

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The principal activities of the Group are the manufacture of novelties, decorations and packaging products, and the trading of PVC films and plastic materials.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

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

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

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

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess of the fair value ascribed to the Group’s share of the separable net assets at the date of acquisition of a subsidiary over the purchase consideration is credited to reserves.

On the disposal of investments in subsidiaries, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Revenue recognition

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

Rental income under operating leases is recognised on a straight line basis over the term of the relevant lease.

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

Dividend income from trading securities is recognised when the shareholders’ rights to receive payment have been established.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in subsidiaries

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

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

Investment properties

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

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

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

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

Property, plant and equipment

Property, plant and equipment is stated at cost less depreciation and amortisation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease, or 50 years
Factory premises	5%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Property, plant and equipment (Cont'd)

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

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

The gain or loss arising on the 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.

Hire purchase contracts

Assets held under hire purchase contracts are capitalised at their fair values at the date of acquisition. The corresponding liability to the hirer, net of interest charges, is included in the balance sheet as a hire purchase obligation. Finance costs, which represent the difference between the total commitments and the original principal amounts at the time of inception of the hire purchase contracts, are charged to the income statement over the period of the relevant contracts so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

Operating leases

Rental expenses under operating leases are charged to the income statement on a straight line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost. At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in securities (Cont'd)

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss is included in net profit or loss for the period.

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.

On consolidation, the financial statements of overseas operations which are denominated in currencies other than the Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

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

Retirement benefit scheme

The pension costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

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 advance.

3. TURNOVER

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

The Group's turnover and contribution to profit before taxation, analysed by principal activity and geographical market, were as follows:

	Turnover		Contribution to profit before taxation	
	2000 HK\$'000	1999 HK\$'000	2000 HK\$'000	1999 HK\$'000
By principal activity:				
Manufacture and sale of novelties and decorations	172,799	178,711	27,831	27,357
Manufacture and sale of packaging products	152,615	139,537	14,468	24,412
Trading of PVC films and plastic materials	91,137	121,487	751	8,441
	<u>416,551</u>	<u>439,735</u>	43,050	60,210
Other (expenses) income			(8,888)	1,867
Unallocated corporate expenses			(1,589)	(2,421)
Profit before taxation			<u>32,573</u>	<u>59,656</u>
By geographical market:				
Hong Kong	244,616	261,024	15,359	33,100
Europe	93,311	98,748	15,029	15,306
America	48,384	59,051	7,792	8,562
Asia (other than Hong Kong)	13,824	13,662	2,226	2,118
Others	16,416	7,250	2,644	1,124
	<u>416,551</u>	<u>439,735</u>	43,050	60,210
Other (expenses) income			(8,888)	1,867
Unallocated corporate expenses			(1,589)	(2,421)
Profit before taxation			<u>32,573</u>	<u>59,656</u>

4. OTHER (EXPENSES) REVENUE

Other (expenses) revenue included the following items:

	2000 <i>HK\$ '000</i>	1999 <i>HK\$ '000</i>
Impairment loss recognised in respect of other securities	(7,170)	–
(Loss) gain on disposal of trading securities	(2,081)	222
Unrealised losses on trading securities	(1,728)	(140)
Interest income	1,036	701
Dividends from trading securities	162	74
	<u>(9,781)</u>	<u>857</u>

5. PROFIT FROM OPERATIONS

	2000 <i>HK\$ '000</i>	1999 <i>HK\$ '000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	450	430
Depreciation and amortisation:		
Owned assets	16,701	16,341
Assets held under hire purchase contracts	–	563
	<u>16,701</u>	<u>16,904</u>
Net foreign exchange losses	1,416	1,495
Operating lease rentals in respect of land and buildings	3,865	4,626
Staff costs (including directors' emoluments)	43,119	40,874
and after crediting:		
Gain on disposal of property, plant and equipment	121	14
Gross rental income from properties:		
Investment properties	576	576
Other properties	–	42
	<u>576</u>	<u>618</u>
Less: outgoings	9	6
	<u>567</u>	<u>612</u>

6. FINANCE COSTS

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	2,733	4,021
Hire purchase contracts	207	301
	<u>2,940</u>	<u>4,322</u>
Total finance costs	<u><u>2,940</u></u>	<u><u>4,322</u></u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Fees:		
Executive directors	24	12
Independent non-executive directors	200	200
	<u>224</u>	<u>212</u>
Other emoluments (executive directors):		
Salaries and other benefits	5,431	4,582
Retirement benefit scheme contributions	97	107
	<u>5,528</u>	<u>4,689</u>
Total emoluments	<u><u>5,752</u></u>	<u><u>4,901</u></u>

The emoluments of the directors were within the following bands:

	2000 Number of directors	1999 Number of directors
Nil – HK\$1,000,000	5	6
HK\$1,000,001 – HK\$1,500,000	2	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>8</u>	<u>8</u>

