1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- design, manufacture and sale of home decorative products
- design, manufacture and sale of garden decorative products
- design, manufacture and sale of plastic products
- sale of other products and raw materials

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following new and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting those SSAPs which have had a significant effect on the financial statements, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated summary statement of changes in equity is now presented on page 33 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, associates and overseas branches are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements. Further details of this change are included in the accounting policy for "Foreign currencies" in note 3 to the financial statements.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the consolidated cash flow statement has been revised. Further details of these changes and the prior year adjustments that have resulted from them are included in the accounting policies for "Cash and Cash equivalents" and "Foreign currencies" in note 3 and note 31(a) to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no material change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

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

Basis of consolidation

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2002. 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.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition

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

– 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;

– interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

– rental income, on a time proportion basis over the lease terms.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly or indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly or indirectly, over the joint venture company;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or

(d) a long term investment, if the Company holds, directly or indirectly, less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting less any impairment losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 10 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

On disposal of subsidiaries and associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets, other than construction in progress and investment property, are stated at cost or valuation less accumulated depreciation and any impairment losses.

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 the 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 fixed asset.

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

3. 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, less any estimated residual value, over the following estimated useful lives:

Freehold land	Nil
Leasehold land	Over the lease terms
Buildings	20 to 40 years or over the lease terms, whichever is shorter
Leasehold improvements	3 to 10 years or over the lease terms, whichever is shorter
Plant and machinery	10 years
Furniture, fixtures, equipment and motor vehicles	5 years
Moulds	2 years

Construction in progress represents a building under construction, is stated at cost less any impairment losses, and is not depreciated. Construction in progress is reclassified to the appropriate category of fixed assets when completed and ready for use.

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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Intangible assets

(a) *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 stated at cost less any impairment losses and are amortised using the straight-line basis, over the commercial useful lives of the underlying products of generally two to five years, commencing in the year when the products are put into commercial production.

(b) *Deferred expenses*

Payments made to customers as consideration for their long term commitments to purchase exclusively from the Group are recorded as deferred expenses. The deferred expenses are capitalised only when it is expected that future economic benefits will flow to the Group.

Deferred expenses are stated at cost less any impairment losses and are amortised, using the straight-line method, over the terms of the underlying contracts.

(c) *Patents*

Purchased patents are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five years.

Investments

Investment securities are securities which are intended to be held on a continuing basis for an identified long term purpose and are stated at cost less any impairment losses, on an individual investment basis.

When impairments in values have occurred, the carrying amounts of the securities are reduced to their fair values, as estimated by the directors, and the amounts of the impairments are charged to the profit and loss account for the period in which they arise. When the circumstances and events which led to the impairments in values cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future, the amounts of the impairments previously charged are credited to the profit and loss account to the extent of the amounts previously charged.

3. 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 manufacturing overheads. Net realisable value is based on estimated selling prices less any further costs expected to be incurred to completion and disposal.

Deferred tax

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

Leased assets

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

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

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Cash and cash equivalents *(continued)*

Prior to the adoption of the revised SSAP 15 during the year, as explained in note 2 to the financial statements, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in a prior year adjustment relating to trust receipt loans and a bank loan with maturity within three months from the date of advance, further details of which are included in note 31(a) to the financial statements.

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.

Foreign currencies

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

On consolidation, the financial statements of overseas subsidiaries, associates and overseas branches are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, associates and overseas branches are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, associates and overseas branches and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. These changes have had no material effect on the financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Employee benefits

(a) *Paid leave carried forward*

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has had no material effect on the financial statements.

(b) *Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A contingent liability is disclosed in respect of possible future long service payments to employees, as a number of current employees have achieved the required number of years of service to the Group, to the balance sheet date, in order to be eligible for long service payments under the Employment Ordinance if their employment is terminated in the circumstances specified. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits *(continued)*

(c) *Retirement benefits scheme*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the Scheme in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Pursuant to the relevant regulations of the government of the Mainland China, subsidiaries of the Group operating in the Mainland China participate in a retirement funds scheme managed by a local social security bureau. Contributions made are based on a percentage of the eligible employees' basic salaries and are charged to the profit and loss account as they become payable. The obligation of the Group with respect to the Mainland China retirement funds scheme is to pay these ongoing required contributions.

(d) *Share options scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

4. SEGMENT INFORMATION

Segment information is presented in accordance with SSAP 26 "Segment Reporting". Information relating to geographical segments based on the location of customers and assets is chosen as the primary reporting format because it is considered by management to be more relevant to the Group in making operating and financial decisions.

No information has been disclosed in respect of the Group's business segments as the secondary segment because the Group's turnover and operating losses were principally contributed by the decorative products manufacturing business.

Segment assets consist primarily of accounts receivable and mainly exclude fixed assets, intangible assets, goodwill, investments, inventories, other receivables and operating cash.

