Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

During the year, the Group was involved in the design, manufacture and sale of home, garden and plastic decorative products.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. It prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

– deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future;

– a deferred tax liability has been recognised on the revaluation of the Group's land and buildings; and

– a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

– deferred tax assets and liabilities are presented separately on the balance sheet, whereas previously they were presented on a net basis; and

– the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 10 and 27 to the financial statements and include a reconciliation between the accounting loss and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 27 to the financial statements.

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 2003. 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.

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.

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

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.

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.

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

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.

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 consolidated 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.

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

Negative goodwill ***(continued)***

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.

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.

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

Fixed assets and depreciation *(continued)*

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 asset revaluation reserve realised in respect of previous valuations is transferred to retained earnings as a movement in reserves.

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.

Notes to Financial Statements

31 December 2003

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.

Notes to Financial Statements

31 December 2003

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.

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.

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.

Notes to Financial Statements

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

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 into Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated into 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 into 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 into Hong Kong dollars at the weighted average exchange rates for the year.

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.

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

Employee benefits *(continued)*

(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.

(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.

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

Employee benefits ***(continued)***

(d) *Share option 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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

– except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

– in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

– except where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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

Income tax ***(continued)***

– in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 profit/loss 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.

Notes to Financial Statements

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4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers

	United States of America 2003 HK$'000	Europe 2003 HK$'000	Asia Pacific 2003 HK$'000	Others 2003 HK$'000	Consolidated 2003 HK$'000
Turnover	378,796	307,450	129,033	4,889	820,168
Segment result	25,976	28,232	18,886	120	73,214
Unallocated costs					(72,845)
Profit from operating activities					369
Finance costs					(21,594)
Share of loss of an associate					(1,938)
Loss before tax					(23,163)
Tax					17,524
Loss before minority interests					(5,639)
Minority interests					(598)
Net loss from ordinary activities attributable to shareholders					(6,237)
Segment assets	38,936	23,092	32,870	–	94,898
Unallocated assets					622,953
Total assets					717,851
Unallocated liabilities					478,325
Other segment information:					
Capital expenditure (unallocated)					20,564
Amortisation of intangible assets (unallocated)					20,532
Depreciation (unallocated)					39,286
Provision for doubtful debts	3,001	3,511	1,234	–	7,746

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4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of customers *(continued)*

	United States of America 2002 *HK$'000*	Europe 2002 *HK$'000*	Asia Pacific 2002 *HK$'000*	Others 2002 *HK$'000*	Consolidated 2002 *HK$'000* (Restated)
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					(68,169)
Loss from operating activities					(12,986)
Finance costs					(19,516)
Share of loss of an associate					(3,518)
Loss before tax					(36,020)
Tax					(2,838)
Loss before minority interests					(38,858)
Minority interests					(555)
Net loss from ordinary activities attributable to shareholders					(39,413)
Segment assets	30,871	22,871	20,833	199	74,774
Unallocated assets					582,911
Total assets					657,685
Unallocated liabilities					431,953
Other segment information:					
Capital expenditure (unallocated)					41,940
Amortisation of intangible assets (unallocated)					20,452
Depreciation (unallocated)					38,189
Provision for doubtful debts	2,231	543	7	–	2,781

Notes to Financial Statements

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4. SEGMENT INFORMATION *(continued)*

Geographical segments by location of assets

	Total assets	Capital expenditure
	2003	**2003**
	HK$'000	***HK$'000***
Asia Pacific	**439,475**	11,668
Europe	**226,936**	8,470
United States of America	**23,207**	426
	689,618	20,564
Unallocated assets	**28,233**	
	717,851	

	Total assets	Capital expenditure
	2002	2002
	HK$'000	*HK$'000*
	(Restated)	
Asia Pacific	424,637	31,572
Europe	190,208	10,152
United States of America	19,120	216
	633,965	41,940
Unallocated assets	23,720	
	657,685	

