1. CORPORATE INFORMATION

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda.

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

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

2. 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 investment properties and certain fixed assets, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 June 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company other than a jointly-controlled entity 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, there have been permanent diminutions in values, when they are written down to values determined by the directors.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint venture

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

A joint venture arrangement which involves the establishment of a separate entity in which the Group and other parties have an interest is referred to as a jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of its jointly-controlled entity is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interest in the jointly-controlled entity is stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any provision for diminution in value, other than that considered to be temporary in nature, deemed necessary by the directors.

The results of a jointly-controlled entity is included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interest in its jointly-controlled entity is treated as a long term investment and is stated at cost less any provision for diminution in value, other than that considered to be temporary in nature, deemed necessary by the directors.

Fixed assets and depreciation

Fixed assets, other than investment properties, leasehold land and buildings and construction in progress, are stated at cost 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, other than investment properties, are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of revalued fixed assets, the relevant portion of the revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost or valuation of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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

Where, in the opinion of the directors, the recoverable amounts of fixed assets have declined below their carrying amounts, provisions are made to write down the carrying amounts of such assets to their recoverable amounts. Recoverable amounts are not determined using discounted cash flows. Reductions of recoverable amounts are charged to the profit and loss account, except to the extent that they reverse previous revaluation surpluses in respect of the same items, when they are charged to the revaluation reserve.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Intangible assets

Intangible assets represent expenses incurred for the application and registration of trademarks and patents and are amortised, using the straight-line basis, over periods not exceeding five years.

Leased assets

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

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 to the profit and loss account on the straight-line basis over the lease terms.

Long term investment

Long term investment in unlisted debt security, intended to be held for a continuing strategic or long term purpose, is stated at cost less any provision for impairment in value deemed necessary by the directors, other than that considered to be temporary in nature, on an individual basis.

When such impairment in value has occurred, the carrying amount of the security is reduced to its fair value, as estimated by the directors, and the amount of the impairment is charged to the profit and loss account for the period in which it arises. When the circumstances and events which led to the impairment in value ceases to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amount of the impairment previously charged is credited to the profit and loss account to the extent of the amount previously charged.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Deferred tax

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

Foreign currencies

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

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

Research and development costs

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

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

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

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

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

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

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.

Pension costs

Up until 1 December 2000, the Group operated a defined contribution pension scheme for its employees in Hong Kong, the assets of which were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the eligible employees' salaries and charged to the profit and loss account as they became payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Pension costs (continued)

On 1 December 2000, the defined contribution pension scheme was terminated with all the underlying assets of the scheme transferred to the Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme"). 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 Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group has joined the pension scheme operated by relevant government authorities in the People's Republic of China ("PRC") for certain of its PRC employees. Contributions are made based on a percentage of the eligible employees' salaries pursuant to relevant pension regulations. Contributions to the pension scheme are charged to profit and loss account as incurred. For those employees in the PRC who have not joined the pension scheme, the Group has accrued for future pension costs based on a percentage of their salaries. The related assets have not been separated from those of the Group.

3. TURNOVER AND REVENUE

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

An analysis of turnover and revenue is as follows:

	2001	2000
	HK$'000	*HK$'000*
Sale of lighters and related accessories — turnover	**171,400**	192,302
Gross rental income	**964**	991
Interest income	**704**	56
Gain on disposal of fixed assets	**371**	2,223
Amortisation of deferred income — *note 15*	**2,287**	2,537
Exchange gains, net	**850**	1,635
Turnover and revenue for the year	**176,576**	199,744

4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2001	2000
	HK$'000	*HK$'000*
Auditors' remuneration	**650**	750
Depreciation:		
Owned fixed assets	**5,645**	4,728
Leased fixed assets	**118**	126
Amortisation of intangible assets	**476**	360
Research and development costs	**512**	512
Staff costs (excluding directors' remuneration — *note 5*)		
Salaries and wages	**10,883**	12,988
Pension contributions	**228**	192
Less: Forfeited contributions	**(29)**	—
Net pension contributions	**199**	192
PRC pension costs	**373**	227
Operating lease rentals on land and buildings	**1,677**	1,592
Revaluation deficit on:		
Leasehold land and buildings	**—**	2,248
Investment properties	**—**	3,593
Fixed assets written off	**3,056**	—
Construction in progress written off	**765**	—

and after crediting:

	2001	2000
Revaluation surplus on:		
Leasehold land and buildings	**(406)**	—
Investment properties	**(1,140)**	—
Exchange gains, net	**(850)**	(1,635)
Gain on disposal of fixed assets, net	**(371)**	(2,223)
Gross rental income	**(964)**	(991)
Less: Outgoings	**100**	20
Net rental income	**(864)**	(971)
Interest income	**(704)**	(56)
Amortisation of deferred income	**(2,287)**	(2,537)

5. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**3,332**	1,312
Performance related bonuses	**1,500**	—
Pension scheme contributions	**36**	37
	4,868	1,349

The remuneration of the directors fell within the following bands:

	Number of directors	
	2001	2000
Nil – HK$1,000,000	**7**	10
HK$2,000,001 – HK$3,000,000	**1**	—

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

6. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year included five (2000: two) directors, details of whose remuneration are set out in note 5 above. The details of the remuneration of the remaining nil (2000: three) non-director, highest paid individuals are as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**—**	1,118
Performance related bonuses	**—**	—
Pension scheme contributions	**—**	24
	—	1,142

6. FIVE HIGHEST PAID INDIVIDUALS (continued)

The remuneration of the non-director, highest paid individuals fell within the following band:

	Number of individuals	
	2001	2000
Nil – HK$1,000,000	**—**	3

7. FINANCE COSTS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Interest expenses on bank loans and overdrafts wholly repayable:		
Within five years	**990**	2,302
Over five years	**376**	444
Interest on finance leases	**54**	8
	1,420	2,754
Less: Interest capitalised	**—**	—
Total finance costs	**1,420**	2,754

8. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2001	2000
	HK$'000	*HK$'000*
Group:		
Hong Kong	**79**	4,407
PRC, elsewhere other than Hong Kong	**—**	30
Overprovision in prior years	**—**	(12)
Tax charge for the year	**79**	4,425

There was no unprovided deferred tax in respect of the year (2000: nil).

9. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is approximately HK$4,162,000 (2000: profit of approximately HK$11,117,000).

10. DIVIDENDS

	2001	2000
	HK$'000	*HK$'000*
Special	—	18,000
Proposed final — nil (2000: HK6.6 cents) per ordinary share	—	9,900
	—	27,900

The 2000 special dividend of HK$18,000,000 was paid by a subsidiary to its then shareholders prior to the Group's reorganisation 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 July 2000. The rate of dividends and the number of shares ranking for this dividend is not presented as such information is not meaningful for the purpose of these financial statements.

11. EARNINGS/(LOSS) PER SHARE

The calculation of the basic earnings/(loss) per share is based on the net loss from ordinary activities attributable to shareholders for the year of approximately HK$8,541,000 (2000: net profit of approximately HK$30,862,000) and the weighted average number of 150,000,000 (2000: 120,164,384) ordinary shares in issue during the year.

Diluted earnings/(loss) per share for the years ended 30 June 2001 and 2000 have not been calculated as no diluting events existed during these years.

