

Notes to the Financial Statements

For the year ended 31st December, 2003

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Group are the manufacture of novelties, decorations and packaging products, the trading of PVC films and plastic materials and the manufacture and sale of toy products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

Income taxes

In the current year, the Group has adopted SSAP 12 (Revised) "Income Taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the revised accounting policy has been applied retrospectively. Comparative amounts for 2002 have been restated accordingly.

The cumulative effect of the adoption of SSAP 12 (Revised) at 1st January, 2002 is summarised as below:

	As originally stated HK\$ '000	Adjustment increase (decrease) HK\$ '000	As restated HK\$ '000
Retained profits	135,536	(781)	134,755
Total effect on equity	<u>135,536</u>	<u>(781)</u>	<u>134,755</u>
Minority interests	2,584	(58)	2,526
Deferred tax assets	–	663	663
Deferred tax liabilities	–	(1,502)	(1,502)

The adoption of SSAP 12 (Revised) has resulted an increase in the profit of approximately HK\$45,000 for the year ended 31st December, 2003 (2002: a decrease in the profit of HK\$149,000).

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investments in securities, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Rental income under operating leases is recognised on a straight-line basis over the terms of the relevant leases.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Dividend income from investments in securities is recognised when the shareholders' rights to receive payment have been established.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition.

Goodwill is capitalised and amortised on a straight line basis over its useful economic life. Goodwill arising on the acquisition of subsidiaries is presented separately in the balance sheet.

Investments in subsidiaries

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at each balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Investment properties (cont'd)

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

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

Property, plant and equipment

Property, plant and equipment are stated at cost less depreciation and amortisation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual value, using the straight line method, at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	Over the shorter of the term of the lease, or 50 years
Factory premises	5%
Furniture, fixtures and office equipment	15-20%
Plant, machinery and moulds	10-20%
Motor vehicles	25-30%

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight line basis over the relevant lease term.

Notes to the Financial Statements

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For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Investments in securities

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

All securities other than held-to-maturity debt securities are measured at subsequent reporting dates at fair value.

Where securities are held for trading purposes, unrealised gains and losses are included in net profit or loss for the period. For other securities, unrealised gains and losses are dealt with in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in net profit or loss for the period.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the period.

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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 profits will be available to allow all or part of the asset to be recovered.

Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Taxation (cont'd)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefit costs

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

4. BUSINESS SEGMENTS

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

2003

	Novelties and decorations <i>HK\$'000</i>	Packaging products <i>HK\$'000</i>	PVC films and plastic materials <i>HK\$'000</i>	Toy products <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER						
External sales	135,924	125,455	44,536	9,442	–	315,357
Inter-segment sales	24	18,101	685	–	(18,810)	–
Total revenue	<u>135,948</u>	<u>143,556</u>	<u>45,221</u>	<u>9,442</u>	<u>(18,810)</u>	<u>315,357</u>
RESULT						
Segment result	<u>11,566</u>	<u>3,444</u>	<u>1,011</u>	<u>314</u>	<u>(1,428)</u>	14,907
Income from investments						7,068
Unallocated corporate expenses						(1,893)
Profit from operations						20,082
Finance costs						(181)
Profit before taxation						19,901
Taxation						(1,903)
Profit after taxation						<u>17,998</u>

Inter-segment sales are charged at prevailing market rates.

Notes to the Financial Statements

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For the year ended 31st December, 2003

4. BUSINESS SEGMENTS (cont'd)

2003 (cont'd)

BALANCE SHEET

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Toy products <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
ASSETS					
Segment assets	125,681	93,479	18,884	63,640	301,684
Unallocated corporate assets					31,868
Consolidated total assets					<u>333,552</u>
LIABILITIES					
Segment liabilities	8,011	17,702	2,211	22,334	50,258
Borrowings	–	–	–	26,650	26,650
Unallocated corporate liabilities					6,196
Consolidated total liabilities					<u>83,104</u>

OTHER INFORMATION

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Toy products <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
Capital additions	4,160	4,929	3	–	264	9,356
Depreciation	5,618	7,433	35	82	79	13,247
Amortisation of goodwill	–	–	–	–	107	107
Other non-cash expenses	–	6,731	–	–	1,790	8,521

Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

4. BUSINESS SEGMENTS (cont'd)

2002

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Eliminations <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i> (as restated)
TURNOVER					
External sales	149,544	128,738	38,974	–	317,256
Inter-segment sales	86	19,884	823	(20,793)	–
Total revenue	<u>149,630</u>	<u>148,622</u>	<u>39,797</u>	<u>(20,793)</u>	<u>317,256</u>
RESULT					
Segment result	<u>18,424</u>	<u>16,547</u>	<u>(503)</u>	<u>(2,198)</u>	32,270
Income from investments					699
Unallocated corporate income					232
Profit from operations					33,201
Finance costs					(156)
Profit before taxation					33,045
Taxation					(3,136)
Profit after taxation					<u>29,909</u>

Inter-segment sales are charged at prevailing market rates.