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. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Cost of inventories sold*	**537,634**	438,768
Staff costs (excluding directors' remuneration – note 7):		
Salaries and wages	**145,392**	150,005
Pension contributions	**3,901**	3,478
Depreciation	**39,286**	38,189
Auditors' remuneration	**2,004**	2,512
Amortisation of intangible assets	**20,532**	20,452
Amortisation of goodwill**	**1,510**	623
Loss on disposal of fixed assets**	**1,583**	309
Write-off of intangible assets**	**816**	–
Provision for doubtful debts**	**7,746**	2,781
Impairment of an investment in an associate**	**–**	142
Minimum lease payments under operating leases in respect of land and buildings	**8,847**	9,133
Exchange gains, net	**(8,488)**	(3,164)
Negative goodwill recognised as income	**(9)**	(10)
Interest income	**(1,465)**	(785)
Gross rental income	**(1,135)**	(1,613)
Less: Outgoings	**109**	272
Net rental income	**(1,026)**	(1,341)

* The "cost of inventories sold" includes HK$94,195,000 (2002: HK$100,526,000) 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.

** These expenses are included in "Other operating expenses" on the face of the profit and loss account.

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7. DIRECTORS' REMUNERATION

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

	2003	2002
	HK$'000	*HK$'000*
Executive directors:		
Fees	–	–
Basic salaries, housing, other allowances and benefits in kind	6,940	6,738
Pension scheme contributions	701	1,427
	7,641	8,165
Non-executive directors:		
Fees	516	519
	8,157	8,684

Fees to non-executive directors include HK$360,000 (2002: HK$360,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

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

	Number of directors	
	2003	2002
Nil – HK$1,000,000	9	9
HK$1,000,001 – HK$1,500,000	2	–
HK$1,500,001 – HK$2,000,000	–	3
HK$2,500,001 – HK$3,000,000	1	–

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: three) directors of the Company, details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining two (2002: two) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, housing, other allowances and benefits in kind	**1,693**	1,905
Pension scheme contribution	**22**	12
	1,715	1,917

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

	Number of employees	
	2003	2002
Nil – HK$1,000,000	**2**	2

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	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts wholly repayable:		
Within five years	**20,303**	16,981
Over five years	**889**	2,095
Interest on finance leases	**402**	440
Total finance costs	**21,594**	19,516

Notes to Financial Statements

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10. TAX

	Group	
	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Current year provision:		
Hong Kong	**118**	127
Elsewhere	**2,277**	1,906
Deferred, net – note 27	**(16,411)**	660
	(14,016)	2,693
Under/(Over) provision in prior years:		
Hong Kong	**–**	–
Elsewhere	**(3,508)**	145
Total tax charge for the year	**(17,524)**	2,838

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003. Taxes on profits assessable elsewhere overseas 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.

10. TAX *(continued)*

A reconciliation of the tax expense applicable to loss before tax using the statutory rates for the countries in which the Company and its subsidiaries and associates are domiciled to the tax expense at the effective tax rates are as follows:

	2003	2002
	HK$'000	*HK$'000*
Loss before tax	**(23,163)**	(36,020)
Tax at domestic rates applicable to profits/losses in the countries concerned	**2,661**	(4,825)
Lower tax rate for specific provinces in Mainland China	**(774)**	(2,211)
Tax holiday	**(2,849)**	(3,132)
Effect on opening deferred tax of increase in rates	**78**	–
Adjustment in respect of current tax of previous period	**(3,508)**	(81)
Income not subject to tax	**(78,150)**	(60,729)
Expenses not deductible for tax	**81,728**	62,672
Unrecognised tax losses	**5,974**	10,601
Tax losses from previous years utilised	**(5,530)**	(45)
Deferred tax liabilities principally arising from accelerated tax depreciation	**2,410**	–
Deferred tax assets arising from losses brought forward recognised during the year	**(18,821)**	(6)
Temporary difference not recognised	**(418)**	(85)
Others	**(325)**	679
Tax charge at effective rate	**(17,524)**	2,838

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.

11. NET LOSS FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK$1,520,000 (2002: HK$22,107,000) (note 30).

12. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the year (2002: Nil).

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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$6,237,000 (2002: HK$39,413,000 (restated)) and the weighted average of 654,006,493 (2002: 487,772,137) ordinary shares in issue during the year.

