

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

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

In the current year, the Group has adopted for the first time a number of new and revised Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants. Adoption of these new and revised SSAPs has led to a number of changes in the Group’s accounting policies. In addition, the new and revised SSAPs have introduced additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior year have therefore been restated to achieve a consistent presentation.

The adoption of these new and revised SSAPs has resulted in the following changes to the Group’s accounting policies that have affected the amounts reported and disclosures for the current or prior periods.

Dividends proposed or declared after the balance sheet date

In accordance with SSAP 9 (Revised) “Events after the balance sheet date”, dividends proposed or declared after the balance sheet date are not recognised as a liability at the balance sheet date, but are disclosed in the notes to the financial statements. This change in accounting policy has been applied retrospectively. The effect of this change is to increase the Group’s net assets as at 1 January 2000 and 2001 by approximately HK\$3,345,000 and HK\$3,361,000 respectively and to decrease Company’s net assets as at 1 January 2000 and 2001 by approximately HK\$3,655,000 and HK\$2,639,000.

2. **ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE** (Continued)

Leases

SSAP 14 (Revised) “Leases” has introduced some amendments to the basis of accounting for leases and to the disclosures required in respect of the Group’s leasing arrangements. These changes have not had any material effect on the results for the current or prior accounting periods. Disclosures for leasing arrangements have been modified so as to comply with the requirements of SSAP 14 (Revised).

Segment reporting

In the current year, the Group adopted the basis of identification of reportable segments to that required by SSAP 26 “Segment reporting”. Segment disclosures for the year ended 31 December 2000 have been modified so that they are presented on a basis consistent with that for the year ended 31 December 2001.

Goodwill

In the current year, the Group has adopted SSAP 30 “Business combinations” and has elected to restate goodwill previously eliminated against reserves. Accordingly, the amount of such goodwill has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation in respect of goodwill between the date of acquisition of the relevant subsidiary and the date of adoption of SSAP 30 has been recognised retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet. Goodwill is amortised over its estimated useful life. The effect of the change is to increase the Group’s net assets as at 1 January 2000 by approximately HK\$365,000.

3. 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.

Investment in subsidiaries

Investment in subsidiaries is included in the Company’s balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of a subsidiary or associate at the date of acquisition. Goodwill is recognised as an asset and amortised on a straight-line basis over its useful economic life.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***Investment properties***

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

Investment properties are stated at their open market values based on professional valuations at the balance sheet date. Any surplus or deficit arising on revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance in the 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, any balance in the investment property revaluation reserve which is attributable to the disposed property is credited to the income statement.

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.

Other properties, plant and equipment

Other properties, plant and equipment (other than buildings under construction) are stated at cost less accumulated depreciation and impairment losses.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other properties, plant and equipment (Continued)

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.

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%

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense immediately, unless the relevant asset is carried at a revalued amount in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried a revalued amount in which case the reversal of the impairment loss is treated as a revaluation increase.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)***Inventories***

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Trading securities

Investments in trading securities are carried at fair value at the balance sheet date. All unrealised holding 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.

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 an asset will crystallise in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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;
- (iii) dividends from trading securities are recognised when the Group's right to receive payment is established; and
- (iv) rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the duration of the leases.

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

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. TURNOVER

	2001 HK\$'000	2000 HK\$'000
Sales of household products	466,438	539,314
Sales of PVC pipes and fittings	179,840	152,103
Sales of other products	4,305	8,553
	<u>650,583</u>	<u>699,970</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

For management purposes, the Group is organised into three divisions: household products, PVC pipes and fittings and others. Others comprise mainly trading in building materials and supplies other than PVC pipes and fittings.

