

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2002

## 16. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2002 HK\$'000	2001 HK\$'000
Unlisted shares, at cost	32,061	32,061
Amounts due from subsidiaries	104,445	103,950
Amounts due to subsidiaries	3,500	–

Amounts due from (to) subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Details of the principal subsidiaries as at 31st December, 2002 are set out in note 28.

## 17. INVESTMENTS IN SECURITIES

	Trading securities		Other securities		Total	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
Equity securities:						
Listed in Hong Kong	4,840	8,097	–	–	4,840	8,097
Unlisted	–	–	780	2,004	780	2,004
	<u>4,840</u>	<u>8,097</u>	<u>780</u>	<u>2,004</u>	<u>5,620</u>	<u>10,101</u>
Debt securities:						
Unlisted	–	–	3,030	2,020	3,030	2,020
	<u>–</u>	<u>–</u>	<u>3,030</u>	<u>2,020</u>	<u>3,030</u>	<u>2,020</u>
Total:						
Listed in Hong Kong	4,840	8,097	–	–	4,840	8,097
Unlisted	–	–	3,810	4,024	3,810	4,024
	<u>4,840</u>	<u>8,097</u>	<u>3,810</u>	<u>4,024</u>	<u>8,650</u>	<u>12,121</u>
Market value of listed securities	<u>4,840</u>	<u>8,097</u>			<u>4,840</u>	<u>8,097</u>
Carrying amount analysed for reporting purposes as:						
Current	4,840	8,097	780	–	5,620	8,097
Non-current	–	–	3,030	4,024	3,030	4,024
	<u>4,840</u>	<u>8,097</u>	<u>3,810</u>	<u>4,024</u>	<u>8,650</u>	<u>12,121</u>

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## 18. INVENTORIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Raw materials	41,287	39,565
Work in progress	2,434	1,080
Finished goods	11,382	8,944
	<u>55,103</u>	<u>49,589</u>

Included above are raw materials of approximately HK\$9,439,000 (2001: HK\$8,617,000) and finished goods of HK\$4,044,000 (2001: HK\$815,000) carried at net realisable value.

## 19. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of the Group's trade receivables at the balance sheet date:

	2002	2001
	HK\$'000	HK\$'000
0-60 days	26,584	31,150
61-90 days	8,953	11,786
91-120 days	4,702	8,170
> 120 days	7,964	7,297
	<u>48,203</u>	<u>58,403</u>

## 20. TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	2002	2001
	HK\$'000	HK\$'000
0-60 days	12,628	7,612
61-90 days	2,045	2,563
91-120 days	1,365	1,302
> 120 days	1,261	742
	<u>17,299</u>	<u>12,219</u>

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For the year ended 31st December, 2002

## 21. SHARE CAPITAL

	Authorised		Issued and fully paid	
	2002 HK\$ '000	2001 HK\$ '000	2002 HK\$ '000	2001 HK\$ '000
Ordinary shares of HK\$0.10 each				
At beginning of the year	70,000	70,000	28,307	28,593
Shares repurchased and cancelled (Note)	–	–	(1,307)	(286)
At end of the year	<u>70,000</u>	<u>70,000</u>	<u>27,000</u>	<u>28,307</u>

Note: During the year, the Company repurchased its own shares through the Stock Exchange as follows:

Month of repurchase	No. of shares of HK\$0.10 each	Price per share		Aggregate consideration paid HK\$
		Highest HK\$	Lowest HK\$	
July 2002	5,382,000	0.62	0.55	3,264,892
August 2002	1,006,000	0.63	0.62	633,332
September 2002	2,772,000	0.60	0.54	1,589,784
October 2002	1,790,000	0.60	0.57	1,046,819
November 2002	1,400,000	0.62	0.61	869,396
December 2002	720,000	0.62	0.58	446,060
	<u>13,070,000</u>			<u>7,850,283</u>

## 22. RESERVES

	Share premium HK\$ '000	Capital redemption reserve HK\$ '000	Contributed surplus HK\$ '000	Retained profits HK\$ '000	Total HK\$ '000
<b>THE COMPANY</b>					
At 1st January, 2001	54,872	936	21,889	28,664	106,361
Dividends	–	–	–	(17,020)	(17,020)
Repurchase of shares	–	286	(2,151)	–	(1,865)
Net profit for the year	–	–	–	20,444	20,444
At 31st December, 2001 and 1st January, 2002	<u>54,872</u>	<u>1,222</u>	<u>19,738</u>	<u>32,088</u>	<u>107,920</u>
Dividends	–	–	–	(15,477)	(15,477)
Repurchase of shares	–	1,307	(7,850)	–	(6,543)
Net profit for the year	–	–	–	20,306	20,306
At 31st December, 2002	<u>54,872</u>	<u>2,529</u>	<u>11,888</u>	<u>36,917</u>	<u>106,206</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2002