12. FIXED ASSETS

Group

	Investment properties HK$'000	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements and others HK$'000	Construction in progress HK$'000	Total HK$'000
Cost or valuation:						
At beginning of year	9,690	5,000	43,436	3,559	636	62,321
Exchange realignment	—	—	197	4	3	204
Additions	—	—	5,110	3,024	9,264	17,398
Disposals	—	—	(382)	(15)	—	(397)
Written off*	—	—	(5,229)	(3,056)	(765)	(9,050)
Disposal of subsidiaries	—	—	—	(934)	—	(934)
Transfer of construction in progress	—	—	2,506	1,509	(4,015)	—
Revaluation surplus	1,140	306	—	—	—	1,446
At 30 June 2001	10,830	5,306	45,638	4,091	5,123	70,988
Analysis of cost and valuation:						
At cost	—	—	45,638	4,091	5,123	54,852
At 30 June 2001 valuation	10,830	5,306	—	—	—	16,136
	10,830	5,306	45,638	4,091	5,123	70,988
Accumulated depreciation						
At beginning of year	—	—	21,459	2,970	—	24,429
Exchange realignment	—	—	112	3	—	115
Provided during the year	—	100	5,251	412	—	5,763
Disposals	—	—	(354)	(2)	—	(356)
Written off*	—	—	(5,229)	—	—	(5,229)
Disposal of subsidiaries	—	—	—	(542)	—	(542)
Revaluation surplus	—	(100)	—	—	—	(100)
At 30 June 2001	—	—	21,239	2,841	—	24,080
Net book value:						
At 30 June 2001	10,830	5,306	24,399	1,250	5,123	46,908
At 30 June 2000	9,690	5,000	21,977	589	636	37,892

* *The plant and machinery, leasehold improvements and construction in progress with carrying values of approximately HK$3,821,000 have been written off as a result of the cessation of the operation of Poly Action Plastics & Metal Manufacture Limited, a wholly-owned subsidiary of the Group (see note 31 for further details).*

12. FIXED ASSETS (continued)

The Group's investment properties are situated in Hong Kong and held under long term leases. The investment properties were revalued on 30 June 2001 by Vigers Hong Kong Limited, independent professionally qualified valuers, at HK$10,830,000 on an open market value, existing use basis.

The Group's leasehold land and buildings are situated in Hong Kong. Except for certain leasehold land and buildings of HK$1,456,000 (2000: HK$1,540,000) which are held under medium term leases, the remaining leasehold land and buildings of HK$3,850,000 (2000: HK$3,460,000) are held under long term leases.

The Group's leasehold land and buildings were revalued individually at the balance sheet date by Vigers Hong Kong Limited, independent professionally qualified valuers, at an aggregate open market value of HK$5,306,000 (2000: HK$5,000,000) based on their existing use. A revaluation surplus of HK$406,000 (2000: deficit of HK$2,248,000) resulting from the above valuations has been credited to the profit and loss account.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying values would have been approximately HK$7,054,000 (2000: HK$7,217,000).

At 30 June 2001, all of the Group's investment properties and leasehold land and buildings with an aggregate carrying value of HK$16,136,000 (2000: HK$14,690,000), were pledged as securities for the banking facilities granted to the Group (note 22).

The net book value of a motor vehicle held under a finance lease as at 30 June 2001 amounted to approximately HK$436,000 (2000: nil).

13. INTANGIBLE ASSETS

	Group Trademark and patents HK$'000
Cost:	
At beginning of year	1,808
Additions	568
At 30 June 2001	2,376
Accumulated amortisation:	
At beginning of year	609
Provided during the year	476
At 30 June 2001	1,085
Net book value:	
At 30 June 2001	1,291
At 30 June 2000	1,199

14. INTERESTS IN SUBSIDIARIES

	Company	
	2001	2000
	HK$'000	*HK$'000*
Unlisted shares, at cost	**62,515**	62,515
Due from/(to) subsidiaries	**16,762**	(3,611)
	79,277	58,904

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

14. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries are as follows:

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

* *The operation of Poly Action Plastics & Metal Manufacture Limited has ceased subsequent to the balance sheet date. Further details are set out in note 31.*

** *Newly incorporated during the year.*

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2001	2000
	HK$'000	*HK$'000*
Share of net assets	**9,425**	14,973
Due from a jointly-controlled entity	**3,132**	3,132
Deferred income	**(7,913)**	(9,369)
	4,644	8,736

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

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

Particulars of the jointly-controlled entity are as follows:

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

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

15. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

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

(a) Results for the year:

