

Notes to the Financial Statements

For the year ended 31st December, 2002

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 NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice (“SSAP(s)”) issued by the Hong Kong Society of Accountants. The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the inclusion of a statement of changes in equity, but has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment is required.

3. 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 terms of the relevant leases.

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.

Notes to the Financial Statements

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For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified 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 the income statement.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation 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 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. An impairment loss is 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.

Notes to the Financial Statements

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For the year ended 31st December, 2002

3. SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

Operating leases

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost 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. Cost is calculated using the first-in, first-out method. Net realisable value represents the estimated selling price less all estimated costs to completion and costs to be incurred in marketing, selling and distribution.

Investments in securities

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

All securities other than held-to-maturity debt 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.

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 currencies other than Hong Kong dollars 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 assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expense in the period in which the operation is disposed of.

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 costs

Payments to defined contribution retirement benefit plan are charged as an expense as they fall due.

Notes to the Financial Statements

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For the year ended 31st December, 2002

4. BUSINESS SEGMENTS

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

2002

	Novelties and decorations	Packaging products	PVC films and plastic materials	Eliminations	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER					
External sales	149,544	128,738	38,974	–	317,256
Inter-segment sales	86	19,884	823	(20,793)	–
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	<u>149,630</u>	<u>148,622</u>	<u>39,797</u>	<u>(20,793)</u>	<u>317,256</u>
RESULT					
Segment result	<u>18,424</u>	<u>16,547</u>	<u>(503)</u>	<u>(2,198)</u>	32,270
Gain from investments in securities					699
Unallocated corporate income					232
					<hr/>
Profit from operations					33,201
Finance costs					(156)
					<hr/>
Profit before taxation					33,045
Taxation					(2,987)
					<hr/>
Profit after taxation					<u>30,058</u>

Inter-segment sales are charged at prevailing market rates.



Notes to the Financial Statements

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For the year ended 31st December, 2002

4. BUSINESS SEGMENTS (Cont'd)

2002 (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>
ASSETS				
Segment assets	132,675	95,705	11,443	239,823
Unallocated corporate assets				13,444
				<hr/>
Consolidated total assets				<u>253,267</u>
LIABILITIES				
Segment liabilities	11,562	11,711	915	24,188
Unallocated corporate liabilities				165
				<hr/>
Consolidated total liabilities				<u>24,353</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	3,992	11,770	34	–	15,796
Depreciation	6,269	7,635	56	60	14,020
Amortisation of goodwill	–	–	–	107	107
Other non-cash expenses	–	–	–	1,732	1,732

Notes to the Financial Statements

(Cont'd)
For the year ended 31st December, 2002

4. BUSINESS SEGMENTS (Cont'd)

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>
TURNOVER					
External sales	149,566	132,408	54,313	–	336,287
Inter-segment sales	77	18,007	590	(18,674)	–
Total revenue	<u>149,643</u>	<u>150,415</u>	<u>54,903</u>	<u>(18,674)</u>	<u>336,287</u>
RESULT					
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>

Inter-segment sales are charged at prevailing market rates.

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>
ASSETS				
Segment assets	116,634	83,820	22,511	222,965
Unallocated corporate assets				18,006
Consolidated total assets				<u>240,971</u>
LIABILITIES				
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, 2002

4. BUSINESS SEGMENTS (Cont'd)

2001 (Cont'd)

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	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

5. GEOGRAPHICAL SEGMENTS

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

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
By geographical market:		
Hong Kong	169,955	193,579
Europe	88,231	76,145
America	44,863	47,288
Asia (other than Hong Kong)	2,991	6,650
Others	11,216	12,625
	<u>317,256</u>	<u>336,287</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	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Hong Kong	133,422	131,136	43	832
The People's Republic of China	119,845	109,835	15,753	6,595
	<u>253,267</u>	<u>240,971</u>	<u>15,796</u>	<u>7,427</u>

Notes to the Financial Statements

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For the year ended 31st December, 2002

6. OTHER OPERATING EXPENSES

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Unrealised losses on trading securities	1,432	5,209
Loss on disposal of trading securities	–	663
Impairment loss recognised in respect of other securities	–	38
	<u>1,432</u>	<u>5,910</u>

7. PROFIT FROM OPERATIONS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	472	450
Amortisation of goodwill (included in administrative expenses)	107	107
Allowance for bad debts	1,365	1,953
Depreciation of property, plant and equipment	14,020	14,795
Foreign exchange losses, net	251	3,234
Loss on disposal of trading securities	–	663
Loss on disposal of property, plant and equipment	509	283
Staff costs (including directors' emoluments)	40,933	39,933
and after crediting:		
Interest income	1,620	2,076
Gain on disposal of trading securities	1,469	–
Dividend income from trading and other securities	200	255
Gain on redemption of other securities	255	–
Negative goodwill released to income (included in other operating income)	<u>–</u>	<u>3</u>

