

**INTERIM REPORT**

For the six months  
ended 30th June, 2003

Innovation  
behind



**Pragmatism**



**PERFECTECH**  
**INTERNATIONAL HOLDINGS LIMITED**

*(Incorporated in Bermuda with limited liability)*

## INTERIM RESULTS

The directors of the Company are pleased to announce that the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30th June, 2003 and the comparative figures in 2002 were as follows: –

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>(Unaudited)</b>	
		<b>For the six months ended</b>	
		<b>30th June,</b>	
		<b>2003</b>	<b>2002</b>
	<i>Notes</i>	<i>HK\$ '000</i>	<i>HK\$ '000</i>
			<b>(As restated)</b>
Turnover	2&3	99,111	115,100
Cost of sales		(80,537)	(89,930)
Gross profit		18,574	25,170
Other operating income	4	5,276	4,643
Distribution costs		(6,795)	(8,576)
Administrative expenses		(12,211)	(12,817)
Other operating expenses	5	(477)	(1,409)
Profit from operations	6	4,367	7,011
Finance costs		(35)	(36)
Profit before taxation		4,332	6,975
Taxation	7	(328)	683
Profit after taxation		4,004	7,658
Minority interests		236	(173)
Profit for the period		4,240	7,485
Dividends	8	13,900	12,738
Earnings per share	9		
Basic		1.55 cents	2.64 cents
Diluted		1.55 cents	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	(Unaudited) 30th June, 2003 <i>HK\$'000</i>	(As restated) 31st December, 2002 <i>HK\$'000</i>
<b>NON-CURRENT ASSETS</b>			
Goodwill		482	535
Investment properties		4,100	4,100
Property, plant and equipment	10	57,052	58,221
Investment in securities		4,040	3,030
Deferred Taxaion Asset		3,235	2,787
		68,909	68,673
<b>CURRENT ASSETS</b>			
Inventories		93,093	55,103
Trade and other receivables	11	62,460	52,543
Investment in securities		4,818	5,620
Amount due from a minority shareholder of a subsidiary		200	200
Taxation recoverable		–	433
Bank balances and cash		42,160	73,482
		202,731	187,381
<b>CURRENT LIABILITIES</b>			
Bank overdraft		1,459	–
Trade and other payables	12	40,929	24,353
Taxation payable		646	–
		43,034	24,353
<b>NET CURRENT ASSETS</b>			
		159,697	163,028
		228,606	231,701
<b>CAPITAL AND RESERVES</b>			
Share capital	13	28,110	27,000
Reserves		196,380	200,356
		224,490	227,356
<b>MINORITY INTERESTS</b>			
		1,995	2,231
<b>DEFERRED TAXATION LIABILITY</b>			
		2,121	2,114
		228,606	231,701
		228,606	231,701

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months ended	
	30th June,	
	2003	2002
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
NET CASH USED IN OPERATING ACTIVITIES	(21,550)	(4,768)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(4,125)	1,329
NET CASH USED IN FINANCING ACTIVITIES	(7,106)	(12,738)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,781)	(16,177)
CASH AND CASH EQUIVALENTS AT 1ST JANUARY	73,482	47,213
Effect of foreign exchange rate changes	–	22
CASH AND CASH EQUIVALENTS AT 30TH JUNE	<u>40,701</u>	<u>31,058</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	42,160	31,058
Bank overdraft	(1,459)	–
	<u>40,701</u>	<u>31,058</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE SIX MONTHS ENDED 30TH JUNE 2003**

