

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

1. GENERAL

The Company was incorporated in the Cayman Islands with limited liability under the Companies Law and registered thereunder as an exempted company. Its shares are listed on The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. Its principal subsidiaries are engaged in the design, manufacture and marketing of PVC and fabric household products and PVC pipes and fittings.

2. ADOPTION OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE

In the current year, the Company has adopted for the first time the revised Statement of Standard Accounting Practice ("SSAP") No. 12 "Income taxes" issued by the Hong Kong Society of Accountants. The revised SSAP 12 has introduced a new basis of accounting for income taxes (including both current taxation and deferred taxation) and additional disclosure requirements which have been adopted in the financial statements. The adoption of revised SSAP 12 has had no significant impact on the results for the current or prior periods. Accordingly, no prior period adjustment was required.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and trading securities.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") made up to 31 December each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Investment in subsidiaries

Investment in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment properties

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

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

On disposal of an investment property, any balance in the investment property revaluation reserve which is attributable to the disposed property is credited to the income statement.

No depreciation is provided in respect of investment properties which are held on leases with unexpired terms, including the renewable period, of more than 20 years. Where the investment properties are held on leases with unexpired term of 20 years or less, depreciation is provided on the carrying amount over the remaining term of the lease.

Property, plant and equipment

Property, plant and equipment other than buildings under construction are stated at cost less accumulated depreciation and impairment losses.

The gain or loss arising from 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.

The cost of leasehold land and buildings situated in the People's Republic of China (the "PRC"), including Hong Kong, is depreciated over twenty to fifty years on a straight line basis.

Buildings under construction, comprising all direct costs incurred in construction, are stated at cost. No depreciation is provided until construction is complete and the buildings are ready for their intended use.

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For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

Depreciation is provided to write off the cost of property, plant and equipment other than buildings under construction over their estimated useful lives, using the reducing balance method, at the following rates per annum:

Furniture, fixtures and equipment	18 — 20%
Leasehold improvements	20%
Motor vehicles	20%
Plant and machinery	9 — 20%

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible 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. 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 only to the extent of the carrying amount that would have been determined had no impairment loss ever been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

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

Trading securities

Investments in trading securities are carried at fair value at the balance sheet date. All unrealised holding gains or losses are dealt with in the income statement.

Taxation

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

Deferred taxation 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 taxation liabilities are generally recognised for all taxable temporary differences, and deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Deferred taxation liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred taxation 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.

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

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 basis:

- (i) income from sales of goods is recognised when the goods are delivered and title has passed;
- (ii) interest income is accrued on a time basis by reference to the principal outstanding and the applicable rate of interest;

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For the year ended 31 December 2003

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

- (iii) dividends from trading securities are recognised when the Group's right to receive payment is established; and
- (iv) rental income, including rental invoiced in advance from properties under operating leases, is recognised on a straight line basis over the duration of the leases.

Capitalisation of borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of these assets. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale. Capitalisation of borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from borrowing costs capitalised.

All other borrowing costs are recognised as an expense in the period in which they are incurred.

Retirement benefit costs

The Group participates in the Mandatory Provident Fund Scheme (the "MPF Scheme") in Hong Kong and retirement schemes administered by the provincial governments of the PRC pursuant to which the Group pays a fixed percentage of the salaries and wages of its qualifying staff and employees as the contribution to such schemes. The Group's contributions to the MPF Scheme in Hong Kong and retirement schemes in the PRC are charged to the income statement as they fall due.

Quota

The cost of permanent quota is charged to the income statement in the year of purchase. Temporary quota charges are charged to the income statement on shipment of goods or expiry of the quota, whichever is the earlier.

Operating leases

Rental receipts or payments under operating leases are credited or charged to the income statement on a straight line basis over the term of the relevant leases.

NOTES TO THE FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses arising on exchange are dealt with in the income statement.

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 year. 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.