A diluted loss per share amount for the years ended 31 December 2003 and 2002 has not been disclosed as no diluting events existed during the 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	226,681	11,026	12,120	41,128	71,395	99,954	8,482	470,786
Additions	–	–	1,572	907	7,814	8,961	1,310	20,564
Disposals	–	–	–	(530)	(6,345)	(3,020)	(368)	(10,263)
Transfers	4,815	–	(9,147)	4,318	1,160	(1,146)	–	–
Exchange realignment	11,665	–	(21)	(106)	3,676	16,300	(39)	31,475
At 31 December 2003	**243,161**	**11,026**	**4,524**	**45,717**	**77,700**	**121,049**	**9,385**	**512,562**
Accumulated depreciation:								
At beginning of year	18,687	–	–	27,217	20,944	69,533	4,641	141,022
Provided during the year	8,227	–	–	5,412	7,446	14,727	3,474	39,286
Disposals	–	–	–	(530)	(3,378)	(1,693)	(368)	(5,969)
Transfers	–	–	–	–	470	(470)	–	–
Exchange realignment	385	–	–	(100)	1,394	12,188	(28)	13,839
At 31 December 2003	**27,299**	**–**	**–**	**31,999**	**26,876**	**94,285**	**7,719**	**188,178**
Net book value:								
At 31 December 2003	**215,862**	**11,026**	**4,524**	**13,718**	**50,824**	**26,764**	**1,666**	**324,384**
At 31 December 2002	207,994	11,026	12,120	13,911	50,451	30,421	3,841	329,764
Analysis of cost and valuation:								
At cost	109,746	–	4,524	45,717	77,700	121,049	9,385	368,121
At valuation	133,415	11,026	–	–	–	–	–	144,441
	243,161	11,026	4,524	45,717	77,700	121,049	9,385	512,562

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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	–	96,016	96,016
At valuation:			
Freehold	–	71,479	71,479
Medium lease term	30,996	17,371	48,367
	30,996	**184,866**	**215,862**

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 2003 amounted to HK$11,089,000 (2002: HK$18,022,000).

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 2003 by RHL Appraisal Ltd ("RHL"), independent professionally qualified valuers. There was no material surplus or deficit arising therefrom. The freehold land in Germany at a carrying amount of HK$71,479,000 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 2003. 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 2003, did not differ materially from their fair values as at 31 December 2003.

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$90,361,000 (2002: HK$87,397,000).

The Group's land and buildings and investment property with a net book value of HK$201,849,000 (2002: HK$192,058,000) 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 process of obtaining the land and properties certificates for certain of its leasehold land and buildings of approximately HK$24,123,000.

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.

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15. INTANGIBLE ASSETS

Group

	Deferred expenses	Deferred development costs	Patents	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cost:				
At beginning of year	6,938	27,354	7,729	42,021
Additions	4,167	18,264	103	22,534
Write-off	–	(17,262)	–	(17,262)
Exchange realignment	1,342	670	(2)	2,010
At 31 December 2003	**12,447**	**29,026**	**7,830**	**49,303**
Accumulated amortisation:				
At beginning of year	6,255	16,029	2,456	24,740
Amortisation	2,157	16,900	1,475	20,532
Write-off	–	(16,446)	–	(16,446)
Exchange realignment	1,286	73	–	1,359
At 31 December 2003	**9,698**	**16,556**	**3,931**	**30,185**
Net book value:				
At 31 December 2003	**2,749**	**12,470**	**3,899**	**19,118**
At 31 December 2002	683	11,325	5,273	17,281

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:		
As previously reported	6,680	(3,341)
Prior year adjustment	1,202	3,241
As restated	7,882	(100)
Additions	–	–
At 31 December 2003	**7,882**	**(100)**
Accumulated amortisation and impairment/(recognition as income):		
At beginning of year:		
As previously reported	1,005	(3,261)
Prior year adjustment	360	3,241
As restated	1,365	(20)
Amortisation provided/(recognised as income) during the year	1,510	(9)
At 31 December 2003	**2,875**	**(29)**
Net book value:		
At 31 December 2003	**5,007**	**(71)**
At 31 December 2002 (as restated)	6,517	(80)