	2001 HK$'000	2000 HK$'000
Turnover	59,311	45,534
Net loss for the year	11,450	15,724

(b) Net tangible assets:

	2001 HK$'000	2000 HK$'000
Non-current assets	35,277	39,651
Current assets	33,054	38,667
Current liabilities	(42,328)	(43,897)
Non-current liabilities	(7,153)	(4,475)
	18,850	29,946

At 30 June 2001, the jointly-controlled entity had an amount due from a related company, Tak Fi International (Holdings) Limited, amounting to approximately HK$11,579,000 (2000: approximately HK$10,894,000) and the Group's share thereof was approximately HK$5,789,500 (2000: approximately HK$5,447,000). The amount due from the related company bears interest ranging from 0% to 4.875% (2000: 6.4%) per annum.

16. LONG TERM INVESTMENT

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Convertible note, at cost	**2,000**	—	**2,000**	—

Subsequent to the balance sheet date on 18 July 2001, the Company exercised its rights to convert the convertible note into 5,000,000 ordinary shares of B M Intelligence International Limited, a company listed on the Stock Exchange, at the issue price of HK$0.40 per share.

17. INVENTORIES

	Group	
	2001	2000
	HK$'000	*HK$'000*
Raw materials	**6,709**	8,292
Work in progress	**6,377**	4,239
Finished goods	**4,231**	4,953
	17,317	17,484

The carrying amount of inventories carried at net realisable value included in the above is approximately HK$1,152,000 (2000: approximately HK$223,000).

18. TRADE AND BILLS RECEIVABLES

The Group's credit terms granted to its customers range between 30 to 90 days. The ageing analysis of trade and bills receivables as at the balance sheet date is as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
1–3 months	**12,818**	26,655
4–6 months	**4,149**	6,673
7–12 months	**6,560**	223
13–24 months	**5,371**	—
	28,898	33,551

19. TRADE PAYABLES

The ageing analysis of trade payables as at the balance sheet date is as follows:

	Group 2001 HK$'000
1–3 months	**7,976**
4–6 months	**292**
7–12 months	**8,910**
13–24 months	**1,908**
Over 24 months	**1,453**
	20,539

In the opinion of the directors, it is impracticable to prepare an ageing analysis for the trade payables as at 30 June 2000. Accordingly, a comparative ageing analysis of trade payables is not presented.

20. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Other payables and accruals	**9,084**	6,656	**638**	877
Due to related companies	**163**	—	**77**	—
Due to a director	**207**	—	**—**	—
	9,454	6,656	**715**	877

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

21. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group	
		2001	2000
	Notes	***HK$'000***	*HK$'000*
Bank overdrafts, secured	22	**2,892**	1,640
Current portion of bank loans, secured	22	**5,533**	9,625
		8,425	11,265
Current portion of finance lease payable	23	**81**	—
		8,506	11,265

22. INTEREST-BEARING BANK BORROWINGS

	Group	
	2001	2000
	HK$'000	*HK$'000*
Bank overdrafts, secured	**2,892**	1,640
Bank loans, secured	**8,355**	12,983
	11,247	14,623
Bank overdrafts repayable within one year or on demand	**2,892**	1,640
Bank loans repayable:		
Within one year or on demand	**5,533**	9,625
In the second year	**511**	410
In the third to fifth years, inclusive	**1,533**	1,231
Beyond five years	**778**	1,717
	11,247	14,623
Portion classified as current liabilities — *note 21*	**(8,425)**	(11,265)
Long term portion	**2,822**	3,358

22. INTEREST-BEARING BANK BORROWINGS (continued)

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

(i) all-monies legal charges over the Group's investment properties and leasehold land and buildings with an aggregate carrying value of HK$16,136,000 at the balance sheet date as set out in note 12; and

(ii) corporate guarantees aggregating HK$45,270,000 granted by the Company.