Segment information about these businesses is presented below:

Year ended 31 December 2001

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue					
External sales	466,438	179,840	4,305	—	650,583
Inter-segment sales	94,667	—	9,219	(103,886)	—
Total	<u>561,105</u>	<u>179,840</u>	<u>13,524</u>	<u>(103,886)</u>	<u>650,583</u>
Result					
Segment result	48,290	9,434	(4,741)	—	52,983
Unallocated corporate expenses					<u>(6,072)</u>
Profit from operations					46,911
Finance costs					<u>(8,250)</u>
Profit before taxation					38,661
Taxation					<u>(1,793)</u>
Profit for the year					<u>36,868</u>

Inter-segment sales are charged at cost plus certain markup.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2001				
Other information				
Capital additions	7,387	30,808	3,015	41,210
Depreciation	<u>27,755</u>	<u>17,892</u>	<u>1,368</u>	<u>47,015</u>
	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Consolidated HK\$'000
At 31 December 2001				
Assets				
Segment assets	440,365	307,827	24,771	772,963
Unallocated corporate assets				<u>185,243</u>
Consolidated total assets				<u>958,206</u>
Liabilities				
Segment liabilities	93,444	15,049	756	109,249
Unallocated corporate liabilities				<u>142,074</u>
Consolidated total liabilities				<u>251,323</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

Year ended 31 December 2000

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue					
External sales	539,314	152,103	8,553	—	699,970
Inter-segment sales	21,689	—	9,537	(31,226)	—
Total	<u>561,003</u>	<u>152,103</u>	<u>18,090</u>	<u>(31,226)</u>	<u>699,970</u>
Result					
Segment result	45,123	(2,609)	(287)	—	42,227
Amortisation of goodwill					(460)
Unallocated corporate expenses					<u>(8,888)</u>
Profit from operations					32,879
Finance costs					<u>(12,154)</u>
Profit before taxation					20,725
Taxation					<u>(2,644)</u>
Profit after taxation					18,081
Minority interests					<u>220</u>
Profit for the year					<u><u>18,301</u></u>

Inter-segment sales are charged at cost plus certain markup.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Consolidated HK\$'000
Year ended 31 December 2000				
Other information				
Capital additions	42,808	36,329	47,692	126,829
Depreciation	29,423	18,992	1,584	49,999
Amortisation of goodwill	460	—	—	460
	<u>460</u>	<u>—</u>	<u>—</u>	<u>460</u>
	Household products HK\$'000	PVC pipes and fittings HK\$'000	Others HK\$'000	Consolidated HK\$'000
At 31 December 2000				
Assets				
Segment assets	455,596	308,471	30,507	794,574
Unallocated corporate assets				137,662
Consolidated total assets				<u>932,236</u>
Liabilities				
Segment liabilities	76,818	7,687	1,398	85,903
Unallocated corporate liabilities				170,226
Consolidated total liabilities				<u>256,129</u>

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)**Geographical segment**

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	
	2001 HK\$'000	2000 HK\$'000
United States of America	316,369	357,318
Asia	87,851	108,921
Europe	18,623	22,823
Canada	17,664	17,229
Latin America	16,623	22,672
Australia	6,309	8,727
Other areas	2,999	1,624
	<hr/>	<hr/>
Total sales of household products	466,438	539,314

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.

Analysis of carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located has not been presented as they are substantially located in the PRC, including Hong Kong.

NOTES TO THE FINANCIAL STATEMENTS

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6. PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
Profit from operations has been arrived at after charging:		
Auditors' remuneration	1,676	1,673
Depreciation	47,015	49,999
Staff costs, including directors' remuneration	87,151	84,466
Temporary quota charges	2,446	1,233
Unrealised holding loss on trading securities	2,157	4,883
Loss on disposal of property, plant and equipment	1,989	1,580
and after crediting:		
Dividend income from trading securities	265	104
Interest income	421	548
Gain on disposal of property held for sale	—	150
Gain on sale of trading securities	—	602

7. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on bank borrowings wholly repayable		
within five years	5,860	9,386
Interest on bank borrowings not wholly repayable		
within five years	1,019	1,720
Interest on convertible redeemable note	1,761	1,880
Finance charges in respect of hire purchase contracts	—	8
	8,640	12,994
Less: Amount capitalised in buildings under construction	(390)	(840)
	8,250	12,154

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2001 HK\$'000	2000 HK\$'000
(i) Information regarding directors' emoluments		
Directors' fees:		
Executive	—	—
Independent non-executive	300	300
	<u>300</u>	<u>300</u>
Other emoluments paid to executive directors:		
Salaries	7,764	7,598
Performance related incentive payments	1,933	1,000
Mandatory provident fund contributions	65	—
	<u>9,762</u>	<u>8,598</u>
Total directors' emoluments	<u><u>10,062</u></u>	<u><u>8,898</u></u>

In addition to the amount disclosed above, 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, using the rateable value as an approximation, is HK\$646,000 (2000: HK\$431,000).

The emoluments of the directors fall within the following bands:

	2001 Number of directors	2000 Number of directors
Up to HK\$1,000,000	4	4
HK\$1,000,001 to HK\$1,500,000	—	2
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,000,001 to HK\$2,500,000	1	—
HK\$4,500,001 to HK\$5,000,000	—	1
HK\$5,500,001 to HK\$6,000,000	1	—
	<u><u>7</u></u>	<u><u>7</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

8. 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:

	2001 HK\$'000	2000 HK\$'000
Salaries	1,801	1,917
Mandatory provident fund contributions	13	—
	<u>1,814</u>	<u>1,917</u>

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

	2001 Number of employees	2000 Number of employees
Up to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

9. TAXATION

	2001 HK\$'000	2000 HK\$'000
Hong Kong Profits Tax calculated at 16% on the estimated assessable profits of the year		
— charge for the year	—	—
— overprovision in prior years	—	55
	<u>—</u>	<u>55</u>
Non Hong Kong taxation		
— charge for the year	(2,116)	(6,451)
— overprovision in prior years	2,215	2,902
	<u>99</u>	<u>(3,549)</u>
Deferred taxation (charge) credit (note 24)	<u>(1,892)</u>	<u>850</u>
Net taxation charge	<u><u>(1,793)</u></u>	<u><u>(2,644)</u></u>

Non Hong Kong taxation represents income tax credit (charge) 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 2001

10. PROFIT FOR THE YEAR ATTRIBUTABLE TO SHAREHOLDERS

Of the Group's profit attributable to shareholders, a profit of HK\$7,669,000 (2000: HK\$8,972,000) has been dealt with in the income statement of the Company.

11. DIVIDENDS

	2001 HK\$'000	2000 HK\$'000
Interim paid: 0.5 cent per share (2000: 0.5 cent per share)	3,382	3,348
Final proposed: 0.5 cent per share (2000: 0.5 cent per share)	3,382	3,361
	<u>6,764</u>	<u>6,709</u>

The final dividend for 2000 was paid in June 2001.

12. EARNINGS PER SHARE

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

	2001 HK\$'000	2000 HK\$'000
Earnings for the purpose of calculating basic earnings per share	36,868	18,301
Interest on convertible redeemable note	1,761	1,880
	<u>38,629</u>	<u>20,181</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

12. EARNINGS PER SHARE (Continued)

	Number of shares	
	2001	2000
Number of shares for the purpose of calculating basic earnings per share	674,436,322	669,570,479
Potential dilutive shares issuable under the convertible redeemable note	95,835,616	102,426,230
Weighted average number of shares for the purpose of calculating diluted earnings per share	770,271,938	771,996,709
Basic earnings per share	5.5 cents	2.7 cents
Diluted earnings per share	5.0 cents	2.6 cents

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 market price of the Company's shares throughout the year.