4. TURNOVER

Turnover represents the net amounts received and receivable for goods sold by the Group, less returns and allowances, to outside customers during the year. An analysis of the Group's turnover is as follows:

	2003 HK\$'000	2002 HK\$'000
Sales of household products	424,406	440,250
Sales of PVC pipes and fittings	313,135	239,405
	<u>737,541</u>	<u>679,655</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segment

For management purposes, the Group is organised into two divisions: household products and PVC pipes and fittings.

Segment information about these businesses is presented below:

Year ended 31 December 2003

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Eliminations <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue				
External sales	424,406	313,135	—	737,541
Inter-segment sales	43,758	1,068	(44,826)	—
Total	<u>468,164</u>	<u>314,203</u>	<u>(44,826)</u>	<u>737,541</u>
Result				
Segment result	18,452	27,802	—	46,254
Unallocated corporate expenses				<u>(2,809)</u>
Profit from operations				43,445
Finance costs				<u>(3,485)</u>
Profit before taxation				39,960
Taxation				<u>(2,932)</u>
Net profit for the year				<u>37,028</u>

Inter-segment sales are charged at cost plus certain markup.

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For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Corporate <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>Year ended 31 December 2003</i>				
Other information				
Capital additions	16,363	45,147	844	62,354
Depreciation	<u>24,144</u>	<u>22,898</u>	<u>937</u>	<u>47,979</u>
		Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
<i>At 31 December 2003</i>				
Assets				
Segment assets		443,279	485,534	928,813
Unallocated corporate assets				<u>186,549</u>
Consolidated total assets				<u>1,115,362</u>
Liabilities				
Segment liabilities		59,785	83,549	143,334
Unallocated corporate liabilities				<u>197,770</u>
Consolidated total liabilities				<u>341,104</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

Year ended 31 December 2002

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	440,250	239,405	—	679,655
Inter-segment sales	73,246	4,551	(77,797)	—
Total	<u>513,496</u>	<u>243,956</u>	<u>(77,797)</u>	<u>679,655</u>
Result				
Segment result	29,688	27,867	—	57,555
Unallocated corporate expenses				<u>(6,449)</u>
Profit from operations				51,106
Finance costs				<u>(5,156)</u>
Profit before taxation				45,950
Taxation				<u>(3,922)</u>
Net profit for the year				<u>42,028</u>

Inter-segment sales are charged at cost plus certain markup.

	Household products HK\$'000	PVC pipes and fittings HK\$'000	Corporate HK\$'000	Consolidated HK\$'000
Other information				
Capital additions	33,211	60,084	4,536	97,831
Depreciation	<u>27,741</u>	<u>18,698</u>	<u>965</u>	<u>47,404</u>

Year ended 31 December 2002

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Business segment (Continued)

	Household products <i>HK\$'000</i>	PVC pipes and fittings <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
At 31 December 2002			
Assets			
Segment assets	458,033	368,511	826,544
Unallocated corporate assets			166,605
Consolidated total assets			<u>993,149</u>
Liabilities			
Segment liabilities	73,617	39,425	113,042
Unallocated corporate liabilities			131,572
Consolidated total liabilities			<u>244,614</u>

Geographical segment

Substantially all of the sales of the Group's PVC pipes and fittings were made to customers in the PRC, including Hong Kong. An analysis of the Group's sales of household products by geographical market is as follows:

	Turnover	
	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
United States of America	314,107	311,322
Asia	56,984	64,789
Canada	19,450	30,195
Latin America	13,937	15,630
Europe	16,398	12,339
Australia	3,024	4,096
Other areas	506	1,879
Total sales of household products	<u>424,406</u>	<u>440,250</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

Geographical segment (Continued)

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 has not been presented as they are substantially located in the PRC, including Hong Kong.