23. FINANCE LEASE PAYABLE

At the balance sheet date , the total minimum lease payments and the present value of the obligations under a finance lease for each of the following periods are:

Group

	Total outstanding minimum lease payments		Present value of lease payments	
	2001	2000	**2001**	2000
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Not later than 1 year	**120**	—	**81**	—
Later than 1 year and not later than 5 years	**301**	—	**259**	—
	421	—	**340**	—
Less: Future finance charges	**(81)**	—	**—**	—
Present value of lease obligations	**340**	—	**340**	—
Portion classified as current liabilities — *note 21*			**(81)**	—
Long term portion			**259**	—

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

24. SHARE CAPITAL

Shares

	Company 2001 HK$'000	2000 HK$'000
Authorised:		
800,000,000 (2000: 800,000,000) ordinary shares of HK$0.10 each	**80,000**	80,000
Issued and fully paid:		
150,000,000 (2000: 150,000,000) ordinary shares of HK$0.10 each	**15,000**	15,000

Share options

On 13 June 2000, the Company approved a share option scheme (the "Scheme") under which the board of directors of the Company may, at their discretion, invite full-time employees, including executive directors of the Group, to take up options to subscribe for shares in the Company at any time during the ten years from the date of approval. The subscription price will be a price determined by the directors and shall not be less than the greater of (i) 80% of the average closing price of the Company's shares on the Stock Exchange for the five trading days immediately preceding the date of the option deemed to be granted; and (ii) the nominal value of the shares. The maximum number of shares in respect of which options may be granted may not exceed 10% of the ordinary share capital of the Company in issue from time to time. The Scheme became effective upon the listing of the Company's shares on the Stock Exchange on 3 July 2000. The maximum number of shares in respect of which options may be granted to any one employee may not exceed 25% of the maximum aggregate number of shares in respect of which options may be granted under the Scheme.

No share options have been granted under the Scheme.

25. RESERVES

Group

	Share premium account HK$'000	Contributed surplus HK$'000	Surplus reserve funds HK$'000	Retained profits HK$'000	Exchange fluctuation reserve HK$'000	Total HK$'000
At 1 July 1999	—	5,800	92	45,559	1,028	52,479
Exchange realignments	—	—	—	—	(2,095)	(2,095)
Retained profit for the year	—	—	—	2,962	—	2,962
Issue of shares to the public	27,000	—	—	—	—	27,000
Share issue expenses	(8,741)	—	—	—	—	(8,741)
Capitalisation issue of shares	(11,800)	—	—	—	—	(11,800)
At 30 June 2000	6,459	5,800	92	48,521	(1,067)	59,805
Exchange realignments	—	—	—	—	384	384
Loss for the year	—	—	—	(8,541)	—	(8,541)
At 30 June 2001	6,459	5,800	92	39,980	(683)	51,648
Reserves retained by:						
Company and subsidiaries	6,459	5,800	92	73,098	(544)	84,905
Jointly-controlled entity	—	—	—	(33,118)	(139)	(33,257)
At 30 June 2001	6,459	5,800	92	39,980	(683)	51,648
Company and subsidiaries	6,459	5,800	92	75,914	(751)	87,514
Jointly-controlled entity	—	—	—	(27,393)	(316)	(27,709)
At 30 June 2000	6,459	5,800	92	48,521	(1,067)	59,805

25. RESERVES (continued)

Company

	Share premium account	Contributed surplus	Retained profits/ (accumulated losses)	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 1999	—	—	(22)	(22)
Arising on acquisition of subsidiaries	—	62,415	—	62,415
Applied in payment of 1,000,000 shares allotted nil paid on incorporation	—	(100)	—	(100)
Issue of shares	27,000	—	—	27,000
Share issue expenses	(8,741)	—	—	(8,741)
Capitalisation issue of shares	(11,800)	—	—	(11,800)
Retained profits for the year	—	—	1,217	1,217
At 30 June 2000	6,459	62,315	1,195	69,969
Loss for the year	—	—	(4,162)	(4,162)
At 30 June 2001	6,459	62,315	(2,967)	65,807