	Share capital <i>HKS'000</i>	Share premium <i>HKS'000</i>	(Unaudited) Capital redemption reserve <i>HKS'000</i>	Translation reserve <i>HKS'000</i>	Retained profits <i>HKS'000</i>	Total <i>HKS'000</i>
At 1st January, 2003, as previously reported	27,000	54,872	2,529	62	142,145	226,608
Effect of adopting SSAP 12 – provided for net deferred tax assets ( <i>Note 1</i> )	–	–	–	–	748	748
At 1st January, 2003, as restated	27,000	54,872	2,529	62	142,893	227,356
Dividend	–	–	–	–	(13,900)	(13,900)
Issue of shares on options exercised	1,110	5,684	–	–	–	6,794
Net profit for the period	–	–	–	–	4,240	4,240
At 30th June, 2003	<u>28,110</u>	<u>60,556</u>	<u>2,529</u>	<u>62</u>	<u>133,233</u>	<u>224,490</u>
At 1st January, 2002 as previously reported	28,307	54,872	1,222	40	135,536	219,977
Effect of adopting SSAP 12 – provided for net deferred tax liabilities ( <i>Note 1</i> )	–	–	–	–	(404)	(404)
At 1st January, 2002, as restated	28,307	54,872	1,222	40	135,132	219,573
Dividend	–	–	–	–	(12,738)	(12,738)
Translation of financial statements of an overseas subsidiary	–	–	–	22	–	22
Net profit for the period	–	–	–	–	7,485	7,485
At 30th June, 2002	<u>28,307</u>	<u>54,872</u>	<u>1,222</u>	<u>62</u>	<u>129,879</u>	<u>214,342</u>

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1 BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES**

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25, Interim Financial Reporting, issued by the Hong Kong Society of Accountants (“HKSA”).

These condensed interim financial statements should be read in conjunction with the 2002 annual financial statements.

In the current period, the Group has adopted for the first time the revised 12 “Income Taxes” issued by the HKSA in August 2002, which effective for financial statements relating to periods

commencing on or after 1st January, 2003. Adoption of the revised SSAP has led to a change in the Group's accounting policies. It also introduces additional and revised disclosure requirements which have been adopted in these financial statements. Comparative amounts for the prior period have been restated for consistent presentation.

The changes to the Group's accounting policy and the effect of adopting this new policy is as follows:

### **Deferred taxation**

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

As detailed in the Condensed Consolidated Statement of Changes in Equity, opening retained profits at 1st January, 2002 and 2003 have been decreased by HK\$404,000 and increased by HK\$748,000 respectively. This change has resulted in an increase in deferred tax assets and tax liabilities at 31st December, 2002 by HK\$2,787,000 and HK\$2,114,000 respectively, and a decrease in minority interests of HK\$75,000. The profit for the six months ended 30th June, 2002 has been increased by HK\$1,384,000.

## **2 BUSINESS SEGMENTS**

For management purposes, the Group's business is currently divided into three segments, namely manufacture and sale of novelties and decorations, manufacture and sale of packaging products and trading of PVC films and plastic materials forming the basis of the Group's business segments reporting.

**For the six months ended 30th June, 2003**

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	(Unaudited) PVC films and plastic materials <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	30,864	53,923	14,324	–	99,111
Inter-segment sales	15	5,846	177	(6,038)	–
Total revenue	<u>30,879</u>	<u>59,769</u>	<u>14,501</u>	<u>(6,038)</u>	<u>99,111</u>
<b>RESULT</b>					
Segment results	<u>1,670</u>	<u>734</u>	<u>(84)</u>	<u>(302)</u>	2,018
Profit from investments					2,964
Unallocated corporate expenses					(615)
Profit from operations					4,367
Finance costs					(35)
Profit before taxation					4,332
Taxation					(328)
Profit after taxation					<u>4,004</u>

**For the six months ended 30th June, 2002**

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	(Unaudited and as restated) PVC films and plastic materials <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<b>TURNOVER</b>					
External sales	31,083	61,624	22,393	–	115,100
Inter-segment sales	24	6,443	504	(6,971)	–
Total revenue	<u>31,107</u>	<u>68,067</u>	<u>22,897</u>	<u>(6,971)</u>	<u>115,100</u>
<b>RESULT</b>					
Segment results	<u>2,406</u>	<u>2,613</u>	<u>856</u>	<u>(662)</u>	5,213
Profit from investments					2,047
Unallocated corporate expenses					(249)
Profit from operations					7,011
Finance costs					(36)
Profit before taxation					6,975
Taxation					683
Profit after taxation					<u>7,658</u>

### 3 GEOGRAPHICAL SEGMENTS

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

	<b>(Unaudited)</b> <b>For the six months ended</b> <b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
By geographical market:		
Hong Kong	68,693	84,101
Europe	14,363	11,251
America	14,814	17,337
Asia (other than Hong Kong)	710	793
Others	531	1,618
	<u>99,111</u>	<u>115,100</u>

