



# Notes to the Financial Statements

For the year ended 31st December, 2001

## 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. ADOPTION OF 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 (“SSAP(s)”) 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 years have been restated in order 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 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.

### **Leases**

SSAP 14 (Revised) “Leases” has introduced some amendments to the basis of accounting for finance and operating leases, and to the disclosures specified for the Group’s leasing arrangements. These changes have not had any effect on the results for the current or prior accounting periods and, accordingly, no prior period adjustment has been required. Disclosures for all of the Group’s leasing arrangements have been modified as to comply with the requirements of SSAP 14 (Revised). Comparative amounts have been restated in order to achieve a consistent presentation.

### **Segment reporting**

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

### **Goodwill**

In the current year, the Group has adopted SSAP 30 “Business combinations” and has elected to restate goodwill (negative goodwill) previously eliminated against (credited to) reserves. Accordingly, the amount of such goodwill (negative goodwill) has been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses 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. Negative goodwill which would have been recognised as income 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 and negative goodwill is presented as a deduction from assets. Goodwill is amortised over its estimated useful life. Negative goodwill will be released to income based on an analysis of the circumstances from which the balance resulted.

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 2. ADOPTION OF STATEMENTS OF STANDARD ACCOUNTING PRACTICE (Cont'd)

### Goodwill (Cont'd)

The financial effects of the adoption of the new and revised accounting policies described above are summarised below:

	<b>Retained profits</b> <i>HK\$'000</i>	<b>Goodwill reserve</b> <i>HK\$'000</i>
Balance at 1st January, 2000		
As originally stated	104,273	(1,070)
Derecognition of liability for final dividend for the year ended 31st December, 1999	12,577	–
Restatement as an asset of goodwill held in reserves with retrospective recognition of accumulated amortisation	(214)	1,070
As restated	<u>116,636</u>	<u>–</u>

The effects of these changes in accounting policies on the results for the current and prior periods are as follows:

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Amortisation of goodwill	107	107
Negative goodwill released to income	–	(24)
	<u>107</u>	<u>83</u>

## 3. 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.

### 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.



## *Notes to the Financial Statements*

(Cont'd)

For the year ended 31st December, 2001

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

#### **Revenue recognition (Cont'd)**

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

Dividend income from investments in securities is recognised when the shareholders' rights to receive payment have been established.

#### **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 at the date of acquisition.

Goodwill is capitalised and amortised on a straight-line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

On disposal of a subsidiary, the attributable amount of unamortised goodwill is included in the determination of the profit or loss on disposal.

#### **Negative goodwill**

Negative goodwill is presented as a deduction from assets and is released to income based on an analysis of the circumstances from which the balance resulted.

To the extent that the negative goodwill is attributable to losses or expenses anticipated at the date of acquisition, it is released to income in the period in which those losses or expenses arise. The remaining negative goodwill is recognised as income on a straight-line basis over the remaining average useful life of the identifiable acquired depreciable assets. To the extent that such negative goodwill exceeds the aggregate fair value of the acquired identifiable non-monetary assets, it is recognised in income immediately.

#### **Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss.

#### **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 each 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. When 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 transferred to income statement.

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



# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

#### Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and accumulated impairment losses.

Depreciation is 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%

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.

#### 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.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so 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.

#### 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.

All securities are measured at subsequent reporting dates at fair value.

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 previously recognised in equity is included in net profit or loss for the period.



## *Notes to the Financial Statements*

*(Cont'd)*

*For the year ended 31st December, 2001*

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Cont'd)*

#### **Foreign currencies**

Transactions in currencies other than Hong Kong dollars are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are retranslated 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 the Group's overseas operations are translated at exchange rates prevailing 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 retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme.

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 4. BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three business segments, namely manufacture and sale of novelties and decorations, manufacture and sale of packaging products and trading of PVC films and plastic materials. These business segments are the basis on which the Group reports its primary segment information.