7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

Employees' emoluments

During the year, the five highest paid individuals of the Group included two (1999: two) directors of the Company, details of whose emoluments are set out above. The emoluments of the remaining three (1999: three) highest paid individuals were as follows:

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
Salaries and other benefits	4,281	3,545
Retirement benefit scheme contributions	33	30
	<u>4,314</u>	<u>3,575</u>

Their emoluments were within the following bands:

	2000 Number of employees	1999 Number of employees
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	3	2
	<u>3</u>	<u>3</u>

8. TAXATION

	2000 <i>HK\$'000</i>	1999 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax		
Current year	3,816	5,697
Overprovision in prior years	(103)	(552)
	<u>3,713</u>	<u>5,145</u>

Hong Kong Profits Tax is calculated at 16% (1999: 16%) of the estimated assessable profit for the year.

Details of the potential deferred taxation are set out in note 24.

9. PROFIT FOR THE YEAR

Of the Group's net profit for the year, a profit of approximately HK\$31,401,000 (1999: HK\$20,245,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2000 HK\$'000	1999 HK\$'000
Interim paid:		
2 cents per share (1999: 1.82 cents per share after adjustment for bonus issue)	5,719	5,051
Final proposed:		
4 cents per share (1999: 4.55 cents per share after adjustment for bonus issue)	11,437	12,577
Additional prior year's dividend paid on exercise of share options subsequent to approval of the financial statements	419	–
Additional prior year's dividend paid on exercise of warrants subsequent to approval of the financial statements	–	38
	<u>17,575</u>	<u>17,666</u>

The proposed dividend for 2000 is payable in respect of all shares in issue at the date of approval of these financial statements.

11. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the profit for the year of approximately HK\$28,102,000 (1999: HK\$51,832,000) and the following data:

	2000	1999
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	283,533,247	262,964,911
Effect of dilutive potential ordinary shares:		
Share options	1,159,228	568,689
Warrants	–	7,874,601
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>284,692,475</u>	<u>271,408,201</u>

The weighted average number of ordinary shares for the year ended 31st December, 1999 has been adjusted for the bonus issue on the basis of one bonus share for every ten shares.

12. INVESTMENT PROPERTIES

	THE GROUP	
	2000	1999
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
At 1st January		
Revaluation decrease	5,300	6,000
	(500)	(700)
At 31st December	4,800	5,300

Investment properties were revalued at their open market value at 31st December, 2000 by Sallmanns (Far East) Limited, Chartered Surveyors, on an open market existing use basis. This valuation gave rise to a revaluation decrease of HK\$500,000 (1999: HK\$700,000), which has been charged to the income statement. In 1999, approximately HK\$266,000 of the revaluation decrease was charged to the investment property revaluation reserve, and the remaining balance of approximately HK\$434,000 was charged to the income statement.

All of the Group's investment properties are rented out under operating leases.

All of the Group's investment properties are situated in Hong Kong and are held under medium-term lease.

13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Factory premises	Furniture, fixtures and office equipment	Plant, machinery and moulds	Motor vehicles	Total
	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
THE GROUP						
COST						
At 1st January, 2000	3,019	32,913	15,557	127,391	3,412	182,292
Additions	–	2,277	2,410	9,658	426	14,771
Disposals	–	–	(4)	(624)	–	(628)
At 31st December, 2000	3,019	35,190	17,963	136,425	3,838	196,435
DEPRECIATION AND AMORTISATION						
At 1st January, 2000	379	11,399	10,467	90,918	2,146	115,309
Provided for the year	65	1,728	1,922	12,362	624	16,701
Eliminated on disposals	–	–	(1)	(396)	–	(397)
At 31st December, 2000	444	13,127	12,388	102,884	2,770	131,613
NET BOOK VALUES						
At 31st December, 2000	2,575	22,063	5,575	33,541	1,068	64,822
At 31st December, 1999	2,640	21,514	5,090	36,473	1,266	66,983

13. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

The net book value of properties shown above comprises:

	Land and buildings		Factory premises	
	2000	1999	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Held in Hong Kong:				
Medium-term lease	2,575	2,640	–	–
Held outside Hong Kong:				
Medium-term lease	–	–	22,063	21,514
	<u>2,575</u>	<u>2,640</u>	<u>22,063</u>	<u>21,514</u>

At 31st December, 1999, the aggregate net book value of the Group's plant, machinery and moulds and motor vehicles included an amount of approximately HK\$1,985,000 in respect of assets held under hire purchase contracts. The corresponding obligations under hire purchase contracts were fully repaid during the year.

The Group has not obtained Land Use Right Certificates or Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of HK\$22,063,000 (1999: HK\$21,514,000) at 31st December, 2000.

The Company did not have any property, plant and equipment as at the balance sheet date.

14. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2000	1999
	HK\$'000	HK\$'000
Unlisted shares, at cost	<u>32,061</u>	<u>32,061</u>

Details of the principal subsidiaries as at 31st December, 2000 are set out in note 34.