Notes to Financial Statements

30 June 2001

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 7 December 2000 under the Companies Law (Revised) of the Cayman Islands. Pursuant to a reorganisation scheme (the "Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in May 2001, the Company became the holding company of the companies now comprising the Group on 8 April 2001. This was accomplished by the Company acquiring the entire issued share capital of Earlsmead Enterprises Limited ("Earlsmead"), the then holding company of the other subsidiaries, as set out in note 14 to the financial statements. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 14 and 20 to the financial statements and in the Company's prospectus dated 18 April 2001.

2. CORPORATE INFORMATION

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 14 to the financial statements. There were no changes in the nature of the principal activities of the Company's subsidiaries during the year.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the remeasurement of certain fixed assets as further explained below.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 8 April 2001. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of acquisition of the subsidiaries. Accordingly, the results of the Group for the years ended 30 June 2001 and 2000 include the results of the Company and its subsidiaries with effect from 1 July 1999 or since their respective dates of incorporation where this is a shorter period. The comparative consolidated balance sheet as at 30 June 2000 has been prepared on the basis that the existing Group had been in place at that date.

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present more fairly the results and state of affairs of the Group as a whole.

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

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 30 June 2000.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged or credited to the profit and loss account on the straight-line basis over the lease terms.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. The MPF Scheme became effective on 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed to the MPF Scheme.

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets, other than construction in progress, are stated at cost or valuation less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Changes in the values of fixed assets are dealt with as movements in the fixed asset revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the fixed asset revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset less any estimated residual value, over the following estimated useful lives:

Leasehold land and buildings	The shorter of the lease terms and 30 to 50 years
Plant and machinery	10 to 30 years
Furniture, office equipment and motor vehicles	5 years

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset. On the disposal or retirement of a revalued asset, the attributable revaluation surplus realised is transferred directly to retained profits as a movement in reserves.

Construction in progress represents leasehold buildings and plant under construction, is stated at cost and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

All of the Group's fixed assets prior to the listing of the Company's shares on the Stock Exchange were stated at cost less accumulated depreciation. The financial effect arising from the remeasurement of certain fixed assets of the Group on a valuation basis amounted to a revaluation surplus of approximately HK$3,215,000 which was recognised in the fixed asset revaluation reserve. Further details of the change in accounting policy for the remeasurement of the Group's fixed assets are set out in note 13.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

Interests in subsidiaries are stated at cost unless, in the opinion of the directors of the Company, there have been diminutions in values other than those considered to be temporary in nature, when they are written down to values determined by the directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital reserve

The capital reserve on consolidation of subsidiaries represents the excess of the fair values ascribed to the net underlying assets of the subsidiary acquired at the date of acquisition over the purchase consideration paid for the subsidiary and is credited to reserves.

On disposal of an interest in a subsidiary, the relevant portion of the attributable capital reserve previously credited to reserves is written back and included in the calculation of the gain or loss on disposal.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads based on a normal level of operating activities. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

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

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

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

Cash equivalents

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

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after elimination of all significant intra-Group transactions during the year.

5. PROFIT FROM OPERATING ACTIVITIES

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

	2001	2000
	HK$'000	HK$'000
Cost of inventories sold	**85,103**	65,022
Depreciation:		
Owned fixed assets	**2,100**	1,898
Leased fixed assets	**162**	–
Operating lease rentals on leasehold land and buildings	**208**	208
Staff costs (excluding directors' remuneration – note 6):		
Wages and salaries	**1,890**	1,436
Retirement benefits scheme contributions	**7**	–
Auditors' remuneration	**800**	600
Research and development costs	**1,131**	986
Interest income	**(229)**	(71)

6. DIRECTORS' REMUNERATION

	2001 HK$'000	2000 HK$'000
Fees:		
Executive directors	–	–
Independent non-executive directors	–	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	672	576
Independent non-executive directors	50	–
	722	576

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

	Number of directors 2001	2000
Nil – HK$1,000,000	7	4

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

7. SIX HIGHEST PAID EMPLOYEES

The six highest paid employees during the year included four (2000: four) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2000: two) non-director, highest paid employees, are as follows:

	2001 HK$'000	2000 HK$'000
Basic salaries, housing benefits, other allowances and benefits in kind	338	91
Pension scheme contributions	7	–
	345	91

8. FINANCE COSTS

	2001 HK$'000	2000 HK$'000
Interest on finance leases	**7**	–

9. TAX

	2001 HK$'000	2000 HK$'000
Current year provision:		
Hong Kong	**–**	–
Elsewhere in the People's Republic of China (the "PRC")	**7,871**	4,064
Tax charge for the year	**7,871**	4,064

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong in respect of the year (2000: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

According to the Income Tax Law of the PRC, Daqing Black Bird Co., Ltd., a subsidiary of the Company, which operates in one of the high and new technology industrial development zones of the PRC, was exempt from the income tax of the PRC for three years starting from the first profitable year of its operations, ie, 1 January 1998 to 31 December 2000. The subsidiary is also entitled to a 50% relief from the income tax of the PRC for the following three years, ie, 1 January 2001 to 31 December 2003. Upon expiry of the tax relief period, this subsidiary will be subject to the income tax rate of 15%, being the preferential tax rate applicable to this subsidiary operating in the high and new technology industrial development zones of the PRC. The provisions for income tax of other subsidiaries operating in the PRC have been calculated at the rate of 33%, based on existing legislation, interpretations and practices in respect thereof.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (2000: Nil).

The revaluation of the Group's leasehold land and buildings does not constitute a timing difference and, consequently, there is no deferred tax arising thereon.

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 7 December 2000 (date of incorporation) to 30 June 2001 was approximately HK$6,975,000.

11. DIVIDENDS

	2001	2000
	HK$'000	HK$'000
Interim dividend	**–**	16,500
Proposed final dividend – HK0.75 cent (2000: Nil) per ordinary share	**6,000**	–
	6,000	16,500

The 2000 interim dividend was paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation, as set out in note 1 to the financial statements.

The directors recommend the payment of a final dividend of HK0.75 cent per ordinary share in respect of the year ended 30 June 2001 to shareholders on the register of members on 15 November 2001.

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$39,688,000 (2000: HK$27,960,000) and the pro forma weighted average of 701,698,630 (2000: 680,000,000) ordinary shares in issue during the year, calculated based on the assumption that the Group Reorganisation, as set out in note 1 to the financial statements, had been completed on 1 July 1999.

There were no potential dilutive ordinary shares in existence for the years ended 30 June 2001 and 2000 and, accordingly, no pro forma diluted earnings per share have been presented.

Notes to Financial Statements

30 June 2001

13. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Construction in progress HK$'000	Plant and machinery HK$'000	Furniture, office equipment and motor vehicles HK$'000	Total HK$'000
Cost or valuation:					
At 1 July 2000	33,471	1,626	12,890	1,720	49,707
Additions	–	14,711	1,832	872	17,415
Revaluation	(1,471)	–	–	–	(1,471)
At 30 June 2001	**32,000**	**16,337**	**14,722**	**2,592**	**65,651**
Analysis of cost or valuation:					
At cost	–	16,337	14,722	2,592	33,651
At valuation	32,000	–	–	–	32,000
	32,000	16,337	14,722	2,592	65,651
Accumulated depreciation:					
At 1 July 2000	3,644	–	3,788	910	8,342
Provided during the year	1,042	–	839	381	2,262
Written back on revaluation	(4,686)	–	–	–	(4,686)
At 30 June 2001	**–**	**–**	**4,627**	**1,291**	**5,918**
Net book value:					
At 30 June 2001	**32,000**	**16,337**	**10,095**	**1,301**	**59,733**
At 30 June 2000	29,827	1,626	9,102	810	41,365

The Group's leasehold land and buildings included above are all held under medium term leases in the PRC.

At 30 June 2001, the Group's leasehold land and buildings were revalued on an open market value, existing use basis, by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, at HK$32,000,000. A surplus on revaluation of approximately HK$3,215,000 arising from the above revaluation has been credited to the fixed asset revaluation reserve (note 21).

Had the Group's leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying value would have been approximately HK$28,785,000 (2000: HK$29,827,000).

The net book value of the fixed assets of the Group held under finance leases included in the total amount of the fixed assets at 30 June 2001 amounted to approximately HK$648,000 (2000: Nil).