13. INVESTMENT PROPERTIES

The investment properties are situated in Hong Kong and are held under medium-term leases. They are stated at valuation at the balance sheet date and the movements during the year are as follows:

	2001	2000
	HK\$'000	HK\$'000
Balance at 1 January	18,750	9,845
Additions	—	8,262
Reclassification from leasehold land and buildings (note 14)	1,214	1,448
Deficit arising on valuation at 31 December	(2,434)	(805)
Balance at 31 December	17,530	18,750

The Group's investment properties were valued as at 31 December 2001 on an open market value basis by Knight Frank, an independent firm of professional property valuers. The deficit arising on valuation is charged to the income statement.

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14. OTHER PROPERTIES, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Buildings under construction HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 January 2001	254,200	97,219	464,592	66,423	56,912	19,975	959,321
Additions	1,281	9,127	25,778	1,649	872	2,503	41,210
Reclassification to investment properties (note 13)	(1,990)	—	—	—	—	—	(1,990)
Other reclassifications	17,206	(22,972)	—	—	5,766	—	—
Disposals	(1,519)	—	(3,747)	(718)	(574)	(697)	(7,255)
At 31 December 2001	269,178	83,374	486,623	67,354	62,976	21,781	991,286
DEPRECIATION							
At 1 January 2001	37,432	—	192,910	41,113	37,210	13,080	321,745
Provided for the year	7,837	—	28,488	4,917	4,044	1,729	47,015
Reclassification to investment properties (note 13)	(776)	—	—	—	—	—	(776)
Eliminated on disposals	(360)	—	(3,219)	(489)	(436)	(368)	(4,872)
At 31 December 2001	44,133	—	218,179	45,541	40,818	14,441	363,112
NET BOOK VALUES							
At 31 December 2001	225,045	83,374	268,444	21,813	22,158	7,340	628,174
At 31 December 2000	216,768	97,219	271,682	25,310	19,702	6,895	637,576

14. OTHER PROPERTIES, PLANT AND EQUIPMENT (Continued)

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

	2001 HK\$'000	2000 HK\$'000
Leasehold land and buildings in Hong Kong under medium term leases	42,765	45,256
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	182,280	171,512
	<u>225,045</u>	<u>216,768</u>

The buildings under construction at 31 December 2001 are located in Hong Kong and other parts of the PRC. The balance shown includes capitalised interest of HK\$4,865,000 (2000: HK\$4,475,000).

15. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost	<u>32,917</u>	<u>32,917</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

15. INVESTMENT IN SUBSIDIARIES (Continued)

The details of the Company's principal subsidiaries at 31 December 2001 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) Co., Ltd.	PRC	**	100%	Manufacturing of 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
Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd.	PRC	HK\$230,000,000	100%	Manufacturing of PVC pipes and fittings and moulds

15. 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
South China Plastic Building Material Manufacturing Limited	Hong Kong	HK\$2	100%	Trading in building materials and supplies
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 household products
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\$350,000,000	100%	Manufacturing of 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) Co., Ltd. is HK\$100,000,000. As at 31 December 2001, HK\$60,026,086 had been contributed to this company.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

15. INVESTMENT IN SUBSIDIARIES (Continued)

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 debt securities outstanding at the end of the year or at any time during the year.

16. INVENTORIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Raw materials	71,212	81,382
Work in progress	16,555	17,208
Finished goods	30,588	31,903
	<u>118,355</u>	<u>130,493</u>

Finished goods of approximately HK\$19,509,000 (2000: HK\$15,750,000) included above are carried at net realisable value.