An analysis of assets and capital expenditure based on the geographical location of assets is also presented as additional information.

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers

	United States of America	Europe	Asia Pacific	Others	Consolidated
	2002	2002	2002	2002	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	326,741	251,783	80,099	8,366	666,989
Segment result	29,920	3,848	19,593	1,822	55,183
Unallocated costs					(68,049)
Loss from operating activities					(12,866)
Finance costs					(19,516)
Share of loss of an associate					(3,518)
Loss before tax					(35,900)
Tax					(2,098)
Loss before minority interests					(37,998)
Minority interests					(555)
Net loss from ordinary activities attributable to shareholders					(38,553)
Segment assets	30,871	22,871	20,833	199	74,774
Unallocated assets					582,069
Total assets					656,843
Unallocated liabilities					425,554
Other segment information:					
Capital expenditure (unallocated)					41,940
Amortisation of intangible assets (unallocated)					20,452
Depreciation (unallocated)					38,189
Provision for doubtful debt	2,231	543	7	–	2,781

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers ***(continued)***

	United States of America 2001 HK$'000	Europe 2001 HK$'000	Asia Pacific 2001 HK$'000	Others 2001 HK$'000	Consolidated 2001 HK$'000
Turnover	399,380	245,070	56,380	8,365	709,195
Segment result	31,692	2,771	3,278	1,995	39,736
Impairment of long term investments					(6,178)
Unallocated costs					(60,328)
Loss from operating activities					(26,770)
Finance costs					(21,677)
Loss before tax					(48,447)
Tax					5,284
Loss before minority interests					(43,163)
Minority interests					353
Net loss from ordinary activities attributable to shareholders					(42,810)
Segment assets	33,305	26,130	22,358	580	82,373
Unallocated assets					511,663
Total assets					594,036
Unallocated liabilities					390,792
Other segment information:					
Capital expenditure (unallocated)					65,422
Amortisation of intangible assets (unallocated)					18,305
Depreciation (unallocated)					29,339
Provision for doubtful debt	348	459	–	–	807
Impairment of long term investments (unallocated)					6,178

4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of assets

	Total assets	Capital expenditure
	2002	**2002**
	HK$'000	***HK$'000***
Asia Pacific	**424,637**	**31,572**
Europe	**190,208**	**10,152**
United States of America	**19,120**	**216**
	633,965	**41,940**
Unallocated assets	**22,878**	
	656,843	

	Total assets	Capital expenditure
	2001	2001
	HK$'000	*HK$'000*
Asia Pacific	384,867	50,601
Europe	167,772	12,007
United States of America	17,982	2,814
	570,621	65,422
Unallocated assets	23,415	
	594,036	

5. TURNOVER

Turnover represents the invoiced value of goods sold, net of discounts and returns.

Revenue from the sales of goods has been included in the Group's turnover.

6. LOSS FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Cost of inventories sold*	438,768	478,384
Staff costs (excluding directors' remuneration – note 7):		
Salaries and wages	150,005	138,143
Pension contributions	3,478	1,983
Depreciation	38,189	29,339
Auditors' remuneration	2,512	2,743
Amortisation of intangible assets	20,452	18,305
Amortisation of goodwill**	503	502
Loss on disposal of fixed assets	309	1,135
Provision for doubtful debts	2,781	807
Impairment of long term investments	–	6,178
Impairment of an investment in an associate	142	96
Minimum lease payments under operating leases in respect of land and buildings	9,133	11,880
Exchange losses/(gains), net	(3,164)	860
Negative goodwill recognised as income***	(10)	(3,251)
Interest income	(785)	(1,089)
Gross rental income	(1,613)	(1,645)
Less: Outgoings	272	290
Net rental income	(1,341)	(1,355)

6. LOSS FROM OPERATING ACTIVITIES *(continued)*

* The "cost of inventories sold" includes HK$100,526,000 (2001: HK$92,963,000) relating to staff costs, depreciation, amortisation of intangible assets and operating lease rentals in respect of land and buildings, which are also included in the respective total amounts disclosed separately above for each of these types of expenses.

** The amortisation of goodwill for the year is included in "Other operating expenses" on the face of the profit and loss account.

*** The amount of negative goodwill recognised in the profit and loss account for the year is included in "Other revenue and gains" on the face of the consolidated profit and loss account.

7. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2002	2001
	HK$'000	*HK$'000*
Executive directors:		
Fees	**–**	60
Basic salaries, housing, other allowances and benefits in kind	**6,738**	7,260
Pension scheme contributions	**1,427**	41
	8,165	7,361
Non-executive directors:		
Fees	**519**	615
	8,684	7,976

Fees to non-executive directors include HK$360,000 (2001: HK$435,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

7. DIRECTORS' REMUNERATION *(continued)*

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

	Number of directors	
	2002	2001
Nil – HK$1,000,000	**9**	10
HK$1,500,001 – HK$2,000,000	**3**	2

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three directors (2001: one director) of the Company, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2001: four) non-director, highest paid employees are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	**1,905**	3,240
Pension scheme contribution	**12**	24
	1,917	3,264

The number of the non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2002	2001
Nil – HK$1,000,000	**2**	4

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable:		
Within five years	**16,981**	18,114
Over five years	**2,095**	2,790
Interest on finance leases	**440**	773
Total finance costs	**19,516**	21,677

10. TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**127**	–
Elsewhere	**1,906**	183
Deferred – note 27	**(80)**	(104)
	1,953	79
Under/(Over) provision in prior years:		
Hong Kong	**–**	(327)
Elsewhere	**145**	(5,036)
	2,098	(5,284)

Hong Kong profits tax was provided at the rate of 16% on the estimated assessable profits arising in Hong Kong during the year. Hong Kong profits tax was not provided in the last year as the Group did not derive any assessable profits arising in Hong Kong for the year ended 31 December 2001. 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.

In accordance with the relevant approval documents issued by the Mainland China tax authorities, certain subsidiaries of the Group operating in the Mainland China are exempted from Mainland China corporate income tax for the first two profitable calendar years of operation and thereafter are eligible for a 50% relief from Mainland China corporate income tax for the following three years.

There was no material unprovided deferred tax in respect of the year (2001: Nil).

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK$22,107,000 (2001: HK$2,029,000).

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2001: Nil).

13. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of HK$38,553,000 (2001: HK$42,810,000) and the weighted average of 487,772,137 (2001: 358,193,096) ordinary shares in issue during the year.

Diluted loss per share amounts for the years ended 31 December 2002 and 2001 has not been disclosed, as the warrants outstanding during these years had an anti-dilutive effect on the basic loss per share for these years.

14. FIXED ASSETS

Group

	Land and buildings	Investment property	Construction in progress	Leasehold improvements	Plant and machinery	Furniture, fixtures, equipment and motor vehicles	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost or valuation:								
At beginning of year	197,989	11,026	10,550	46,006	55,232	84,432	4,835	410,070
Additions	700	–	12,581	2,410	14,011	7,852	4,386	41,940
Acquisition of a subsidiary	–	–	7	–	91	477	–	575
Disposals	–	–	–	–	(882)	(2,579)	–	(3,461)
Write-off	–	–	–	–	–	–	(739)	(739)
Transfers	18,368	–	(11,023)	(7,345)	1,078	(1,078)	–	–
Exchange realignment	9,624	–	5	57	1,865	10,850	–	22,401
At 31 December 2002	**226,681**	**11,026**	**12,120**	**41,128**	**71,395**	**99,954**	**8,482**	**470,786**
Accumulated depreciation:								
At beginning of year	10,569	–	–	20,550	14,835	49,731	1,442	97,127
Provided during the year	7,972	–	–	6,660	5,809	13,810	3,938	38,189
Acquisition of a subsidiary	–	–	–	–	2	21	–	23
Disposals	–	–	–	–	(472)	(1,784)	–	(2,256)
Write-off	–	–	–	–	–	–	(739)	(739)
Transfers	–	–	–	–	26	(26)	–	–
Exchange realignment	146	–	–	7	744	7,781	–	8,678
At 31 December 2002	**18,687**	**–**	**–**	**27,217**	**20,944**	**69,533**	**4,641**	**141,022**
Net book value:								
At 31 December 2002	**207,994**	**11,026**	**12,120**	**13,911**	**50,451**	**30,421**	**3,841**	**329,764**
At 31 December 2001	187,420	11,026	10,550	25,456	40,397	34,701	3,393	312,943
Analysis of cost and valuation:								
At cost	105,370	–	12,120	41,128	71,395	99,954	8,482	338,449
At valuation	121,311	11,026	–	–	–	–	–	132,337
	226,681	11,026	12,120	41,128	71,395	99,954	8,482	470,786

14. FIXED ASSETS *(continued)*

The Group's land and buildings included above are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
At cost:			
Medium lease term	–	95,711	95,711
At valuation:			
Freehold	–	61,554	61,554
Medium lease term	32,721	18,008	50,729
	32,721	175,273	207,994

The net book value of the fixed assets of the Group held under finance leases included in the total amount of plant and machinery at 31 December 2002 amounted to HK$18,022,000 (2001: HK$15,909,000).

The Group's leasehold land and buildings and investment property in Hong Kong were revalued on an open market, existing use basis at 31 December 2002 by RHL Appraisal Ltd ("RHL"), independent professionally qualified valuers. The freehold land in Germany at a carrying amount of HK$61,553,000 was revalued on an open market existing use basis at 31 December 2001 by Dipl.-Ing. Andreas Staubach, independent firms of professionally qualified valuers. The directors considered that their carrying amounts did not differ materially from their fair values as at 31 December 2002. For the land and buildings in Mainland China, the directors considered that their carrying amounts, together with the land premium to be paid upon the land and property certificates being granted (note 34), with reference to a valuation performed by RHL on a depreciated replacement cost basis at 31 December 2002, did not differ materially from their fair values as at 31 December 2002.