In accordance with the PRC Companies Law, the Law of the PRC Concerning Enterprises with Sole Foreign Investment and the Law of the PRC on Sino-foreign Joint Equity Enterprises, the Company's PRC subsidiaries and jointly-controlled entity are required to transfer a percentage of their respective profit after tax, as determined in accordance with accounting standards and regulations of the PRC, to the surplus reserve funds and the enterprise expansion fund. The enterprise expansion fund is non-distributable. The surplus reserve funds comprise the statutory surplus reserve fund and the public welfare fund. Subject to certain restrictions as set out in the PRC Companies Law and the PRC subsidiaries' and the jointly-controlled entity's articles of association, the statutory surplus reserve funds may be distributed to shareholders in the form of share bonus issues and/or cash dividends. The public welfare fund is non-distributable and must be used for capital expenditure on staff welfare facilities.

25. RESERVES (continued)

The appropriation to the enterprise expansion fund is solely determined by the board of directors of the PRC subsidiaries and the jointly-controlled entity. No enterprise expansion fund had been appropriated for both years ended 30 June 2001 and 2000.

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2001	2000
	HK$'000	*HK$'000*
Profit/(loss) from operating activities	**(1,317)**	45,903
Interest income	**(704)**	(56)
Depreciation	**5,763**	4,854
Amortisation of intangible assets	**476**	360
Revaluation deficit/(surplus) on leasehold land and buildings and investment properties	**(1,546)**	5,841
Gain on disposal of fixed assets, net	**(371)**	(2,223)
Fixed assets written off	**3,056**	—
Construction in progress written off	**765**	—
Effect of foreign exchange rate changes	**104**	(2,457)
Decrease in trade and bills receivables	**4,653**	101
Decrease/(increase) in inventories	**167**	(6,225)
Decrease in prepayments, deposits and other receivables	**3,248**	62,069
Increase/(decrease) in deferred income	**(1,456)**	1,387
Increase/(decrease) in trade payables	**(11,225)**	538
Increase/(decrease) in other payables and accruals	**2,802**	(34,228)
Net cash inflow from operating activities	**4,415**	75,864

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Share capital (including share premium) HK$'000	Bank loans HK$'000	Finance lease payable HK$'000
At 1 July 1999	200	15,206	68
Cash inflow/(outflow) from financing, net	21,259	(3,617)	(68)
At 30 June 2000 and at 1 July 2000	21,459	11,589	—
Inception of finance lease contracts	—	—	756
Subsidiaries disposed of during the year	—	—	(346)
Cash outflow from financing, net	—	(3,367)	(70)
At 30 June 2001	21,459	8,222	340

(c) Major non-cash transactions

(i) During the year, the Group disposed of its entire interests in Polycity Industrial Limited ("Polycity Industrial") and Poly Action Development Limited ("Poly Action Development") to third parties (the "Purchasers") for a total consideration of approximately HK$6,042,000. The proceeds receivable were set off against the Group's debts owed to Polycity Industrial and Poly Action Development amounting to approximately HK$5,986,000 (the "Owed Debts"). The excess of the total consideration over the Owed Debts, which amounted to approximately HK$56,000, was recorded as other receivable due from the Purchasers at the balance sheet date.

(ii) During the year, the Group entered into finance lease arrangements in respect of fixed assets with a total capital value at the inception of the lease of approximately HK$756,000 (2000: nil).

26. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Disposal of subsidiaries

	2001 HK$'000	2000 HK$'000
Net assets disposed of:		
Fixed assets	392	—
Cash and bank balances	14	—
Due from immediate holding company	5,986	—
Other payables and accruals	(4)	—
Finance lease payable	(346)	—
	6,042	—
Gain on disposal of subsidiaries	—	—
Consideration	6,042	—
Satisfied by:		
Proceeds receivable from disposal of subsidiaries	6,042	—

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

	2001 HK$'000	2000 HK$'000
Cash and bank balances disposed of	(14)	—
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(14)	—

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

The results of the subsidiaries disposed of during the year had no significant impact on the turnover or the consolidated results of the Group for the year.