### 2001

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	149,566	132,408	54,313	–	336,287
Inter-segment sales	77	18,007	590	(18,674)	–
	<u>149,643</u>	<u>150,415</u>	<u>54,903</u>	<u>(18,674)</u>	<u>336,287</u>
<b>RESULT</b>					
Segment result	<u>28,589</u>	<u>14,598</u>	<u>(237)</u>	<u>(3,503)</u>	39,447
Loss from investments in securities					(5,655)
Unallocated corporate expenses					(457)
Profit from operations					33,335
Finance costs					(896)
Profit before taxation					32,439
Taxation					(3,249)
Profit after taxation					<u>29,190</u>

### BALANCE SHEET

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	116,634	83,820	22,511	222,965
Unallocated corporate assets				18,006
Consolidated total assets				<u>240,971</u>
<b>LIABILITIES</b>				
Segment liabilities	6,993	10,284	999	18,276
Unallocated corporate liabilities				134
Consolidated total liabilities				<u>18,410</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 4. BUSINESS SEGMENTS (Cont'd)

2001 (Cont'd)

### OTHER INFORMATION

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Others HK\$'000	Consolidated HK\$'000
Capital additions	3,597	3,826	4	–	7,427
Depreciation	7,216	7,440	64	75	14,795
Amortisation of goodwill	–	–	–	107	107
Impairment loss recognised in income	–	–	–	38	38
Other non-cash expenses	–	–	–	5,609	5,609

2000

	Novelties and decorations HK\$'000	Packaging products HK\$'000	PVC films and plastic materials HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
<b>TURNOVER</b>					
External sales	172,799	152,615	91,137	–	416,551
Inter-segment sales	26	22,775	1,782	(24,583)	–
Total revenue	<u>172,825</u>	<u>175,390</u>	<u>92,919</u>	<u>(24,583)</u>	<u>416,551</u>
<b>RESULT</b>					
Segment result	<u>31,161</u>	<u>18,758</u>	<u>2,042</u>	<u>(4,368)</u>	47,593
Loss from investments in securities					(10,817)
Unallocated corporate expenses					(1,346)
Profit from operations					35,430
Finance costs					(2,940)
Profit before taxation					32,490
Taxation					(3,713)
Profit after taxation					<u>28,777</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 4. BUSINESS SEGMENTS (Cont'd)

2000 (Cont'd)

### BALANCE SHEET

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>ASSETS</b>				
Segment assets	101,658	95,230	29,278	226,166
Unallocated corporate assets				10,678
Consolidated total assets				<u>236,844</u>
<b>LIABILITIES</b>				
Segment liabilities	9,071	13,124	930	23,125
Unallocated corporate liabilities				181
Consolidated total liabilities				<u>23,306</u>

### OTHER INFORMATION

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Others <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Capital additions	6,212	8,541	18	–	14,771
Depreciation	8,563	7,474	117	547	16,701
Amortisation of goodwill	–	–	–	107	107
Impairment loss recognised in income	–	–	–	7,170	7,170
Other non-cash expenses	–	–	–	2,228	2,228



# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 5. GEOGRAPHICAL SEGMENTS

The following table provides an analysis of the Group's sales by geographical segments:

	Turnover		Contribution to profit before taxation	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By geographical market:				
Hong Kong	193,579	244,616	12,773	16,117
Europe	76,145	93,311	13,755	15,487
America	47,288	48,384	8,543	8,030
Asia (other than Hong Kong)	6,650	13,824	1,200	2,294
Others	12,625	16,416	2,280	2,725
	<u>336,287</u>	<u>416,551</u>	<u>38,551</u>	<u>44,653</u>
Loss from investment in securities			(5,655)	(10,817)
Unallocated corporate expenses			(457)	(1,346)
Profit before taxation			<u>32,439</u>	<u>32,490</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Hong Kong	131,136	104,291	832	218
Asia (other than Hong Kong)	109,835	132,553	6,595	14,553
	<u>240,971</u>	<u>236,844</u>	<u>7,427</u>	<u>14,771</u>

## 6. OTHER OPERATING EXPENSES

	2001 HK\$'000	2000 HK\$'000
Impairment loss on other securities	38	7,170
Loss on disposal of trading securities	663	2,081
Unrealised losses on trading securities	5,209	1,728
	<u>5,910</u>	<u>10,979</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 7. PROFIT FROM OPERATIONS