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	
	2001	2000
	HK\$'000	HK\$'000
Invoice date		
0-30 days	49,185	39,502
31-60 days	15,114	15,970
61-90 days	10,807	9,486
Over 90 days	12,862	15,278
	<hr/>	<hr/>
Total trade receivables	87,968	80,236
Other debtors, deposits and prepayments	21,592	23,901
	<hr/>	<hr/>
Total debtors, deposits and prepayments	109,560	104,137
	<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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

19. CREDITORS AND ACCRUED CHARGES

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

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
0-30 days	34,644	25,985
31-60 days	18,906	7,323
61-90 days	12,121	3,621
Over 90 days	4,780	272
Total trade payables	70,451	37,201
Other creditors and accrued charges (note 23)	37,019	37,723
Total creditors and accrued charges	107,470	74,924

20. BANK BORROWINGS — AMOUNT DUE WITHIN ONE YEAR

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank overdrafts	26,598	22,650
Trust receipts and import loans	7,566	25,626
Short term loans	75,830	37,137
Portion of non-current loans due within one year (note 22)	7,165	9,972
	117,159	95,385
Analysed as:		
Secured	51,266	63,430
Unsecured	65,893	31,955
	117,159	95,385

21. CONVERTIBLE REDEEMABLE NOTE

The Company issued a convertible redeemable note (the "Note") to an independent third party in the principal sum of HK\$46,200,000 on 23 March 2000. The Note bore interest at 5.25% per annum and interest was payable semi-annually. The Note could be converted into shares of the Company of HK\$0.10 each at an initial conversion price of HK\$0.35 per share, subject to adjustment.

On 21 August 2001 the Company gave notice to the holder of the Note for early redemption of the Note. The holder of the Note consented and the Note was redeemed on 22 September 2001.

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:

	2001 HK\$'000	2000 HK\$'000
Within one year	7,165	9,972
In the second year	5,170	7,164
In the third to fifth year	10,781	13,101
After five years	3,325	6,175
	<u>26,441</u>	<u>36,412</u>
Less: Amount due within one year and shown under current liabilities (note 20)	<u>(7,165)</u>	<u>(9,972)</u>
Amount due after one year shown as non-current	<u><u>19,276</u></u>	<u><u>26,440</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

23. OTHER BALANCE PAYABLE

The other balance payable represents the balance payable in connection with the acquisition of land use right in the PRC in 2000. Under the purchase agreement, the balance is payable as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Within one year and included under		
“Creditors and accrued charges” (note 19)	<u>3,084</u>	<u>3,084</u>
In the second year	<u>3,159</u>	<u>3,084</u>
In the third year	<u>—</u>	<u>3,159</u>
	<u>3,159</u>	<u>6,243</u>
Total	<u><u>6,243</u></u>	<u><u>9,327</u></u>

24. DEFERRED TAXATION

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Balance at 1 January	<u>654</u>	<u>1,504</u>
Charge (credit) for the year (note 9)	<u>1,892</u>	<u>(850)</u>
Balance at 31 December	<u><u>2,546</u></u>	<u><u>654</u></u>

24. DEFERRED TAXATION (Continued)

The components of the deferred taxation liability (asset) at 31 December 2001 are attributable to the tax effect of the following timing differences:

	2001 HK\$'000	2000 HK\$'000
Excess of tax depreciation allowances over accounting depreciation	4,061	1,846
Taxation losses available to set-off against future profits	(1,515)	(1,192)
	<u>2,546</u>	<u>654</u>

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

	2001 HK\$'000	2000 HK\$'000
Depreciation allowances	2,215	342
Taxation losses arising during the year	(323)	(1,192)
	<u>1,892</u>	<u>(850)</u>

The Group had no significant unprovided deferred taxation at 31 December 2001 except for an unrecognised deferred taxation asset of approximately HK\$8,080,000 (2000: HK\$6,300,000) 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\$1,780,000 (2000: HK\$1,900,000).