Had the Group's revalued leasehold land and buildings been stated at cost less accumulated depreciation, they would have been included in the financial statements at approximately HK$87,397,000 (2001: HK$91,601,000).

The Group's land and buildings and investment property with a net book value of HK$192,058,000 (2001: HK$112,419,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as detailed in note 24 to the financial statements.

The Group is still in the progress of obtaining the land and properties certificates for certain of its leasehold land and buildings of approximately HK$25,575,000.

The Group's investment property is situated in Hong Kong and held under a medium term lease. The investment property is leased under an operating lease which the Group earns rental income therefrom. Details of future annual rental receivables under operating leases are included in note 33 to the financial statements.

15. INTANGIBLE ASSETS

Group

	Deferred expenses	Deferred development costs	Patents	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At beginning of year	5,817	28,211	7,506	41,534
Additions	–	17,959	223	18,182
Write-off	–	(19,272)	–	(19,272)
Exchange realignment	1,121	456	–	1,577
At 31 December 2002	**6,938**	**27,354**	**7,729**	**42,021**
Accumulated amortisation:				
At beginning of year	4,271	17,297	982	22,550
Amortisation	1,020	17,958	1,474	20,452
Write-off	–	(19,272)	–	(19,272)
Exchange realignment	964	46	–	1,010
At 31 December 2002	**6,255**	**16,029**	**2,456**	**24,740**
Net book value:				
At 31 December 2002	**683**	**11,325**	**5,273**	**17,281**
At 31 December 2001	1,546	10,914	6,524	18,984

16. GOODWILL AND NEGATIVE GOODWILL

The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill	**Negative goodwill**
	HK$'000	*HK$'000*
Cost:		
At beginning of year	5,023	(3,341)
Acquisition of a subsidiary – note 31(b)	1,657	–
At 31 December 2002	**6,680**	**(3,341)**
Accumulated amortisation and impairment/(recognition as income):		
At beginning of year	502	(3,251)
Amortisation provided/(recognised as income) during the year	503	(10)
At 31 December 2002	**1,005**	**(3,261)**
Net book value:		
At 31 December 2002	**5,675**	**(80)**
At 31 December 2001	4,521	(90)

17. INTERESTS IN SUBSIDIARIES

	Company 2002 HK$'000	2001 HK$'000
Unlisted shares, at cost	**75,331**	75,331
Provision for impairment	**(28,429)**	–
	46,902	75,331
Due from subsidiaries	**175,666**	133,983
	222,568	209,314

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Peaktop Investment Holdings (B.V.I.) Limited	British Virgin Islands/ Hong Kong	Ordinary US$10,000	100	Investment holding
Peaktop Limited	Hong Kong	Ordinary HK$100 Deferred* HK$18,720,000	100	Trading of giftware and investment holding
Progress Limited	Hong Kong	Ordinary HK$10,000	100	Trading of giftware and investment holding
Prisma (Italy) Hong Kong Limited	Hong Kong	Ordinary HK$10,000	100	Trading of giftware
Peaktop Limited	British Virgin Islands/ Taiwan	Ordinary US$2	100	Investment holding
Fuqing Yuansheng Light Industrial Products Co., Ltd.	Mainland China	Registered US$5,200,000	100	Manufacture and export of giftware

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Shenzhen Yuansheng Light Industrial Products Co., Ltd.	Mainland China	Registered RMB80,000,000	100	Manufacture and export of giftware
Yu Hua (Zhong Shan) Electrical Appliance Co. Ltd.	Mainland China	Registered HK$5,000,000	100	Manufacture and distribution of water pumps
Yu Hua (Hong Kong) Electrical Appliance Co. Ltd.	Hong Kong	Ordinary HK$10,000	100	Distribution of water pumps
McField International Co., Ltd.	Hong Kong	Ordinary HK$100,000	100	Distribution of giftware
Silkroadgifts (Hong Kong) Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of giftware
Tai Hua (Zhong Shan) Electrical Appliance Co., Ltd.#	Mainland China	Registered HK$3,500,000	100	Manufacture and distribution of water pumps
Shenzhen Hong Sheng Plastics Product Co., Ltd.#	Mainland China	Registered RMB11,000,000	100	Manufacture and distribution of plastics products
Kun Ming (Shenzhen) Electrical Appliance Co., Ltd.#	Mainland China	Registered HK$1,000,000	100	Manufacture and distribution of electrical products
HPT Group (U.S.A.) Hong Kong Limited	Hong Kong	Ordinary HK$10,000	100	Distribution of giftware
Peaktop Limited (LA)**	United States of America	Ordinary US$10,000	100	Marketing and provision of after-sale services