### 4 OTHER OPERATING INCOME

	<b>(Unaudited)</b> <b>For the six months ended</b> <b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	302	246
Interest income	1,445	719
Dividend income	151	95
Exchange gain	2,643	–
Gain on disposal of trading securities	648	414
Gain on disposal of other securities	–	2,909
Others	87	260
	<u>5,276</u>	<u>4,643</u>

### 5 OTHER OPERATING EXPENSES

	<b>(Unaudited)</b> <b>For the six months ended</b> <b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unrealised loss on trading securities	477	1,371
Loss on disposal of property, plant and equipment	–	38
	<u>477</u>	<u>1,409</u>

### 6 PROFIT FROM OPERATIONS

Profit from operations was stated after charging depreciation of HK\$6,853,000 (2002: HK\$7,673,000) and amortisation of goodwill of HK\$53,000 (2002: HK\$53,000).



## 7 TAXATION

	<b>(Unaudited)</b>	
	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax charge comprises:		
Hong Kong Profits Tax		
Current period	769	696
Deferred taxation	(441)	(1,379)
	<u>328</u>	<u>(683)</u>

Hong Kong Profits tax is stated at 17.5% (2002: 16%) of the estimated assessable profits for the period. In 2003, the government enacted a change in profits tax from 16% to 17.5% for the fiscal year 2003/2004.

## 8 DIVIDENDS

	<b>(Unaudited)</b>	
	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Final paid:		
5 cents per share for 2002 (2002: 4.5 cents per share for 2001)	13,900	12,738

The directors have resolved to declare an interim dividend of 0.5 cent (2002: 1 cent) per share.

## 9 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the net profit for the period of approximately HK\$4,240,000 (2002: HK\$7,485,000, as restated) and the following data:

	<b>(Unaudited)</b>	
	<b>For the six months ended</b>	
	<b>30th June,</b>	
	<b>2003</b>	<b>2002</b>
Weighted average number of ordinary shares for the purposes of basic earnings per share	273,239,259	283,071,607
Effect of dilutive potential ordinary shares: Share options	367,075	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>273,606,334</u>	<u>283,071,607</u>

No diluted earnings per share was presented for the six months 30th June, 2002 as the Company did not have any potential dilutive shares for that period.

## 10 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment for an amount of approximately HK\$5,684,000 (2002: HK\$3,956,000).

## 11 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 end of the period:

	(Unaudited) 30th June, 2003 <i>HK\$'000</i>	(Audited) 31st December, 2002 <i>HK\$'000</i>
0-60 days	39,333	26,584
61-90 days	6,568	8,953
91-120 days	2,958	4,702
> 120 days	10,441	7,964
	<u>59,300</u>	<u>48,203</u>

## 12 TRADE AND OTHER PAYABLES

The following is an aged analysis of the Group's trade payables at end of the period:

	(Unaudited) 30th June, 2003 <i>HK\$'000</i>	(Audited) 31st December, 2002 <i>HK\$'000</i>
0-60 days	19,129	12,628
61-90 days	4,397	2,045
91-120 days	2,644	1,365
> 120 days	1,094	1,261
	<u>27,264</u>	<u>17,299</u>

## 13 SHARE CAPITAL

	(Unaudited)			
	Authorised		Issued and fully paid	
	For the six months ended 30th June,			
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Ordinary shares of HK\$0.1 each				
At beginning of the period	70,000	70,000	27,000	28,307
Issue of shares on options exercised	–	–	1,110	–
At end of the period	<u>70,000</u>	<u>70,000</u>	<u>28,110</u>	<u>28,307</u>

## 14 CONTINGENT LIABILITIES

The Company has given guarantees to certain banks in respect of general facilities granted to its subsidiaries. No such facilities has been utilised by its subsidiaries at 30th June, 2003 (31st December, 2002: nil).

## 15 COMMITMENTS

### (a) Capital commitments for property, plant and equipment

	(Unaudited) 30th June, 2003 <i>HK\$'000</i>	(Audited) 31st December, 2002 <i>HK\$'000</i>
Contracted but not provided for	1,220	–
Authorised but not contracted for	2,490	–
	<u>3,710</u>	<u>–</u>

### (b) Operating lease commitments

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

	(Unaudited) 30th June, 2003 <i>HK\$'000</i>	(Audited) 31st December, 2002 <i>HK\$'000</i>
Within one year	2,627	2,344
Over 1 year but within 5 years	6,469	5,541
Over five years	36,291	36,926
	<u>45,387</u>	<u>44,811</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 years to 42 years.

