

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

## 25. DEFERRED TAXATION (cont'd)

### THE COMPANY

	<b>Tax losses</b> <i>HK\$ '000</i>
At 1st January, 2002	
– as previously reported	–
– adjustment on adoption of SSAP 12 (Revised)	(256)
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– as restated	(256)
Credit to income for the year	49
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At 31st December, 2002 and 1st January, 2003	(207)
Credit to income for the year	65
Effect of change in tax rate	
– charge to the income statement	(19)
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At 31st December, 2003	<u>(161)</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

## 26. ACQUISITION OF A SUBSIDIARY

On 9th December, 2003, the Group acquired 59% of the issued share capital of Perfectech International Manufacturing Limited (formerly known as "Rich Success Profits Limited") for a consideration approximately HK\$15.86 million. This acquisition has been accounted for by the acquisition method of accounting. The amount of negative goodwill arising as a result of the acquisition was approximately HK\$421,000 which had been credit to the income statement.

	<b>2003</b>	<b>2002</b>
	<i>HK\$ '000</i>	<i>HK\$ '000</i>
<b>NET ASSETS ACQUIRED</b>		
Property, plant and equipment	35,962	–
Inventories	13,395	–
Trade and other receivables	22,505	–
Taxation recoverable	131	–
Pledged bank deposits	7,500	–
Bank balances and cash	1,148	–
Trade and other payables	(22,696)	–
Tax liabilities	(227)	–
Secured bank borrowings	(25,397)	–
Obligations under a finance lease	(533)	–
Bank overdrafts	(1,772)	–
Deferred tax liabilities	(795)	–
Minority interest	(12,940)	–
	<hr/>	<hr/>
	16,281	–
Negative goodwill	(421)	–
	<hr/>	<hr/>
Total consideration	15,860	–
	<hr/>	<hr/>
<b>SATISFIED BY</b>		
Cash	15,860	–
	<hr/>	<hr/>
Net outflow of cash arising on acquisition:		
Cash consideration	(15,860)	–
Bank balances and cash acquired	1,148	–
Bank overdrafts acquired	(1,772)	–
	<hr/>	<hr/>
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	(16,484)	–
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The subsidiary acquired during the year contributed approximately HK\$9.4 million to the Group's turnover, and approximately HK\$0.3 million to the Group's profit from operations.

# Notes to the Financial Statements

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For the year ended 31st December, 2003

## 27. OPERATING LEASES

### The Group as lessee

	2003 HK\$'000	2002 HK\$'000
Minimum lease payments paid in respect of rented premises under operating leases during the year	<u>3,747</u>	<u>2,913</u>

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

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Within one year	7,600	2,400
In the second to fifth years inclusive	18,000	5,500
Over five years	37,700	36,900
	<u>63,300</u>	<u>44,800</u>

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

### The Group as lessor

Property rental income earned from investment properties of the Group during the year was approximately HK\$384,000 (2002: HK\$384,000), less negligible outgoings.

At 31st December, 2002, the Group had contracted with tenants for future minimum lease receipts, expiring within one year, amounting to approximately HK\$384,000 (2003: Nil).

## 28. CAPITAL COMMITMENTS

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>1,084</u>	<u>—</u>

The Company had no significant capital commitments at the balance sheet date.

## 29. SHARE OPTIONS SCHEME

Pursuant to the share option scheme (the "Scheme") was adopted on 17th May, 2003 and will expire on 16th May, 2012. The primary purpose of the Scheme is to recognise and motivate the contribution of employees and other persons who may have a contribution to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long term business objectives of the Company.

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

At the date of this report, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 1,000,000, representing approximately 0.33% of the shares of the Company in issue at that date.

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

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

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

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

## 29. SHARE OPTIONS SCHEME (cont'd)

The followings table discloses details of the Company's share options held by employees and movements in such holdings during the year:

		Number of share options					
Option type		At 1.1.2002	Granted during the year	At 1.1.2003	Granted during the year	Exercised during the year	At 31.12.2003
Directors	A	–	1,400,000	1,400,000	–	(1,400,000)	–
	B	–	–	–	4,000,000	(4,000,000)	–
		–	1,400,000	1,400,000	4,000,000	(5,400,000)	–
Employees	A	–	2,300,000	2,300,000	–	(2,300,000)	–
	B	–	–	–	3,000,000	(3,000,000)	–
	C	–	–	–	3,700,000	–	3,700,000
		–	2,300,000	2,300,000	6,700,000	(5,300,000)	3,700,000
Others	A	–	1,000,000	1,000,000	–	–	1,000,000
	B	–	–	–	1,000,000	(1,000,000)	–
		–	1,000,000	1,000,000	1,000,000	(1,000,000)	1,000,000
Total		–	4,700,000	4,700,000	11,700,000	(11,700,000)	4,700,000

Details of specific categories of options are as follows:

Option type	Date of grant	Exercise period	Exercise price HK\$
A	5th June, 2002	5th July, 2002 – 17th May, 2012	0.664
B	8th January, 2003	8th February, 2003 – 31st December, 2011	0.592
C	2nd July, 2003	2nd August, 2003 – 31st December, 2011	0.638

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

The closing prices of the Company's shares at 5th June, 2002, 8th January, 2003 and 2nd July, 2003, the dates of grant of the options, were HK\$0.64, HK\$0.59 and HK\$0.71 respectively.