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Peaktop Technologies (USA), Inc.**	United States of America	Ordinary US$160,000	100	Distribution of giftware
Prismarte (Italy) (U.S.A.), Ltd.**	United States of America	Ordinary US$1,000	100	Distribution of giftware
Progress International Trading Inc.**	United States of America	Ordinary US$300,000	100	Marketing and provision of after-sale services
Heissner AG	Germany	Ordinary Euro 3,250,000	99.1	Distribution of water pumps and home gardening decorative products
Peaktop Europe GmbH	Germany	Ordinary Euro 255,646	99.1	Distribution of water pumps and home gardening decorative products
Silkroadgifts, Inc.**	United States of America	Ordinary US$95,000	100	Distribution of giftware and plastic products
HPT Group (USA), Inc.**	United States of America	Ordinary US$5,001,500	100	Investment holding

17. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Peaktop Technologies Italy s.r.l.	Italy	Ordinary Euro 52,000	100	Trading and manufacture of aquarium products and provision of research and development services
Waterwerks Pty. Ltd.**	Australia	Ordinary AUD 10,000	90	Sales and distribution of giftware, household and gardening decorations

Except for Peaktop Investment Holdings (B.V.I.) Limited, all of the above subsidiaries are indirectly held by the Company.

All the subsidiaries established in the Mainland China were registered as wholly owned foreign enterprises.

* The deferred shares carry no rights to dividends (other than a dividend at a fixed rate of 1% per annum on the excess of the net profits the Company may determine to distribute in respect of any financial year over HK$1,000,000,000,000,000), no rights to attend or vote at general meetings and no rights to receive any surplus assets in a return of capital in a winding-up (other than 1% of the surplus assets of the company available for distribution after a total of HK$100,000,000,000,000,000 has been distributed to the holders of the ordinary shares of the company in such winding-up).

** Not audited by Ernst & Young, Hong Kong or other Ernst & Young International member firms.

Established/incorporated during the year.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18. INTERESTS IN ASSOCIATES

	Group 2002 HK$'000	Group 2001 HK$'000
Share of net assets	**6,399**	487
Due from associates	**563**	460
	6,962	947
Provision for impairment	**(538)**	(396)
	6,424	551

The balances with associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
Yuan Hua International Investment Company Limited**	Corporate	Hong Kong	30	Investment holding
Orchid Potteries Co. Limited**	Corporate	Thailand	25	Trading and manufacture of potteries
Sunterra, LLC	Corporate	United States of America	40	Sales and distribution of gardening products

** Not audited by Ernst & Young, Hong Kong or other Ernst & Young International member firms.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

19. LONG TERM INVESTMENTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Unlisted shares, at cost	**10,685**	6,524
Provision for impairment	**(6,178)**	(6,178)
	4,507	346

20. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**54,816**	43,455
Work in progress	**11,866**	9,351
Finished goods	**72,726**	58,015
	139,408	110,821

No inventories were stated at net realisable value as at the balance sheet date (2001: Nil).

At 31 December 2002, the carrying amount of the Group's inventories of approximately HK$40,273,000 (2001: HK$43,629,000) was pledged to the Group's bankers to secure banking facilities granted to the Group as further detailed in note 24 to the financial statements.

21. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally for a period of 45 to 90 days, extending up to 120 days for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date and net of provisions, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**55,432**	50,680
30 – 60 days	**9,401**	11,888
61 – 90 days	**3,262**	6,005
Over 90 days	**6,679**	13,800
	74,774	82,373

At 31 December 2002, trade receivables of the Group of approximately HK$2,466,000 (2001: HK$18,275,000) were pledged to the Group's bankers to secure banking facilities granted to the Group, as further detailed in note 24 to the financial statements.

22. CASH AND BANK BALANCES

At the balance sheet date, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to HK$9,222,000 (2001: HK$3,519,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

23. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Bank overdrafts repayable on demand:		
Secured	**2,739**	2,609
Unsecured	**13,081**	–
	15,820	2,609
Bank loans:		
Secured	**169,239**	134,544
Unsecured	**25,270**	39,130
	194,509	173,674
The maturity of the bank loans is as follows:		
Bank loans are wholly repayable:		
Within one year	**120,637**	131,770
In the second year	**48,371**	12,289
In the third to fifth years, inclusive	**19,020**	18,003
Over five years	**6,481**	11,612
	194,509	173,674
Portion classified as current liabilities	**(120,637)**	(131,770)
Long term portion	**73,872**	41,904

24. BANKING FACILITIES

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

(i) Corporate guarantees from the Company and certain subsidiaries of the Company;

(ii) First legal charges on all the investment properties with a carrying amount of HK$11,026,000, and certain leasehold land and buildings and freehold land of the Group with a net book value of approximately HK$181,032,000 (note 14); and

(iii) Floating charges over certain of the Group's inventories and accounts receivable of approximately HK$40,273,000 (note 20) and HK$2,466,000 (note 21), respectively.