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 2001

25. SHARE CAPITAL

2001 & 2000

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 2000	668,893,318	66,889
Shares issued to shareholders in lieu of		
(a) the 1999 final dividend, issued at HK\$0.2576 per share; and	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
Shares issued to shareholders in lieu of the 2000 final dividend, issued at HK\$0.1523 per share	4,278,662	428
Balance at 31 December 2001	676,417,401	67,642

All shares issued during the period 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 as incentives to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company at any time during the ten year period following the adoption of the scheme. The scheme was adopted at an extraordinary general meeting of the Company held on 11 March 1993. Under the scheme, 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 to subscribe for 4,460,000 shares in the Company were granted to certain directors and employees of the Group at an exercise price of HK\$0.32 per share. Consideration received by the Company for options granted during that 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 2001

27. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Non- distributable reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE GROUP								
Balance at 1 January 2000, as previously reported	312,654	—	12,000	291	(12,232)	—	280,612	593,325
Derecognition of liability in respect of the 1999 final dividend	—	—	—	—	—	3,345	—	3,345
Restatement of goodwill arising from acquisitions of subsidiaries as an asset and retrospective recognition of past accumulated amortisation and impairment losses	—	—	—	—	12,232	—	(11,867)	365
Balance at 1 January 2000, as restated	312,654	—	12,000	291	—	3,345	268,745	597,035
Premium arising from issue of shares during the year	250	—	—	—	—	—	—	250
Capitalisation of retained profits by a subsidiary	—	—	100,806	—	—	—	(100,806)	—
Profit for the year	—	—	—	—	—	—	18,301	18,301
2000 dividends								
— interim	—	—	—	—	—	3,348	(3,348)	—
— final proposed	—	—	—	—	—	3,361	(3,361)	—
Dividends paid	—	—	—	—	—	(6,693)	—	(6,693)
Balance at 31 December 2000	312,904	—	112,806	291	—	3,361	179,531	608,893
Premium arising from issue of shares during the period	223	—	—	—	—	—	—	223
Capitalisation of retained profits by a subsidiary	—	—	75,548	—	—	—	(75,548)	—
Profit for the year	—	—	—	—	—	—	36,868	36,868
2001 dividends								
— interim	—	—	—	—	—	3,382	(3,382)	—
— final proposed	—	—	—	—	—	3,382	(3,382)	—
Dividends paid	—	—	—	—	—	(6,743)	—	(6,743)
Balance at 31 December 2001	313,127	—	188,354	291	—	3,382	134,087	639,241

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

27. RESERVES (Continued)

	Share premium HK\$'000	Special reserve HK\$'000	Non- distributable reserve HK\$'000	Translation reserve HK\$'000	Goodwill reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
THE COMPANY								
Balance at 1 January 2000, as previously reported	312,654	8,917	—	—	—	—	4,237	325,808
Derecognition of liability in respect of the 1999 final dividend declared by the Company	—	—	—	—	—	3,345	—	3,345
Derecognition of asset in respect of the 1999 final dividend declared by a subsidiary	—	—	—	—	—	—	(7,000)	(7,000)
Balance at 1 January 2000, as restated	312,654	8,917	—	—	—	3,345	(2,763)	322,153
Premium arising from issue of shares during the year	250	—	—	—	—	—	—	250
Profit for the year (note 10)	—	—	—	—	—	—	8,972	8,972
2000 dividends								
— interim	—	—	—	—	—	3,348	(3,348)	—
— final proposed	—	—	—	—	—	3,361	(3,361)	—
Dividends paid	—	—	—	—	—	(6,693)	—	(6,693)
Balance at 31 December 2000	312,904	8,917	—	—	—	3,361	(500)	324,682
Premium arising from issue of shares during the year	223	—	—	—	—	—	—	223
Profit for the year (note 10)	—	—	—	—	—	—	7,669	7,669
2001 dividends								
— interim	—	—	—	—	—	3,382	(3,382)	—
— final proposed	—	—	—	—	—	3,382	(3,382)	—
Dividends paid	—	—	—	—	—	(6,743)	—	(6,743)
Balance at 31 December 2001	313,127	8,917	—	—	—	3,382	405	325,831

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

27. RESERVES (Continued)

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.