Share options were exercised on various dated from 14th April, 2003 to 2nd July, 2003. The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised during such period ranged from HK\$0.62 to HK\$0.74.

# Notes to the Financial Statements

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For the year ended 31st December, 2003

## 30. RETIREMENT BENEFITS SCHEME

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

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

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

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

At the balance sheet date, the total amount of forfeited contributions, which arose upon employees leaving the ORSO Scheme and which are available to reduce the contributions payable in future years, was approximately HK\$22,000 (2002: HK\$5,000).

The total cost charged to income of approximately HK\$467,000 (2002: HK\$529,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

## 31. POST BALANCE SHEET EVENT

On 5th January, 2004, a substantial shareholder of the Company entered into a placing agreement with the third parties and a subscription agreement with the Company, which related to the placing of 21,000,000 existing shares to the third parties and subscription of 21,000,000 new shares from the Company. The placing and subscription price is HK\$0.68. These transactions were completed on or before 19th January, 2004.

Details of these transactions are set out in the announcements of the Company published on 5th January, 2004.

## 32. RELATED PARTY TRANSACTIONS

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

	2003 HK\$'000	2002 HK\$'000
Rental expenses paid to:		
Nice Step Investment Limited ( <i>Note a</i> )	801	841
Mr. Poon Siu Chung	168	168
Professional fees paid to Messrs. Cheung, Tong & Rosa ( <i>Note b</i> )	107	155
Printing fees paid to Run All Limited ( <i>Note c</i> )	263	263
	<u>263</u>	<u>263</u>

# Notes to the Financial Statements

(Cont'd)

For the year ended 31st December, 2003

## 32. RELATED PARTY TRANSACTIONS (cont'd)

(a) (cont'd)

Notes:

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

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

- (b) During the year, the Group issued guarantees to financial institutions to secure general banking facilities granted to the Group including its subsidiaries which are not wholly-owned by the Group. No such facilities were utilised by these non-wholly-owned subsidiaries at 31st December, 2003 and 2002.

## 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/registered capital held by the Company		Paid up issued/registered ordinary share capital except otherwise stated	Principal activities
		Directly	Indirectly		
Benefit Packing Materials Limited	Hong Kong	–	75%	HK\$1,000,000	Trading of PVC films
Beyond Growth International Limited	Hong Kong	–	59%	HK\$100,000	Manufacture and sales of toys
Dream Creation Limited	Hong Kong	–	59%	HK\$2	Investment holding and distribution of toys
Golden Enterprises Holdings Limited	Hong Kong	–	59%	HK\$2	Distribution of toys
iTech Limited	Hong Kong	–	100%	HK\$2	Investment holding
Link Faith Company Limited	Hong Kong	–	100%	HK\$100,000	Security investment
Onward Packing Manufacturer Limited	Hong Kong	–	100%	HK\$320,000	Manufacture of novelties, festival decorations and packaging products

# Notes to the Financial Statements

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For the year ended 31st December, 2003

## 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/ registered capital held by the Company		Paid up issued/ registered ordinary share capital except otherwise stated	Principal activities
		Directly	Indirectly		
Perfectech Colour Centre Limited	Hong Kong	–	100%	HK\$1,000,000	Dye stuff manufacturing
Perfectech Enterprises (B.V.I.) Limited	British Virgin Islands (“BVI”)	–	100%	US\$1	Investment holding
Perfectech International (B.V.I.) Limited	BVI	100%	–	US\$50	Investment holding
Perfectech International (China) Limited	The PRC	–	100%	HK\$2,000,000	Manufacture of novelties and festival decorations
Perfectech International Limited	Hong Kong	–	100%	HK\$200 and HK\$80,000 non-voting deferred shares	Investment holding
Perfectech International Manufacturing Limited (formerly known as “Rich Success Profits Limited”)	BVI	–	59%	US\$2,457,000	Investment holding
Perfectech International Packaging Products Company Limited	Hong Kong	–	100%	HK\$450,000	Manufacture of PVC blister and box
Perfectech International Trading Limited	Hong Kong	–	100%	HK\$2	Trading of novelties, festival decorations and packaging products
Perfectech Paper Products Company Limited	Hong Kong	–	99%	HK\$1,000,000	Manufacture of paper products
Perfectech Plastics Limited	Hong Kong	–	100%	HK\$1,000,000	Trading of plastic materials



# Notes to the Financial Statements

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For the year ended 31st December, 2003

## 33. PARTICULARS OF PRINCIPAL SUBSIDIARIES (cont'd)

Name of subsidiary	Place of incorporation or registration	Proportion of nominal value of issued/ registered capital held by the Company		Paid up issued/ registered ordinary share capital except otherwise stated	Principal activities
		Directly	Indirectly		
Perfectech Printing Company Limited	Hong Kong	–	90%	HK\$1,000,000	Printing
Shouji Tooling Factory Limited	Hong Kong	–	44.96%	HK\$1,000	Manufacture and sales of moulds
Sunflower Garland Manufactory Limited	Hong Kong	–	100%	HK\$2 and HK\$160,000 non-voting deferred shares	Property investment
Yu-Me (H.K.) Limited	Hong Kong	–	59%	HK\$2	Provision of management services

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

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

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