25. FINANCE LEASE PAYABLES

The Group leases certain of its plant and machinery for its manufacturing business in the Mainland China. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At 31 December 2002, the total future minimum lease payments under finance leases and their present values were as follows:

Group	**Minimum lease payments 2002 *HK$'000***	Minimum lease payments 2001 *HK$'000*	**Present value of minimum lease payments 2002 *HK$'000***	Present value of minimum lease payments 2001 *HK$'000*
Amounts payable:				
Within one year	**4,660**	5,582	**4,627**	5,394
In the second year	**2,001**	3,424	**1,968**	3,095
In the third to fifth years, inclusive	**1,281**	813	**809**	658
Total minimum finance lease payments	**7,942**	9,819	**7,404**	9,147
Future finance charges	**(538)**	(672)		
Total net finance lease payables	**7,404**	9,147		
Portion classified as current liabilities	**(4,333)**	(5,113)		
Long term portion	**3,071**	4,034		

26. ACCOUNTS AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current	**36,307**	48,662
30 – 60 days	**18,578**	12,092
61 – 90 days	**14,030**	10,573
Over 90 days	**27,439**	27,332
	96,354	98,659

27. DEFERRED TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
Balance at beginning of year	**5,554**	111
Credit for the year – note 10	**(80)**	(104)
Charge to asset revaluation reserve – note 30	**–**	5,547
Exchange realignment	**991**	–
At 31 December	**6,465**	5,554

No provision has been made for taxes which would arise on the remittance to Hong Kong of retained profits of overseas companies as it is not anticipated that these amounts will be remitted in the near future.

The Group and the Company have no significant potential deferred tax liabilities for which provision has not been made.

28. SHARE CAPITAL

Shares

	2002	2001
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2001: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
613,938,000 (2001: 366,905,000) ordinary shares of HK$0.10 each	**61,394**	36,690

During the year, the movements in share capital were as follows:

(a) Pursuant to placing agreements entered into between the Company and eight independent investors on 20 December 2001, 66,710,000 ordinary shares of HK$0.10 each were issued on 7 January 2002 at a subscription price of HK$0.33 per share. The proceeds before expenses were approximately HK$22,014,000. The net proceeds, after deducting related expenses, were used to expand the Group's production facilities and distribution network and to provide further working capital for the Group's operational purposes.

(b) Pursuant to subscription agreements entered into between the Company and seven independent investors on 22 March 2002, 78,000,000 ordinary shares of HK$0.10 each were issued on 24 April 2002 at a subscription price of HK$0.30 per share. The proceeds before expenses were approximately HK$23,400,000. The net proceeds, after deducting related expenses, were used for capital investment in the joint ventures in the Mainland China and US, to expand the Group's production facilities in Italy and the Mainland China and to provide further working capital for the Group's operational purposes.

(c) Pursuant to subscription agreements entered into between the Company and seven independent investors on 29 November 2002, 102,323,000 ordinary shares of HK$0.10 each were issued on 27 December 2002 at a subscription price of HK$0.20 per share. The proceeds before expenses were approximately HK$20,465,000. The net proceeds, after deducting related expenses, were used to repay the bank borrowings, to expand the Group's production facilities and to provide further working capital for the Group's operational purposes.

28. SHARE CAPITAL *(continued)*

A summary of the transactions during the year, with reference to the above movements in the Company's ordinary share capital, is as follows:

	Number of shares in issue	**Issued share capital**	**Share premium**	**Total**
	'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of year	366,905	36,690	53,677	90,367
Placement of shares (a)	66,710	6,671	15,343	22,014
Placement of shares (b)	78,000	7,800	15,600	23,400
Placement of shares (c)	102,323	10,233	10,232	20,465
	613,938	61,394	94,852	156,246
Share issue expenses	–	–	(324)	(324)
At 31 December 2002	613,938	61,394	94,528	155,922

Share options

Details of the Company's share option scheme are included in note 29 to the financial statements.

29. SHARE OPTION SCHEME

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

At the annual general meeting of the Company held on 18 June 2002, a resolution relating to the termination of the share option scheme adopted by the Company on 20 December 1997 (the "Old Scheme") and the adoption of a new share option scheme (the "Scheme") was passed by the shareholders of the Company. The Scheme complies with the requirements of the new rules of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Ltd (the "Listing Rules") and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The purpose of the Scheme is to enable the Company to grant options to the eligible participants in recognition of their contribution to the Group. Subject to the terms of the Scheme, the directors may, at their absolute discretion, invite employees of the Group, including executive directors, non-executive directors of the Company or any of its subsidiaries, suppliers, consultants, agents and advisers, whether on a contractual or honourary basis and whether paid or unpaid, who have contributed or will contribute to the Group to take up options to subscribe for shares.

