain from disposal of property held for sale	(150)	—
Unrealised loss (gain) on trading securities	4,883	(4,745)
Loss on disposal of property, plant and equipment	1,580	3,172
Increase in inventories	(2,340)	(29,113)
Decrease (increase) in debtors, deposits and prepayments	26,392	(17,373)
(Decrease) increase in trade and other payables	(8,860)	16,547
	<hr/>	<hr/>
Net cash inflow from operating activities	104,394	86,537

Notes to the Financial Statements

For the year ended 31 December 2000

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Trust receipts and import loans <i>HK\$'000</i>	Other bank loans <i>HK\$'000</i>	Convertible redeemable note <i>HK\$'000</i>	Obligations under hire purchase contracts <i>HK\$'000</i>	Minority interests <i>HK\$'000</i>
Balance at 1 January 1999	18,225	100,753	—	544	13,903
Bank loans raised during the year	—	93,103	—	—	—
Repayment during the year	—	(112,968)	—	(494)	—
Effect of increasing shareholdings in subsidiaries	—	—	—	—	(6,312)
Losses attributable to minority interests	—	—	—	—	(4,520)
Dividend paid to minority shareholders	—	—	—	—	(671)
Net increase during the year	21,915	—	—	—	—
Balance at 31 December 1999	40,140	80,888	—	50	2,400
Bank loans raised during the year	—	121,130	—	—	—
Repayment during the year	—	(128,469)	—	(50)	—
Created and issued during the year	—	—	46,200	—	—
Effect of increasing shareholdings in subsidiaries	—	—	—	—	(2,180)
Losses attributable to minority interests	—	—	—	—	(220)
Net decrease during the year	(14,514)	—	—	—	—
Balance at 31 December 2000	25,626	73,549	46,200	—	—

Notes to the Financial Statements

For the year ended 31 December 2000

30. ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Bank balances and cash	31,936	16,652
Bank overdrafts	(22,650)	(19,379)
	<u>9,286</u>	<u>(2,727)</u>

31. CAPITAL COMMITMENTS

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements, net of deposits paid, in respect of		
— buildings under construction	4,293	10,529
— leasehold land and buildings	—	24,200
— land use right	—	15,869
— plant and equipment	—	1,548
	<u>4,293</u>	<u>52,146</u>

The Company did not have any significant capital commitments at the balance sheet date.

Notes to the Financial Statements

For the year ended 31 December 2000

32. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group was committed to make certain payments for land and buildings under non-cancellable operating leases. The expiry date of these leases and the amount payable within the following year are summarised as below:

	THE GROUP	
	2000	1999
	HK\$'000	HK\$'000
In respect of leases expiring:		
Within one year	1,203	1,674
In the second to fifth year inclusive	5,252	4,512
Amount payable within the following year	6,455	6,186

The Company did not have any significant operating lease commitments at the balance sheet date.

33. PLEDGE OF ASSETS

At 31 December 2000, the Group's borrowings were secured by the following:

	2000	1999
	HK\$'000	HK\$'000
Leasehold land and buildings	89,942	39,324
Buildings under construction	65,865	58,862
Investment properties	18,750	9,845
Non-current deposits	—	7,923
	174,557	115,954

Notes to the Financial Statements

For the year ended 31 December 2000

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
Bills discounted with recourse	<u>4,059</u>	<u>1,261</u>	<u>—</u>	<u>—</u>
Banking facilities utilised by subsidiaries which are guaranteed by the Company	<u>—</u>	<u>—</u>	<u>116,383</u>	<u>135,464</u>

35. MANDATORY PROVIDENT FUND AND LONG SERVICE PAYMENTS

The Group previously did not have any retirement benefit schemes. In light of the introduction of the Mandatory Provident Fund (“MPF”) Scheme during the year, all existing and new employees are required to participate in the MPF Scheme. Mandatory benefits are being provided under the MPF Scheme.

In addition to the MPF Scheme, the Group has a number of employees who have completed the required number of years of service to be eligible for long service payments under Hong Kong's Employment Ordinance (the “Ordinance”). The Group is only liable to make these payments if termination of employment meets the circumstances which are specified in the Ordinance. Had employment of all eligible employees been terminated on 31 December 2000 and long service payments were paid in accordance with the Ordinance, the amount payable would be approximately HK\$4,519,000 (1999: HK\$4,682,000). No provision has been made in the financial statements in respect of these long service payments.