As detailed in note 2 to the financial statements, SSAP 12 (revised) was adopted for the first time for the current year's financial statements. As a result of the implementation of the revised SSAP12, the Group has been required to recognise the deferred tax balance that would have arisen at the date of the acquisition of a subsidiary group of companies had the requirements of the revised standard been applied at that date. The prior year adjustment so arising as at 1 January 2003 has increased the cost of goodwill by HK$1,202,000 and has reduced the cost of negative goodwill by HK$3,241,000; the accumulated amortisation of goodwill increased by HK$360,000 and accumulated amortisation of negative goodwill reduced by HK$3,241,000. The amortisation of goodwill provided for the year ended 31 December 2002, as a result of change in accounting policy, has been increased by HK$120,000. Further details of the prior year adjustments arising from the adoption of revised SSAP 12 are included in note 27 to the financial statements.

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17. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**75,331**	75,331
Provision for impairment	**(28,429)**	(28,429)
	46,902	46,902
Due from subsidiaries	**189,272**	175,666
	236,174	222,568

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

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31 December 2003

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$9,999,800	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., Limited	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
Peaktop Technologies (USA) Hong Kong Limited (formerly known as HPT Group (U.S.A.) Hong Kong Limited)	Hong Kong	Ordinary HK$10,000	51	Distribution of giftware
Peaktop Limited (LA)**	United States of America	Ordinary US$10,000	100	Marketing and provision of after-sale services
Peaktop Technologies (USA), Inc.**	United States of America	Ordinary US$160,000	51	Wholesale of giftware

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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
Prismarte (Italy) (U.S.A.), Ltd.**	United States of America	Ordinary US$1,000	100	Wholesale of giftware and stationery
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	Wholesale of giftware and stationery and development of new products
HPT Group (USA), Inc.**	United States of America	Ordinary US$5,001,500	100	Wholesale of giftware and stationery
Heissner UK Limited**	United Kingdom	Ordinary £210,000	99.7	Distribution of water pumps and home gardening decorative products
Peaktop Technologies Italy s.r.l.	Italy	Ordinary Euro 52,000	100	Trading of aquarium products and provision of research and development 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
Waterwerks Pty. Ltd.**	Australia	Ordinary AUD 10,000	90	Sale 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.

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.

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18. INTERESTS IN ASSOCIATES

	Group 2003 HK$'000	2002 HK$'000
Share of net assets	**650**	6,399
Due from associates	**330**	563
	980	6,962
Provision for impairment	**(584)**	(538)
	396	6,424

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 pottery

** 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. INVESTMENT SECURITIES

	Group 2003 HK$'000	2002 HK$'000
Unlisted shares, at cost	**10,626**	10,685
Provision for impairment	**(6,178)**	(6,178)
	4,448	4,507

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20. INVENTORIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**60,369**	54,816
Work in progress	**26,691**	11,866
Finished goods	**85,867**	72,726
	172,927	139,408

No inventories were stated at net realisable value as at the balance sheet date (2002: Nil).

At 31 December 2003, the carrying amount of the Group's inventories of approximately HK$49,112,000 (2002: HK$40,273,000) 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	
	2003	2002
	HK$'000	*HK$'000*
Current	**66,923**	55,432
30 – 60 days	**13,390**	9,401
61 – 90 days	**5,456**	3,262
Over 90 days	**9,129**	6,679
	94,898	74,774

At 31 December 2003, trade receivables of the Group of approximately HK$9,364,000 (2002: HK$2,466,000) 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$7,864,000 (2002: HK$9,222,000). 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.

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23. INTEREST-BEARING BANK LOANS AND OVERDRAFTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Bank overdrafts repayable on demand:		
Secured	**4,951**	2,739
Unsecured	**6,371**	13,081
	11,322	15,820
Bank loans:		
Secured	**198,878**	169,239
Unsecured	**3,281**	25,270
	202,159	194,509
The maturity of the bank loans is as follows:		
Bank loans are wholly repayable:		
Within one year	**124,612**	120,637
In the second year	**17,125**	48,371
In the third to fifth years, inclusive	**52,322**	19,020
Over five years	**8,100**	6,481
	202,159	194,509
Portion classified as current liabilities	**(124,612)**	(120,637)
Long term portion	**77,547**	73,872

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$190,823,000 (note 14); and

(iii) floating charges over certain of the Group's inventories and accounts receivable of approximately HK$49,112,000 (note 20) and HK$9,364,000 (note 21), respectively.