## 22. RESERVES (Cont'd)

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1992.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the directors, the Company's reserves available for distribution to shareholders were as follows:

	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Contributed surplus	11,888	19,738
Retained profits	36,917	32,088
	<u>48,805</u>	<u>51,826</u>

## 23. UNPROVIDED DEFERRED TAXATION

At the balance sheet date, the major components of the unprovided deferred taxation liabilities are as follows:

	<b>THE GROUP</b>	
	<b>2002</b> <i>HK\$'000</i>	<b>2001</b> <i>HK\$'000</i>
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	2,757	2,332
Tax effect of taxation losses	(1,990)	(1,783)
	<u>767</u>	<u>549</u>

No provision for deferred taxation has been recognised in the financial statements in respect of timing differences as it is not expected that the potential deferred taxation liability will crystallise in the foreseeable future.

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(Cont'd)

For the year ended 31st December, 2002

### 23. UNPROVIDED DEFERRED TAXATION (Cont'd)

The amount of the unprovided deferred tax credit for the year is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Tax effect of timing differences because of:		
Excess of tax allowances over depreciation	425	194
Taxation losses (arising) utilised	(207)	663
	<u>218</u>	<u>857</u>

The Company has no material unprovided deferred taxation at the balance sheet date.

### 24. OPERATING LEASES

#### The Group as lessee

	2002	2001
	HK\$'000	HK\$'000
Minimum lease payments paid in respect of rented premises under operating leases during the year	<u>2,913</u>	<u>2,786</u>

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises which fall due as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,344	2,378
In the second to fifth year inclusive	5,541	5,363
Over five years	36,926	38,162
	<u>44,811</u>	<u>45,903</u>

Operating lease payments represent rental payable by the Group for certain of its office and factory properties. Leases are negotiated for a term from 2 to 42 years.

#### The Group as lessor

Property rental income earned from investment properties of the Group during the year was HK\$384,000 (2001: HK\$420,000), less negligible outgoings.

At the balance sheet date, the Group had contracted with tenants for future minimum lease receipts, expiring within one year amounting to HK\$384,000 (2001: Nil).



# Notes to the Financial Statements

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For the year ended 31st December, 2002

## 25. SHARE OPTIONS SCHEME

Pursuant to the share option scheme adopted on 30th September, 1992 (the "Old Option Scheme"), the board of directors of the Company could offer to eligible employees, including full time executive directors, of the Company and/or its subsidiaries options to subscribe for shares in the Company in accordance with the terms of the Old Option Scheme for the consideration of HK\$1 for each lot of share options granted. The primary purpose of the Old Option Scheme was to provide incentives to the employees of the Group. The total number of shares in respect of which options could be granted under the Old Option Scheme was not permitted to exceed 10% of the shares of the Company in issue from time to time excluding any shares issued under the Old Option Scheme. The number of shares in respect of which options could be granted to any employee, if exercised in full and when aggregated with the total number of shares already issued upon the exercise of options previously granted to an employee, was not permitted to exceed 25% of the aggregate number of shares for the time being issued and issuable under the Old Option Scheme. Options granted were required to be taken up within 28 days of the date of grant or such longer or shorter period as the board of directors of the Company may think fit. Options could be exercised at any time within six months commencing on the expiry of one year after an option is accepted by an employee. The exercise price was determined by the board of directors of the Company, and was required to be the higher of a price being not less than 80% of the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of a share. The Old Option Scheme expired on 30th September, 2002. No options were granted or exercised under the Old Option Scheme during the year nor were any options outstanding as at beginning and end of the year.

A new share option scheme (the "New Option Scheme") was adopted pursuant to the Annual General Meeting held on 17th May, 2002 and will expire on 16th May, 2012. The primary purpose of the New Option Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

Under the New Option Scheme, the board of directors of the Company may offer to any employees, including full time or part time employees, of the Company and/or its subsidiaries including any executive and non-executive directors or proposed executive and non-executive directors of the Company or any subsidiary options to subscribe for shares in the Company in accordance with the terms of the New Option Scheme for the consideration of HK\$1 for each lot of share options granted.

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the New Option Scheme was 12,700,000, representing approximately 4.7% of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the New Option Scheme is not permitted to exceed 10% of the shares of the Company in issue. In addition, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Option Scheme and any other share option schemes of the Company shall not exceed 30% (or such higher percentage as may be allowed under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of shares of the Company in issue, at any point at time, without prior approval from the Company's shareholder.