## 16 RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following significant transactions with related parties who are not members of the Group:

	(Unaudited) For the six months ended 30th June,	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Rental expenses paid to:		
Nice Step Investment Limited (Note (a))	399	420
Mr. Poon Siu Chung	84	84
Professional fees paid to Messrs.		
Cheung, Tong & Rosa (Note (b))	100	155
Printing fees paid to Run All Limited (Note (c))	154	135
	<u>154</u>	<u>135</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 adviser 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 above transactions were determined by the directors by reference to the relevant estimated market values.

During the period, the Group issued guarantees to certain financial institutions to secure general banking facilities granted to the Group including its non-wholly-owned subsidiaries. No such facilities were utilised by its non-wholly-owned subsidiaries at 30th June, 2003 (at 31st December, 2002: nil).

## **INTERIM DIVIDEND**

The directors have resolved to declare an interim dividend for the six months ended 30th June, 2003 of 0.5 cent (2002: 1 cent) per share payable on or about 8th October, 2003 to shareholders on the register of members of the Company (the “Register of Members”) on 3rd October, 2003.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members will be closed from 2nd October, 2003 to 3rd October, 2003, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed interim dividend, all transfer accompanied by the relevant share certificates must be lodged with the Company’s Hong Kong Share Registrar, Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 30th September, 2003.

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

#### **Core businesses**

During the period, the total turnover of the Group decreased by about 14% to HK\$99,111,000, while the net profit decreased by about 43% to HK\$4,240,000.

Due to the outbreak of the Iraqi War in the Middle East and the Severe Acute Respiratory Syndrome (“SARS”) epidemic in Hong Kong and in its adjacent regions, both the global and local economies were adversely affected. In particular, the local demand for consumer products dropped very substantially in the second quarter of the year. At the moment, it is still uncertain when such impacts will disappear.

For the same reason, the turnovers of both the packaging segment and the trading segment decreased substantially by about 12% and 36% respectively, while that of the novelties and decoration segment remained quite stable in the first half of the year, compared to last year. The decrease in the turnover of both the packaging segment and the trading segment were mainly due to the effects of the SARS as stated in the Company's announcement dated 4th July, 2003, and the changeover of the management of the Company's major subsidiaries of the latter segment. On the other hand, the turnover of novelties and festival decorations in the second half of the year is expected to have a strong growth compared to the first half year.

Due to the absorption of fixed costs, the profit contributions from all the three segments dropped substantially. The profit contribution from trading activities was also recorded negative.

To the Group, the finance cost was kept at a lowest level of approximately HK\$35,000 (2002: HK\$36,000). The Group is not likely to benefit from further deduction of finance expenses. The Group has enough cash and cash equivalent for its further business expansion and/or investments.

As stated in the announcement of profit warning dated 4th July, 2003, since the holding company of one of the Group's major customers has filed for bankruptcy protection in the US, the recovery of a total of approximately HK\$7,419,000 of the Group's receivables and investments becomes doubtful. No provision has been made as the bankruptcy proceedings is still in its preliminary stage. Please refer to the said announcement for details.

## **Investments**

With available surplus funds on hand, the Group continues to utilize a limited portion of it to invest in the securities of both listed and unlisted companies. At 30th June, 2003, the market value of total investment in securities was HK\$8,858,000, of which HK\$4,820,000 was invested in the interest-bearing securities of unlisted companies.

## **FUTURE PLAN AND PROSPECT**

In view of the current global and local economic atmospheres, the Group will continue to adopt a prudent policy in investments and credit terms to its customers. Nevertheless, the Group keeps looking for suitable opportunities of further development, especially in relation to its core businesses. New machines and equipments will be acquired and installed when they are necessary to improve the Group's production capacity and competing capability for its expansion and development. As always, the directors will take every opportunity to establish new business and/or acquire related businesses.

As said in previous paragraph, it is still unknown when the adverse effects from the Iraqi War and SARS will disappear and the recovery of both global and local economies is still uncertain, the directors are not optimistic about the Group's next year results. Both of the Group's turnover and net profit are anticipated to drop by a double-digit percentage, particularly after taken into account the possible provision for the doubtful debts as stated in the Company's profit warning announcement dated 4th July, 2003.