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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 2003, the total future minimum lease payments under finance leases and their present values were as follows:

Group	Minimum lease payments 2003 HK$'000	Minimum lease payments 2002 HK$'000	Present value of minimum lease payments 2003 HK$'000	Present value of minimum lease payments 2002 HK$'000
Amounts payable:				
Within one year	3,694	4,660	3,553	4,627
In the second year	2,412	2,001	2,164	1,968
In the third to fifth years, inclusive	1,090	1,281	884	809
Total minimum finance lease payments	7,196	7,942	6,601	7,404
Future finance charges	(595)	(538)		
Total net finance lease payables	6,601	7,404		
Portion classified as current liabilities	(3,315)	(4,333)		
Long term portion	3,286	3,071		

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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	
	2003	2002
	HK$'000	*HK$'000*
Current	**69,317**	36,307
30 – 60 days	**20,352**	18,578
61 – 90 days	**17,297**	14,030
Over 90 days	**15,528**	27,439
	122,494	96,354

27. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Deferred tax liabilities

Group	**2003**			
	Accelerated tax depreciation	**Revaluation of properties**	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
At 1 January 2003				
As previously reported	**–**	**6,465**	**–**	**6,465**
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	**–**	**5,659**	**740**	**6,399**
As restated	**–**	**12,124**	**740**	**12,864**
Deferred tax charged/(credited) to the profit and loss account (note 10)	**2,498**	**(88)**	**–**	**2,410**
Exchange realignment	**(228)**	**2,334**	**–**	**2,106**
Gross deferred tax liabilities at 31 December 2003	**2,270**	**14,370**	**740**	**17,380**

27. DEFERRED TAX *(continued)*

Deferred tax assets

Group

	2003 **Losses available for offset against future taxable profit** *HK$'000*
Deferred tax credited to the profit and loss account during the year (note 10)	**18,821**
Exchange realignment	**1,998**
Gross deferred tax assets at 31 December 2003	**20,819**
Deferred tax liabilities at 31 December 2003	**(740)**
Deferred tax assets at 31 December 2003	**4,179**
Net deferred tax assets at 31 December 2003	**3,439**

Deferred tax liabilities

Group

	2002			
	Accelerated tax depreciation *HK$'000*	Revaluation of properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
At 1 January 2002				
As previously reported	7	5,547	–	5,554
Prior year adjustment:				
SSAP 12 – restatement of deferred tax	–	4,796	–	4,796
As restated	7	10,343	–	10,350
Deferred tax charged/(credited) to the profit and loss account (note 10)	(7)	(73)	740	660
Exchange realignment	–	1,854	–	1,854
Deferred tax liabilities at 31 December 2002	–	12,124	740	12,864

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27. DEFERRED TAX *(continued)*

Deferred tax assets are recognised for tax loss carried forward to the extent that realisation of the related tax benefit through utilisation against future taxable profits is probable. The Group has unutilised tax losses of approximately HK$157,600,000 (2002: HK$130,454,000) which will be carried forward for deduction against future taxable income. Estimated tax losses of approximately HK$22,453,000 (2002: HK$19,952,000) will expire within 1-20 years from 31 December 2003. The remaining portion of the tax losses, mainly relating to the companies in Hong Kong and Europe, can be carried forward indefinitely.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability to additional tax should such amounts be remitted due to the availability of double tax relief.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

SSAP 12 (revised) was adopted during the year, as further explained in notes 2 and 16 to the financial statements. This change in accounting policy has resulted in an increase in the Group's deferred tax liability as at 1 January 2003 and 2002 by HK$6,399,000 and HK$4,796,000, respectively. As a consequence, the cost of goodwill and negative goodwill as at 1 January 2003 have been increased by HK$1,202,000 and reduced by HK$3,241,000, respectively; the accumulated amortisation of goodwill and negative goodwill as at 1 January 2003 have been increased by HK$360,000 and reduced by HK$3,241,000, respectively; the consolidated net losses attributable to shareholders for the year ended 31 December 2002 have been increased by HK$860,000; the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK$5,271,000 and HK$4,411,000, respectively; and the exchange fluctuation reserves at 1 January 2003 and 2002 have been reduced by HK$286,000 and increased by HK$577,000, respectively, as detailed in the consolidated statement of changes in equity.