	<b>2001</b> <i>HK\$ '000</i>	<b>2000</b> <i>HK\$ '000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	450	450
Depreciation	14,795	16,701
Amortisation of goodwill (included in administrative expenses)	107	107
Net foreign exchange losses	3,234	1,416
Operating lease rentals in respect of land and buildings	3,651	3,865
Staff costs (including directors' emoluments)	39,933	43,119
Net loss on disposal of property, plant and equipment	283	–
and after crediting:		
Net gain on disposal of property, plant and equipment	–	121
Gross rental income from investment properties		
less outgoings of Nil (2000: HK\$9,000)	420	567
Interest income	2,076	1,036
Dividends income from investments in securities	255	162
Negative goodwill released to income (included in other income)	3	24
	<u>          </u>	<u>          </u>

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	<b>2001</b> <i>HK\$ '000</i>	<b>2000</b> <i>HK\$ '000</i>
Fees:		
Executive directors	–	24
Independent non-executive directors	200	200
	<u>          </u>	<u>          </u>
	200	224
Other emoluments (executive directors):		
Salaries and other benefits	5,470	5,431
Retirement benefit scheme contributions	85	97
	<u>          </u>	<u>          </u>
	5,555	5,528
	<u>          </u>	<u>          </u>
Total emoluments	<u>5,755</u>	<u>5,752</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Cont'd)

The emoluments of the directors were within the following bands:

	2001 Number of directors	2000 Number of directors
Nil – HK\$1,000,000	6	5
HK\$1,000,001 – HK\$1,500,000	–	2
HK\$1,500,001 – HK\$2,000,000	1	–
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>8</u>	<u>8</u>

Employees' emoluments

During the year, the five highest paid individuals of the Group included three directors (2000: two directors), details of whose emoluments are set out above. The emoluments of the remaining two (2000: three) highest paid individuals were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	2,169	4,281
Retirement benefit scheme contributions	23	33
	<u>2,192</u>	<u>4,314</u>

Their emoluments were within the following bands:

	2001 Number of employees	2000 Number of employees
Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	3
	<u>2</u>	<u>3</u>

## 9. FINANCE COSTS

	2001 HK\$'000	2000 HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	896	2,733
Hire purchase contracts	–	207
Total finance costs	<u>896</u>	<u>2,940</u>

# Notes to the Financial Statements

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For the year ended 31st December, 2001

## 10. TAXATION

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% (2000: 16%) of the estimated assessable profit		
Current year	3,317	3,816
Overprovision in prior years	(68)	(103)
	<u>3,249</u>	<u>3,713</u>

Details of the potential deferred taxation are set out in note 25.

## 11. DIVIDENDS

	<b>2001</b> <i>HK\$'000</i>	<b>2000</b> <i>HK\$'000</i>
Interim paid:		
2 cents (2000: 2 cents) per share	5,583	5,719
Final paid:		
4 cents per share for 2000 (2000: 4.55 cents per share for 1999 after adjustment for bonus issue)	11,437	12,577
Additional dividend paid for 1999 on exercise of share options subsequent to approval of the financial statements	–	419
	<u>17,020</u>	<u>18,715</u>

The final dividend of 4.5 cents (2000: 4 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 12. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the year of approximately HK\$28,767,000 (2000: HK\$28,019,000) and the following data:

	<b>2001</b>	<b>2000</b>
<b>Number of shares</b>		
Weighted average number of ordinary shares for the purposes of basic earnings per share	283,843,443	283,533,247
Effect of dilutive potential ordinary shares:		
Share options	–	1,159,228
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>283,843,443</u>	<u>284,692,475</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2001

## 12. EARNINGS PER SHARE (Cont'd)

The adjustment to comparative earnings per share, arising from the changes in accounting policies shown in note 2 above, is as follows:

	<b>Basic</b> <i>HK cents</i>	<b>Diluted</b> <i>HK cents</i>
Reconciliation of earnings per share for the year ended 31st December, 2000		
Reported figure before adjustment	9.91	9.87
Adjustment arising from the adoption of SSAP 30	(0.03)	(0.03)
As restated	<u>9.88</u>	<u>9.84</u>

## 13. GOODWILL

*HK\$ '000*

### THE GROUP

#### COST

At 1st January, 2001 and 31st December, 2001

1,070

#### AMORTISATION

At 1st January, 2001

321

Charge for the year

107

At 31st December, 2001

428

#### NET BOOK VALUES

At 31st December, 2001

642

At 31st December, 2000

749

Goodwill is amortised over a period of 10 years.