BALANCE SHEET

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i> (as restated)
ASSETS				
Segment assets	132,112	95,694	11,133	238,939
Unallocated corporate assets				15,888
Consolidated total assets				<u>254,827</u>
LIABILITIES				
Segment liabilities	11,562	11,711	915	24,188
Unallocated corporate liabilities				2,713
Consolidated total liabilities				<u>26,901</u>

Notes to the Financial Statements

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For the year ended 31st December, 2003

4. BUSINESS SEGMENTS (cont'd)

2002 (cont'd)

OTHER INFORMATION

	Novelties and decorations <i>HK\$ '000</i>	Packaging products <i>HK\$ '000</i>	PVC films and plastic materials <i>HK\$ '000</i>	Others <i>HK\$ '000</i>	Consolidated <i>HK\$ '000</i>
Capital additions	3,992	11,770	34	–	15,796
Depreciation	6,269	7,635	56	60	14,020
Amortisation of goodwill	–	–	–	107	107
Other non-cash expenses	50	204	1,166	312	1,732

5. GEOGRAPHICAL SEGMENTS

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

	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Sales revenue by geographical market:		
Hong Kong	180,824	169,955
Europe	82,881	88,231
America	37,283	44,863
Asia (other than Hong Kong)	4,701	2,991
Others	9,668	11,216
	<u>315,357</u>	<u>317,256</u>

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment	
	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Hong Kong	150,911	134,982	20	43
The People's Republic of China (the "PRC")	182,641	119,845	9,336	15,753
	<u>333,552</u>	<u>254,827</u>	<u>9,356</u>	<u>15,796</u>

Notes to the Financial Statements

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For the year ended 31st December, 2003

6. OTHER OPERATING EXPENSES

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unrealised loss on trading securities	374	1,432
Impairment loss recognised in respect of other securities	1,790	–
	<u>2,164</u>	<u>1,432</u>

7. PROFIT FROM OPERATIONS

	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Auditors' remuneration	688	472
Amortisation of goodwill (included in administrative expenses)	107	107
Allowance for bad and doubtful debts	6,731	1,365
Depreciation of property, plant and equipment		
Owned assets	13,199	14,020
Assets under a finance lease	48	–
Foreign exchange losses, net	–	251
Impairment loss recognised in respect of other securities	1,790	–
Loss on disposal of property, plant and equipment	–	509
Staff costs (including directors' emoluments)	47,101	40,933
and after crediting:		
Interest income	2,063	1,620
Gain on disposal of trading securities	1,845	1,469
Foreign exchange gain, net	4,452	–
Dividend income from trading and other securities	279	200
Gain on redemption of other securities	–	255
Negative goodwill released to income (included in other operating income)	421	–
	<u>421</u>	<u>–</u>

Notes to the Financial Statements

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For the year ended 31st December, 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Fees:		
Executive directors	–	–
Independent non-executive directors	200	200
	<u>200</u>	<u>200</u>
Other emoluments (executive directors):		
Salaries and other benefits	5,145	5,098
Contributions to retirement benefit schemes	75	75
	<u>5,220</u>	<u>5,173</u>
Total emoluments	<u><u>5,420</u></u>	<u><u>5,373</u></u>

The emoluments of the directors were within the following bands:

	2003 Number of directors	2002 Number of directors
Nil – HK\$1,000,000	3	3
HK\$1,000,001 – HK\$1,500,000	1	1
HK\$1,500,001 – HK\$2,000,000	1	1
HK\$2,000,001 – HK\$2,500,000	1	1
	<u>6</u>	<u>6</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments of the Group, three (2002: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2002: two) individuals were as follows:

	2003 <i>HK\$ '000</i>	2002 <i>HK\$ '000</i>
Salaries and other benefits	1,841	2,062
Contributions to retirement benefit schemes	21	21
	<u>1,862</u>	<u>2,083</u>