27. RELATED PARTY TRANSACTIONS

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

	Group	
	2001	2000
	HK$'000	*HK$'000*
Purchases of finished goods	**56,208**	42,769
Sales of raw materials	**(22,191)**	(16,452)
Sales of machinery and moulds	**(1,271)**	(6,890)

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

28. CONTINGENT LIABILITIES

At 30 June 2001, the Group had contingent liabilities not provided for in the financial statements in respect of bills discounted with recourse amounting to approximately HK$6.9 million (2000: HK$4.8 million).

At 30 June 2001, the Company had contingent liabilities not provided for in the financial statements in respect of guarantees given to the banks in connection with facilities granted to a subsidiary amounting to HK$45,270,000 (2000: HK$45,270,000). On the same day, such facilities were utilised to the extent of approximately HK$18.2 million (2000: HK$19.4 million).

29. COMMITMENTS

(a) Capital commitments

At 30 June 2001, the Group had the following capital commitments:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Contracted, but not provided for:		
Capital contributions to a subsidiary	**29,375**	—
Capital contributions to a jointly-controlled entity	**8,018**	8,018
Leasehold improvements	**4,293**	474
Plant and machinery	**4,837**	—
	46,523	8,492

(b) Commitments under operating leases

Total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are payable as follows:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Not later than one year	**434**	2,765
Later than one year and not later than five years	**19**	8,035
Later than five years	**324**	2,242
	777	13,042

The leases are negotiated for terms of one to fifty years.

At 30 June 2001, the Company did not have any significant commitments.

30. LEASE ARRANGEMENT

The Group is both a leasee and a lessor under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out in note 29(b).

Lessor

As at the balance sheet date, the Group leases out a number of investment properties under operating leases. The investment properties were leased out for periods of one to three years without renewal options given to the leasees.

As at the balance sheet date, the future minimum lease payments under non-cancellable operating leases are receivable for each of the following period is:

	Group	
	2001	2000
	HK$'000	*HK$'000*
Not later than 1 year	**691**	880
Later than 1 year and not later than 5 years	**300**	448
	991	1,328

31. POST BALANCE SHEET EVENT

Pursuant to an order of suspension of operation (issued in July 2000) imposed by the government of the Guangdong Province of the PRC against factories in the Guangdong Province, which are engaged in the manufacture of dangerous goods including, but not limited to, fireworks and cigarette lighters, Poly Action Plastics & Metal Manufacture Limited, a wholly-owned subsidiary of the Group, which operated a lighter manufacturing factory in Dongguan (the "Dongguan Factory"), has continued its non-dangerous production processes during the year. However, since June 2001, the Group has progressively transferred the production facilities in the Dongguan Factory to a newly established factory in Longnan County, Jiangxi Province (the "Jiangxi Factory"), which is operated by Longnan County Poly Action Plastic & Metal Products Co., Limited, a wholly-owned subsidiary of the Group. The Jiangxi Factory has supplemented the role of the Dongguan Factory as the Group's lighter manufacturing centre.

Subsequent to the balance sheet date, the Dongguan Factory has commenced a voluntary dissolution, which is still in progress as at the date of approval of the financial statements.

32. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation:

(i) Provision for doubtful debt of approximately HK$1,015,000 has been reclassified from administrative expenses to other operating expenses for the 2000 comparative amount.

(ii) Other operating income, in the nature of amortisation of deferred income and gain on disposal of fixed assets, aggregating approximately HK$4,760,000, has been reclassified to other revenue for the 2000 comparative amount.

(iii) Administrative expenses, in the nature of advertising and promotion and research and development, aggregating approximately HK$904,000, have been reclassified as to HK$392,000 to distribution costs and HK$512,000 to other operating expenses for the 2000 comparative amounts.

In the opinion of the directors, the reclassification provides for a better presentation of the Group's profit and loss account.

33. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 29 October 2001.