Notes to the Financial Statements

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For the year ended 31st December, 2002

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	200	200
	<u>200</u>	<u>200</u>
Other emoluments (executive directors):		
Salaries and other benefits	5,098	5,470
Contributions to retirement benefit scheme	75	85
	<u>5,173</u>	<u>5,555</u>
Total emoluments	<u><u>5,373</u></u>	<u><u>5,755</u></u>

The emoluments of the directors were within the following bands:

	2002 Number of directors	2001 Number of directors
Nil – HK\$1,000,000	3	6
HK\$1,000,001 – HK\$1,500,000	1	–
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>6</u>	<u>8</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2001: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2001: two) individuals were as follows:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Salaries and other benefits	2,062	2,169
Contributions to retirement benefit scheme	21	23
	<u>2,083</u>	<u>2,192</u>

Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2002

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

Their emoluments were within the following bands:

	2002 Number of employees	2001 Number of employees
Nil – HK\$1,000,000	–	1
HK\$1,000,001 – HK\$1,500,000	2	1
	<u>2</u>	<u>2</u>

9. FINANCE COSTS

Finance costs represented interest on bank borrowings wholly repayable within five year.

10. TAXATION

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit		
Current year	3,142	3,317
Overprovision in prior years	(155)	(68)
	<u>2,987</u>	<u>3,249</u>

Details of the unprovided deferred taxation are set out in note 23.

11. DIVIDENDS

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interim paid:		
1 cent (2001: 2 cents) per share	2,739	5,583
Final paid:		
4.5 cents per share for 2001 (2001: 4 cents per share for 2000)	12,738	11,437
	<u>15,477</u>	<u>17,020</u>

The final dividend of 5 cents (2001: 4.5 cents) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Notes to the Financial Statements

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For the year ended 31st December, 2002

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of approximately HK\$29,936,000 (2001: HK\$28,767,000) and on the weighted average number of 278,992,721 (2001: 283,843,443) ordinary shares in issue throughout the year.

The computation of diluted earnings per share for the year does not assume the exercise of the Company's share options because the exercise price of the Company's share options is higher than the average market price per share for the current year. No diluted earnings per share was presented for the year ended 31st December, 2001 as the Company did not have any potential dilutive shares for that year.

13. GOODWILL

	<i>HK\$'000</i>
THE GROUP	
COST	
At 1st January, 2002 and 31st December, 2002	1,070
AMORTISATION	
At 1st January, 2002	428
Charge for the year	107
At 31st December, 2002	535
NET BOOK VALUES	
At 31st December, 2002	535
At 31st December, 2001	642

Goodwill is amortised over a period of 10 years.

14. INVESTMENT PROPERTIES

	THE GROUP	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the year	4,400	4,800
Revaluation deficit	(300)	(400)
At end of the year	4,100	4,400

The Group's investment properties were revalued at their open market value at 31st December, 2002 by Norton Appraisals Limited, Registered Professional Surveyors, Valuers & Property Advisers, on an open market value basis. This valuation gave rise to a revaluation deficit of HK\$300,000 (2001: HK\$400,000), which has been charged to the consolidated income statement.

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

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

Notes to the Financial Statements

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For the year ended 31st December, 2002

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$ '000	Factory premises HK\$ '000	Furniture, fixtures and office equipment HK\$ '000	Plant, machinery and moulds HK\$ '000	Motor vehicles HK\$ '000	Total HK\$ '000
THE GROUP						
COST						
At 1st January, 2002	3,019	35,668	19,255	138,373	3,924	200,239
Additions	–	1,117	770	13,909	–	15,796
Disposals	–	(790)	(110)	(40)	(185)	(1,125)
At 31st December, 2002	3,019	35,995	19,915	152,242	3,739	214,910
DEPRECIATION AND AMORTISATION						
At 1st January, 2002	510	14,906	13,867	111,237	2,761	143,281
Provided for the year	57	1,820	1,463	10,184	496	14,020
Eliminated on disposals	–	(315)	(72)	(40)	(185)	(612)
At 31st December, 2002	567	16,411	15,258	121,381	3,072	156,689
NET BOOK VALUES						
At 31st December, 2002	2,452	19,584	4,657	30,861	667	58,221
At 31st December, 2001	2,509	20,762	5,388	27,136	1,163	56,958

The net book value of properties shown above comprises:

	Leasehold land and buildings		Factory premises	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Held in Hong Kong:				
Medium-term lease	2,452	2,509	–	–
Held outside Hong Kong:				
Medium-term lease	–	–	19,584	20,762
	2,452	2,509	19,584	20,762

The Group has not obtained Land Use Right Certificates or Certificate for Housing Ownership in respect of the Group's factory premises with an aggregate net book value of approximately HK\$19,584,000 (2001: HK\$20,762,000) at 31st December, 2002.

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