29. SHARE OPTION SCHEME *(continued)*

The maximum number of shares in respect of which options may be granted (together with options exercised and options then outstanding) at any time under this scheme shall not, when aggregated with any shares subject to any other schemes involving the issue or grant of option over shares by the Company to, or for the benefit of the eligible participants, exceed such number of shares as shall represent 10% of the issued share capital of the Company at the adoption date (the "Scheme Mandate Limit"). Options that lapse in accordance with the terms of this scheme will not be counted for the purpose of calculating the Scheme Mandate Limit unless the Company obtains a fresh approval from shareholders to renew the 10% limit provided that the maximum number of shares in respect of which options may be granted under the Scheme together with any options outstanding and yet to be exercised under the Scheme and any other schemes shall not exceed 30% of the issued shares from time to time.

The total number of shares issued and to be issued on the exercise of options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the grant of each eligible participant shall not exceed 1% of the total issued shares.

The offer of a grant of share option may be accepted for a period of 28 days from the date of offer. An option shall be deemed to have been accepted when the duplicate letter comprising acceptance of the option duly signed by the eligible participant together with the consideration of HK$1.00 is received by the Company.

The exercise price for shares will not be less than the higher of: (i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant, which must be a business day; and (ii) the average closing price of the shares as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of the grant.

An option may be exercised at any time during the period to be determined and identified by the board to each grantee at the time of making an offer for the grant of an option, but in any event no later than 10 years from the adoption date but subject to the early termination of the new share option scheme.

No share options were granted during the year and there are no outstanding share options under the Scheme at the balance sheet date.

30. RESERVES

	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Exchange fluctuation reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000
Group							
At 1 January 2001	50,177	18,528	(3,758)	2,115	11,398	119,793	198,253
Issue of shares	3,500	–	–	–	–	–	3,500
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of overseas branches	–	–	(1,956)	–	–	–	(1,956)
Surplus on revaluation	–	–	–	15,114	–	–	15,114
Deferred tax liability arising on revaluation of land and buildings	–	–	–	(5,547)	–	–	(5,547)
Transfer to statutory reserve	–	–	–	–	7,209	(7,209)	–
Net loss for the year	–	–	–	–	–	(42,810)	(42,810)
At 31 December 2001 and 1 January 2002	53,677	18,528	(5,714)	11,682	18,607	69,774	166,554
Issue of shares (Note 28)	41,175	–	–	–	–	–	41,175
Share issue expenses (Note 28)	(324)	–	–	–	–	–	(324)
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of overseas branches	–	–	1,043	–	–	–	1,043
Transfer to statutory reserve	–	–	–	–	1,536	(1,536)	–
Net loss for the year	–	–	–	–	–	(38,553)	(38,553)
At 31 December 2002	**94,528**	**18,528**	**(4,671)**	**11,682**	**20,143**	**29,685**	**169,895**

30. RESERVES *(continued)*

	Share premium HK$'000	Contributed surplus HK$'000 (Note a)	Exchange fluctuation reserve HK$'000	Asset revaluation reserve HK$'000	Statutory reserve HK$'000 (Note b)	Retained profits HK$'000	Total HK$'000
Reserves retained by:							
Company and subsidiaries	94,528	18,528	(4,671)	11,682	20,143	33,270	173,480
Associates	–	–	–	–	–	(3,585)	(3,585)
At 31 December 2002	**94,528**	**18,528**	**(4,671)**	**11,682**	**20,143**	**29,685**	**169,895**
Reserves retained by:							
Company and subsidiaries	53,677	18,528	(5,714)	11,682	18,607	69,841	166,621
Associates	–	–	–	–	–	(67)	(67)
At 31 December 2001	53,677	18,528	(5,714)	11,682	18,607	69,774	166,554

30. RESERVES *(continued)*

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note a)*	Retained profits *HK$'000*	Total *HK$'000*
Company				
Balance at 1 January 2001	50,177	75,131	26,009	151,317
Issue of shares	3,500	–	–	3,500
Net loss for the year 2001	–	–	(2,029)	(2,029)
At 31 December 2001 and 1 January 2002	53,677	75,131	23,980	152,788
Issue of shares (Note 28)	41,175	–	–	41,175
Share issue expenses (Note 28)	(324)	–	–	(324)
Net loss for the year 2002	–	–	(22,107)	(22,107)
At 31 December 2002	**94,528**	**75,131**	**1,873**	**171,532**

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefor in connection with the Group reorganisation in 1997.

The contributed surplus of the Company represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the shares of the Company issued in exchange therefor. Under The Companies Act 1981 of Bermuda, the contributed surplus of the Company is available for cash distribution and/or distribution in specie under certain circumstances prescribed by Section 54 thereof.