## **Liquidity and financial resources**

The Group had no long-term bank borrowings, its short-term bank borrowings (in terms of overdraft) was approximately HK\$1,459,000 as at 30th June, 2003 (31st December, 2002: nil), and no charge has been made on any asset of the Group. The gearing ratio of the Group, measured by total bank and other borrowings divided by equity, was 0.65% as at 30th June, 2003 (31st December, 2002: nil).

At 30th June, 2003, the Group had bank balances and cash in aggregate of HK\$42,160,000 (31st December, 2002: HK\$73,482,000).

## **Employees and remuneration policies**

As at 30th June, 2003, the Group employed approximately 3,000 full time employees. The Group remunerates its employees by reference to the prevailing industry practice as well as individual merits. The Group has also established a share option scheme for its full time employees.

## **Foreign currency exposure**

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, with some in Reminbi and Euro Dollar. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exchange risk exposure in this regard.

As for currencies other than Hong Kong Dollar, the Group will closely monitor their movement trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

At 30th June, 2003, the Group did not use any financial instrument for hedging purposes.

## **SHARE OPTIONS SCHEME**

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 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 director or proposed executive and non-executive director 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 4,700,000, representing approximately 1.7% 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:

- 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 period are as follows:

	Number of options outstanding at 1/1/2003	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2003	Date granted	Exercise price per share HK\$	Exercisable Period
Ip Siu On	700,000		700,000	–	5/6/2002	0.664	5/7/2002 to 17/5/2012
Director	–	2,000,000	2,000,000	–	8/1/2003	0.592	8/2/2003 to 31/12/2011
	<u>700,000</u>	<u>2,000,000</u>	<u>2,700,000</u>	<u>–</u>			
Tsui Yan Lee,	700,000		700,000	–	5/6/2002	0.664	5/7/2002 to 17/5/2012
Benjamin	–	2,000,000	2,000,000	–	8/1/2003	0.592	8/2/2003 to 31/12/2011
Director	<u>700,000</u>	<u>2,000,000</u>	<u>2,700,000</u>	<u>–</u>			

	Number of options outstanding at 1/1/2003	Number of options granted during the period	Number of shares issued and exercise of options during the period	Number of options outstanding at 30/6/2003	Date granted	Exercise price per share HK\$	Exercisable Period
Employees	2,300,000		1,700,000	600,000	5/6/2002	0.664	5/7/2002 to 17/5/2012
	–	3,000,000	3,000,000	–	8/1/2003	0.592	8/2/2003 to 31/12/2011
	<u>2,300,000</u>	<u>3,000,000</u>	<u>4,700,000</u>	<u>600,000</u>			
Others	1,000,000			1,000,000	5/6/2002	0.664	5/7/2002 to 17/5/2012
	–	1,000,000	1,000,000	–	8/1/2003	0.592	8/2/2003 to 31/12/2011
	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>			
Grand Total	<u>4,700,000</u>	<u>8,000,000</u>	<u>11,100,000</u>	<u>1,600,000</u>			

The closing price of the Company's shares immediately before 5th June, 2002, and 8th January, 2003, the dates of grant of the options, were HK\$0.64 and HK\$0.59 respectively.

The weighted average closing price of the shares immediately before the dates on which options were exercised was HK\$0.6781.

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

The directors of the Company considered that it is not appropriate to value share options granted under the option scheme during the period as a number of factors critical for the valuation of the share options granted cannot be determined accurately. In the absence of readily available market value of the options under the option scheme, any valuation of the share options would be meaningless and could be misleading to the shareholders.

## **DIRECTORS' INTERESTS IN SHARES**

At 30th June, 2003, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO were as follows:



### (A) Long Positions in shares of the Company

Directors	Capacity	No. of shares held	Total	% of issued share capital of the Company
Mr. Poon Siu Chung	Beneficial owner Interest of spouse and controlled corporation	6,232,000 101,757,630	107,989,630(a)	38.42
Mr. Leung Ying Wai, Charles	Interest of spouse and controlled corporation	63,097,200	63,097,200(b)	22.45
Mr. Ip Siu On	Beneficial owner	9,803,600	9,803,600	3.49
Mr. Tsui Yan Lee, Benjamin	Beneficial owner	7,111,000	7,111,000	2.53
Mr. Ng Siu Yu, Larry	Beneficial owner	880,000	880,000	0.31