28. SHARE CAPITAL

Shares

	2003	2002
	HK$'000	*HK$'000*
Authorised:		
1,000,000,000 (2002: 1,000,000,000) ordinary shares of HK$0.10 each	**100,000**	100,000
Issued and fully paid:		
730,938,000 (2002: 613,938,000) ordinary shares of HK$0.10 each	**73,094**	61,394

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28. SHARE CAPITAL *(continued)*

During the year, the Group entered into two loan agreements in the amount of HK$3,900,000 and HK$7,800,000, respectively with Mr. Lin Chun Kuei and Jade Investment Limited, a company beneficially owned by Mr. Ng Kin Nam, a director of the Company, and his spouse.

(a) Pursuant to the capitalisation of loan agreement entered into between the Company and Mr. Lin Chun Kuei on 4 July 2003, 39,000,000 ordinary shares of HK$0.10 each were issued on 29 August 2003 at a subscription price of HK$0.10 each that was satisfied by capitalising the loan from such director amounted to HK$3,900,000.

(b) Pursuant to the capitalisation of loan agreement entered into between the Company and Jade Investment Limited on 4 July 2003, 78,000,000 ordinary shares of HK$0.10 each were issued on 29 August 2003 at a subscription price of HK$0.10 each that was satisfied by capitalising the loan from such company amounted to HK$7,800,000.

The net proceeds, after deducting related expenses, were used as to approximately HK$5,460,000 for the repayment of bank borrowings of the Group. The remaining amounts of the net proceeds were used for the continuing research and development and to provide further working capital for the Group's operational purposes.

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	613,938	61,394	94,528	155,922
Issue of shares (a)	39,000	3,900	–	3,900
Issue of shares (b)	78,000	7,800	–	7,800
	730,938	73,094	94,528	167,622
Share issue expenses	–	–	(50)	(50)
At 31 December 2003	**730,938**	**73,094**	**94,478**	**167,572**

Share options

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

29. SHARE OPTION SCHEME

The Company operates a share option scheme ("the Scheme"). 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.

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, 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.

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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 2002							
As previously reported	53,677	18,528	(5,714)	11,682	18,607	69,774	166,554
Prior year adjustment: SSAP 12 – restatement of deferred tax	–	–	577	–	–	(4,411)	(3,834)
As restated	53,677	18,528	(5,137)	11,682	18,607	65,363	162,720
Issue of shares	41,175	–	–	–	–	–	41,175
Share issue expenses	(324)	–	–	–	–	–	(324)
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of a overseas branch (as restated)	–	–	180	–	–	–	180
Transfer to statutory reserve	–	–	–	–	1,536	(1,536)	–
Net loss for the year (as restated)	–	–	–	–	–	(39,413)	(39,413)
At 31 December 2002	94,528	18,528	(4,957)	11,682	20,143	24,414	164,338
At 1 January 2003							
As previously reported	94,528	18,528	(4,671)	11,682	20,143	29,685	169,895
Prior year adjustment: SSAP 12 – restatement of deferred tax	–	–	(286)	–	–	(5,271)	(5,557)
As restated	94,528	18,528	(4,957)	11,682	20,143	24,414	164,338
Share issue expenses (Note 28)	(50)	–	–	–	–	–	(50)
Translation differences arising on consolidation of overseas subsidiaries and on translating the financial statements of a overseas branch	–	–	8,381	–	–	–	8,381
Net loss for the year	–	–	–	–	–	(6,237)	(6,237)
At 31 December 2003	**94,478**	**18,528**	**3,424**	**11,682**	**20,143**	**18,177**	**166,432**

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31 December 2003

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	94,478	18,528	3,424	11,682	20,143	18,244	166,499
Associates	–	–	–	–	–	(67)	(67)
At 31 December 2003	**94,478**	**18,528**	**3,424**	**11,682**	**20,143**	**18,177**	**166,432**
Reserves retained by:							
Company and subsidiaries	94,528	18,528	(4,957)	11,682	20,143	27,999	167,923
Associates	–	–	–	–	–	(3,585)	(3,585)
At 31 December 2002	94,528	18,528	(4,957)	11,682	20,143	24,414	164,338