Options granted under the New Option Scheme must remain open for acceptance until 5:00 p.m. on the 5th business day following the offer date provided that no such offer shall be open for acceptance after the tenth anniversary of the adoption date or after the New Option Scheme has been terminated. Options may be exercised during the period as the board of directors of the Company may in its absolute discretion determine, save that such period shall not be more than 10 years from the date of the grant of the options and the board of directors may provide restrictions on the exercise of an option during the period an option may be exercised. The exercise price is determined by the board of directors of the Company and will be at least the highest of the followings:

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For the year ended 31st December, 2002

### 25. SHARE OPTIONS SCHEME (Cont'd)

- a) the closing price of shares at the date of grant of a share option;
- b) the average closing price of the shares for the five business days immediately preceding the date of grant; and
- c) the nominal value of a share.

Details of the movements in the Company's share options under the New Option Scheme during the year are as follows:

	Date of option granted	Exercise period	Exercise price HK\$	Number of share options granted during the year and outstanding at 31.12.2002
<b>Directors</b>				
Mr. Ip Siu On	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664	700,000
Mr. Tsui Yan Lee Benjamin	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664	700,000
Total for directors				1,400,000
<b>Employees</b>	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664	2,300,000
<b>Others</b>	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664	1,000,000
Total				4,700,000

No share options were exercised during the year.

No charge is recognised in the income statement in respecting the value of options granted in the year.

### 26. RETIREMENT BENEFITS SCHEME

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") and a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme are required to switch to the MPF Scheme and all new employees joining the Group on or after 1st December, 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

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For the year ended 31st December, 2002

## 26. RETIREMENT BENEFITS SCHEME (Cont'd)

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates of 5% the employee's basic salary.

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

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was approximately HK\$5,000 (2001: HK\$55,000).

The total cost charged to income of approximately HK\$529,000 (2001: HK\$602,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 27. RELATED PARTY TRANSACTIONS

- (a) During the year, the Group entered into the following significant transactions with related parties who are not members of the Group:

	2002 HK\$'000	2001 HK\$'000
Rental expenses paid to:		
Nice Step Investment Limited (Note a)	841	841
Mr. Poon Siu Chung	168	168
Professional fees paid to Messrs. Cheung, Tong & Rosa (Note b)	155	200
Printing fees paid to Run All Limited (Note c)	263	199
	<u>          </u>	<u>          </u>

Notes:

- (a) Mr. Leung Ying Wai, Charles, a director of the Company, has beneficial interest in Nice Step Investment Limited.
- (b) Mr. Tong Wui Tung, an independent non-executive director of the Company, is a partner of Messrs. Cheung, Tong & Rosa, the legal advisers of the Group.
- (c) Mr. Ng Siu Yu, Larry, an independent non-executive director of the Company, has beneficial interest in Run All Limited.

The pricing of the above transactions was determined by the directors on the basis of estimated market value.

- (b) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group. No such facilities were utilised by these non-wholly-owned subsidiaries at 31st December, 2002 and 31st December, 2001.



# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2002

## 28. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/ registered capital held by the Company		Paid up issued/ registered ordinary share capital	Principal activities
		Directly	Indirectly		
Benefit Packing Materials Limited	Hong Kong	–	75%	HK\$1,000,000	Trading of PVC films
Link Faith Company Limited	Hong Kong	–	100%	HK\$100,000	Security investment
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK\$320,000	Manufacture of novelties, festival decorations and packaging products
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK\$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	British Virgin Islands	–	100%	US\$1	Investment holding
Perfectech International (B.V.I.) Limited	British Virgin Islands	100%	–	US\$50	Investment holding
Perfectech International (China) Limited	The PRC	–	100%	HK\$2,000,000	Manufacture of novelties and festival decorations
Perfectech International Limited	Hong Kong	–	100%	HK\$200 (ordinary shares) HK\$80,000 (non-voting deferred shares)	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK\$450,000	Manufacture of PVC blister and box
Perfectech International Trading Limited	Hong Kong	–	100%	HK\$2	Trading of novelties, festival decorations and packaging products
Perfectech Paper Products Company Limited	Hong Kong	–	99%	HK\$1,000,000	Manufacture of paper products

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## 28. PARTICULARS OF PRINCIPAL SUBSIDIARIES (Cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/ registered capital held by the Company		Paid up issued/ registered ordinary share capital	Principal activities
		Directly	Indirectly		
Perfectech Plastics Limited	Hong Kong	–	100%	HK\$1,000,000	Trading of plastic materials
Perfectech Printing Company Limited	Hong Kong	–	90%	HK\$1,000,000	Printing
iTech Limited	Hong Kong	–	100%	HK\$2	Investment holding
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK\$2 (ordinary shares) HK\$160,000 (non-voting deferred shares)	Property investment

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Perfectech International (China) Limited is registered under the PRC law as a cooperative joint venture. The principal activities of all the subsidiaries are carried out in Hong Kong and PRC.

None of the subsidiaries had any debt securities outstanding at the end of the year.