#### Notes:

- (a) Mr. Poon Siu Chung was the beneficial owner of 6,232,000 shares (“Shares”) of the Company and he was deemed to be interested in 101,757,630 Shares which were held through Mime Limited, a limited company incorporated in Hong Kong and owned as to 55% by Mr. Poon Siu Chung and as to 45% by his spouse, Ms. Lau Kwai Ngor. Of these shares, 618,200 shares are held in trust for others.
- (b) Mr. Leung Ying Wai, Charles was deemed to be interested in 63,097,200 Shares which were held through Nielsen Limited, a limited company incorporated in Hong Kong.

### (B) Right to acquire shares of the Company

Other than the share options disclosed in the section “Share Option Scheme”, at no time during the period was the Company or its subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by the means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

### (C) Long Position in shares of associated corporations of Company

Directors	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of associated corporation
Mr. Poon Siu Chung	Perfectech International Limited	Beneficial owner Interest of spouse	200 200	400(c)	50

Directors	Name of associated corporation	Capacity	No. of shares held	Total	% of issued share capital of associated corporation
Mr. Poon Siu Chung	Sunflower Garland Manufactory Limited	Beneficial owner	60,800	81,600(d)	51
		Interest of spouse	20,800		
Mr. Leung Ying Wai, Charles	Perfectech International Limited	Interest of spouse	400	400(e)	50
Mr. Ip Siu On	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18
Mr. Tsui Yan Lee, Benjamin	Sunflower Garland Manufactory Limited	Beneficial owner	28,800	28,800	18

*Notes:*

- (c) Mr. Poon Siu Chung was the beneficial owner of 200 non-voting deferred shares (“Perfectech Shares”) of HK\$100 each in Perfectech International Limited, a subsidiary of the Company and was deemed to be interested in 200 Perfectech Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (d) Mr. Poon Siu Chung was the beneficial owner of 60,800 non-voting deferred shares (“Sunflower Shares”) of HK\$1 each in Sunflower Garland Manufactory Limited, a subsidiary of the Company and was deemed to be interested in 20,800 Sunflower Shares through interests of his spouse, Ms. Lau Kwai Ngor.
- (e) Mr. Leung Ying Wai, Charles was deemed to be interested in 400 Perfectech Shares through interests of his spouse, Ms. Tai Yee Foon.

Other than as disclosed above and nominee shares in certain subsidiaries held in trust for the Group, none of the directors, nor their associates, had any interests in any securities of the Company or any of its associated corporations as defined in the SFO.

## **INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS**

Other than the interests disclosed above in the section “Directors’ Interests in Shares”, as at 30th June, 2003, the register of substantial shareholders’ interests and short position maintained under Section 336 of the SFO showed that the Company had been notified of the following interests, being 5% or more held in the shares and underlying shares of the Company.

## Long Positions in shares of the Company

Shareholders	Capacity	No. of shares held	Total	% of issued share capital of the Company
Ms. Lau Kwai Ngor	Interest of spouse and controlled corporation	107,989,630	107,989,630(f)	38.42
Ms. Tai Yee Foon	Interest of spouse and controlled corporation	63,097,200	63,097,200(g)	22.45
Takefuji Corporation	Beneficial owner	25,825,800	25,825,800	9.19

### Notes:

- (f) Ms. Lau Kwai Ngor was deemed to be interested in 107,989,630 Shares through interests of her spouse, Mr. Poon Siu Chung (Please refer to Note (a) above).
- (g) Ms. Tai Yee Foon was deemed to be interested in 63,097,200 Shares through interests of her spouse, Mr. Leung Ying Wai, Charles (Please refer to Note (b) above).

## PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

## AUDIT COMMITTEE

The members of the audit committee comprise two independent non-executive directors of the Company.

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing internal controls and financial reporting matters including the review of the unaudited condensed consolidated interim financial statements for the six months ended 30th June, 2003 of the Company now reported on.

## CORPORATE GOVERNANCE

The Company has complied throughout the period ended 30th June, 2003 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

On behalf of the Board  
**Poon Siu Chung**  
*Chairman & Managing Director*

Hong Kong, 28th August, 2003.