	Share premium *HK$'000*	Contributed surplus *HK$'000* *(Note a)*	Retained profits *HK$'000*	Total *HK$'000*
Company				
Balance at 1 January 2002	53,677	75,131	23,980	152,788
Issue of shares	41,175	–	–	41,175
Share issue expenses	(324)	–	–	(324)
Net loss for the year 2002	–	–	(22,107)	(22,107)
At 31 December 2002 and 1 January 2003	94,528	75,131	1,873	171,532
Share issue expenses *(Note 28)*	(50)	–	–	(50)
Net loss for the year 2003	–	–	(1,520)	(1,520)
At 31 December 2003	**94,478**	**75,131**	**353**	**169,962**

Notes to Financial Statements

31 December 2003

30. RESERVES *(continued)*

Notes:

(a) The contributed surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired, and the nominal value of the share capital of the Company issued in exchange therefor in connection with the Group's 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) Acquisition of a subsidiary

	2003	2002
	HK$'000	*HK$'000*
Net assets acquired:		
Fixed assets	–	552
Inventories	–	171
Cash and bank balances	–	226
Accounts receivable	–	597
Accounts and bills payables	–	(407)
Other payables and accruals	–	(768)
	–	371
Goodwill on acquisition	–	1,657
	–	2,028
Satisfied by:		
Cash	–	390
Other payables	–	1,638
	–	2,028

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

(a) Acquisition of a subsidiary *(continued)*

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

	2003	2002
	HK$'000	*HK$'000*
Cash consideration	**–**	(390)
Cash and bank balances acquired	**–**	226
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**–**	(164)

(b) 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$4,228,000 (2002: HK$3,726,000).

(ii) During the year, the Group entered into two loan agreements in the amount of HK$3,900,000 and HK$7,800,000, respectively with Mr. Lin Chun Kuei and Jade Investment Limited. The loans were subsequently capitalised as share capital of the Company.

32. CONTINGENT LIABILITIES

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

	Group		**Company**	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bills discounted with recourse	**5,447**	6,514	**–**	–
Guarantees of banking facilities granted to subsidiaries	**–**	–	**255,381**	244,821
Guarantees of finance leases granted to subsidiaries	**–**	–	**26,400**	47,400

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$140,912,000 (2002: HK$149,627,000).

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32. CONTINGENT LIABILITIES *(continued)*

(b) At 31 December 2003, 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 2003 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$1,150,000 (2002: 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 2003, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**580**	261
In the second to fifth years, inclusive	**318**	–
	898	261

(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 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2003	2002
	HK$'000	*HK$'000*
Within one year	**6,621**	7,412
In the second to fifth years, inclusive	**12,823**	13,886
Over five years	**38,085**	39,509
	57,529	60,807

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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:

	2003	2002
	HK$'000	*HK$'000*
Capital commitments contracted, but not provided for	**21,127**	18,243

The Company did not have any other significant commitments at the balance sheet date (2002: Nil).

35. FINANCIAL INSTRUMENTS

As at 31 December 2003, the Group had outstanding interest rate swap contracts of approximately HK$7,796,000 (2002: Nil).

36. RELATED PARTY TRANSACTIONS

(i) During the year, the Group sold approximately HK$15,699,000 (2002: HK$9,288,000) of finished goods to Sunterra, LLC, a then associated company of the Group before it was disposed of in July 2003. The directors considered that the sale of goods was made according to prices and conditions similar to those offered to other customers.

(ii) The Group has paid approximately HK$1,170,000 of product design and research expenses to a company owned by Mr. Pope Graeme Stanley, a director of the Company, for the development of new products.

(iii) During the year, the Group entered into two loan agreements in the amount of HK$3,900,000 and HK$7,800,000, respectively with Mr. Lin Chun Kuei and Jade Investment Limited. The loans were interest-free and were subsequently capitalised as share capital of the Company. Please refer to note 28 to the financial statements for details.

37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of a revised SSAP 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 prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2004.