(b) In accordance with the relevant Mainland China regulations, a subsidiary of the Company established in the Mainland China is required to transfer a certain percentage of its profits after tax, if any, to the statutory reserve. Subject to certain restrictions set out in the relevant Mainland China regulations, the statutory reserve may be used to offset accumulated losses of the subsidiary.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Prior year adjustments

SSAP 15 (Revised) was adopted during the current year, as detailed in note 2 to the financial statements, which has resulted in a change to the layout of the consolidated cash flow statement. The consolidated cash flow statement is now presented under three headings: cash flows from operating activities, investing activities and financing activities. Previously five headings were used, comprising the three headings listed above, together with cash flows from returns on investments and servicing of finance and from taxes paid. The significant reclassifications resulting from the change in presentation are that taxes paid are now included in cash flows from operating activities, interest and dividends received are now included in cash flows from investing activities, and interest and dividends paid are now included in cash flows from financing activities. The presentation of the 2001 comparative consolidated cash flow statement has been changed to accord with the new layout. This change has resulted in the 2001 comparative cash flows from operating activities being decreased by HK$1,689,000, cash flows from investing activities being increased by HK$1,222,000 and cash flows from financing activities being decreased by HK$18,035,000.

The method of calculation of certain items in the consolidated cash flow statement has changed under the revised SSAP 15, as explained under the heading "Foreign currencies" in note 3 to the financial statements. Cash flows of overseas subsidiaries are now translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year. Previously, the cash flows of overseas subsidiaries were translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date.

Also, the definition of "cash equivalents" under the revised SSAP 15 has been revised from that under the previous SSAP 15, as explained under the heading "Cash and cash equivalents" in note 3 to the financial statements. This has resulted in trust receipt loans and bank loans with maturity within three months from the date of advance no longer qualifying as cash equivalents. The amount of cash equivalents in the consolidated cash flow statement at 31 December 2001 has been adjusted to remove trust receipt loans and bank loans with maturity within three months from the date of advance amounting to HK$39,969,000 and HK$70,810,000, respectively, previously included at that date. The year's movement in trust receipt loans and bank loans with maturity within three months from the date of advance is now included in cash flows from financing activities and the comparative cash flow statement has been changed accordingly.

31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) Acquisition of a subsidiary

	2002	2001
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	**552**	54
Inventories	**171**	–
Cash and bank balances	**226**	54
Accounts receivable	**597**	–
Prepayments, deposits and other receivables	**–**	48
Accounts and bills payables	**(407)**	–
Other payables and accruals	**(768)**	(350)
	371	(194)
Goodwill on acquisition (note 16)	**1,657**	341
	2,028	147
Satisfied by:		
Cash	**390**	147
Other payables	**1,638**	–
	2,028	147

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002	2001
	HK$'000	*HK$'000*
Cash consideration	**(390)**	(147)
Cash and bank balances acquired	**226**	54
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**(164)**	(93)

(c) Major non-cash transaction

(i) 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 HK$3,726,000 (2001: HK$4,486,000).

(ii) The consideration for Group's investment in an associate made during the year of HK$9,360,000 net of the amount due to the associate of HK$1,003,000 was satisfied by way of converting the accounts receivable from the associate.

32. CONTINGENT LIABILITIES

(a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bills discounted with recourse	**6,514**	13,529	**–**	–
Guarantees of banking facilities granted to subsidiaries	**–**	–	**244,821**	300,658
Guarantees of finance leases granted to subsidiaries	**–**	–	**47,400**	49,000

At the balance sheet date, banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$149,627,000 (2001: HK$122,556,000).

(b) At 31 December 2002, the Group had a number of current employees who have completed the required number of years of service to the Group under the Hong Kong Employment Ordinance (the "Employment Ordinance") in order to be eligible for long service payments if their employment is terminated under certain circumstances. If the employment of all these employees were terminated on 31 December 2002 under circumstances meeting the requirements of the Employment Ordinance, the Group's contingent liability in respect of possible future long service payments at that date would have been approximately HK$1,153,000. A provision has not been recognised in respect of such possible payments, as it is not considered probable that the situation will result in a material future outflow of resources from the Group.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment property (note 14 to the financial statements) under operating lease arrangements, and the terms of the leases are two years. The terms of the lease generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**261**	930
In the second to fifth years, inclusive	**–**	261
	261	1,191

(b) As lessee

The Group leases certain of its office and factory properties under operating lease arrangements which are negotiated for terms ranging from one to fifty years.

At 31 December 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**7,412**	9,551
In the second to fifth years, inclusive	**13,886**	19,792
Over five years	**39,509**	52,368
	60,807	81,711

34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the balance sheet date:

	2002	2001
	HK$'000	*HK$'000*
Capital commitments contracted, but not provided for	**18,243**	36,579

The Company did not have any other significant commitments at the balance sheet date (2001: Nil).

35. RELATED PARTY TRANSACTIONS

During the year, the Group sold approximately HK$9,288,000 of finished goods to Sunterra, LLC, an associated company of the Group. The directors considered that the sales of goods were made according to prices and conditions similar to those offered to other customers.

36. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2003.