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

	2001 HK\$'000	2000 HK\$'000 (restated)
Profit before taxation	38,661	20,725
Deficit arising on revaluation of investment properties	2,434	805
Amortisation of goodwill	—	460
Depreciation	47,015	49,999
Interest charges	8,250	12,154
Dividend income from trading securities	(265)	(104)
Interest income	(421)	(548)
Gain on sale of trading securities	—	(602)
Gain from disposal of property held for sale	—	(150)
Unrealised holding loss on trading securities	2,157	4,883
Loss on disposal of property, plant and equipment	1,989	1,580
Decrease (increase) in inventories	12,138	(2,340)
(Increase) decrease in debtors, deposits and prepayments	(5,423)	26,392
Increase (decrease) in creditors and accrued charges	29,462	(8,860)
Net cash inflow from operating activities	<u>135,997</u>	<u>104,394</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Trust receipts and import loans HK\$'000	Other bank loans HK\$'000	Convertible redeemable note HK\$'000	Obligations under hire purchase contracts HK\$'000	Minority interests HK\$'000
Balance at 1 January 2000	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	—	—
Bank loans raised during the year	—	87,972	—	—	—
Repayment during the year	—	(59,250)	—	—	—
Redemption during the year	—	—	(46,200)	—	—
Net decrease during the year	(18,060)	—	—	—	—
Balance at 31 December 2001	7,566	102,271	—	—	—

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

30. ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash	77,655	31,936
Bank overdrafts	(26,598)	(22,650)
	<u>51,057</u>	<u>9,286</u>

31. CAPITAL COMMITMENTS

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— leasehold land and buildings	18,601	4,293
— plant and equipment	2,763	—
— investment in a joint venture	388	—
	<u>21,752</u>	<u>4,293</u>
Capital expenditure authorised but not contracted for in respect of the acquisition of plant and machinery	<u>11,215</u>	<u>—</u>

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

32. OPERATING LEASES**THE GROUP****2001****2000****HK\$'000****HK\$'000**

The Group as lessee:

Lease payments for premises charged to the
income statement in the year**6,858****7,942**

Under the leases entered into by the Group, the lease payments are fixed and predetermined.

At 31 December 2001, the amounts of future lease payments under non-cancellable operating
leases for premises are payable by the Group as follows:**2001****2000****HK\$'000****HK\$'000**

Within one year

4,351**6,471**

After one year and not later than five years

2,097**6,672****6,448****13,143**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2001

32. OPERATING LEASES (Continued)

The Group as lessor:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Rental income credited to the income statement in the year, before deduction of outgoings of HK\$159,00 (2000: HK\$99,000)	791	486

The Group's investment properties are held for rental purposes. The properties held have committed tenants for periods up to four years. At the balance sheet date, the Group had contracted with tenants to receive the following future minimum lease payments:

	2001	2000
	HK\$'000	HK\$'000
Within one year	1,001	653
After one year and not later than five years	640	614
	1,641	1,267

33. PLEDGE OF ASSETS

At 31 December 2001, the Group's borrowings were secured by the following:

	2001	2000
	HK\$'000	HK\$'000
Leasehold land and buildings	105,450	89,942
Buildings under construction	68,880	65,865
Investment properties	17,530	18,750
	191,860	174,557

34. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Bills discounted with recourse	<u>884</u>	<u>4,059</u>	<u>—</u>	<u>—</u>
Banking facilities utilised by subsidiaries which are guaranteed by the Company	<u>—</u>	<u>—</u>	<u>139,853</u>	<u>116,383</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 Scheme (the “MPF Scheme”), all existing and new employees are now required to participate in the MPF Scheme. Mandatory benefits are 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 2001 and long service payments were paid in accordance with the Ordinance, the amount payable would be approximately HK\$4,955,000 (2000: HK\$4,519,000). No provision has been made in the financial statements in respect of these long service payments.

Employees of subsidiaries in the PRC are members of the state-sponsored pension scheme operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the pension scheme to fund the benefits. The only obligation of the Group with respect to the state-sponsored pension scheme is to make the required contributions.