6. PROFIT FROM OPERATIONS

	2003 HK\$'000	2002 HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 8)	14,233	14,533
Other staff's retirement benefit scheme contributions	3,370	2,307
Other staff costs	75,242	78,525
Total staff costs	92,845	95,365
Auditors' remuneration	1,509	1,624
Cost of inventories recognised as an expense	432,975	433,097
Depreciation	47,979	47,404
Loss on disposal of property, plant and equipment	695	3,201
Operating lease rentals in respect of rented premises	4,528	5,211
Preliminary expenses written off	—	429
Temporary quota charges	197	1,105
Unrealised holding loss on trading securities	—	887
and after crediting:		
Dividend income from trading securities	176	175
Gain on disposal of trading securities	517	—
Gross rental income before deduction of outgoings of HK\$163,000 (2002: HK\$171,000)	926	992
Interest income	461	434
Unrealised gain on forward contracts	2,294	—
Unrealised holding gain on trading securities	972	—

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7. FINANCE COSTS

	2003 HK\$'000	2002 HK\$'000
Interest on bank borrowings wholly repayable within five years	(3,485)	(4,699)
Interest on bank borrowings not wholly repayable within five years	—	(489)
	(3,485)	(5,188)
Less: Amount capitalised in buildings under construction	—	32
	<u>(3,485)</u>	<u>(5,156)</u>

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

	2003 HK\$'000	2002 HK\$'000
(i) Information regarding directors' emoluments		
Directors' fees:		
Executive	—	—
Independent non-executive	360	345
	<u>360</u>	<u>345</u>
Other emoluments paid to executive directors:		
Salaries	11,919	11,818
Performance related incentive payments	1,883	2,298
Retirement benefit scheme contributions	71	72
	<u>13,873</u>	<u>14,188</u>
Total directors' emoluments	<u>14,233</u>	<u>14,533</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(i) Information regarding directors' emoluments (Continued)

In addition to the amount disclosed above, during the year, the Group also provided one of its leasehold properties in Hong Kong as quarters for two (2002: two) executive directors. The estimated monetary value of such accommodation, using the rateable value as an approximation, is HK\$553,000 (2002: HK\$586,000).

The emoluments of the directors fall within the following bands:

	2003 Number of directors	2002 Number of directors
Up to HK\$1,000,000	5	5
HK\$2,000,001 to HK\$2,500,000	2	2
HK\$7,500,001 to HK\$8,000,000	1	—
HK\$8,000,001 to HK\$8,500,000	—	1
	<u>8</u>	<u>8</u>

(ii) Information regarding employees' emoluments

The five highest paid employees of the Group in both years included three (2002: three) executive directors whose emoluments are included in (i) above. The emoluments of the other two (2002: two) highest paid employees, not being directors, are as follows:

	2003 HK\$'000	2002 HK\$'000
Salaries	2,055	1,857
Retirement benefit scheme contributions	<u>12</u>	<u>12</u>
	<u>2,067</u>	<u>1,869</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

(ii) Information regarding employees' emoluments *(Continued)*

The emoluments of these two employees fall within the following bands:

	2003 Number of employees	2002 Number of employees
Up to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

9. TAXATION

	2003 HK\$'000	2002 HK\$'000
Hong Kong Profits Tax calculated at 17.5% (2002: 16%) on the estimated assessable profits of the year		
— charge for the year	(393)	(44)
— over (under) provision in prior years	<u>25</u>	<u>(38)</u>
	(368)	(82)
Non Hong Kong taxation		
— charge for the year	<u>(968)</u>	<u>(1,975)</u>
	(1,336)	(2,057)
Deferred taxation charge <i>(note 21)</i>	<u>(1,596)</u>	<u>(1,865)</u>
Net taxation charge	<u>(2,932)</u>	<u>(3,922)</u>

Non Hong Kong taxation represents enterprise income tax of 15% on income derived from other parts of the PRC outside of Hong Kong. Certain subsidiaries in the PRC are eligible for tax concessions.

NOTES TO THE FINANCIAL STATEMENTS

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9. TAXATION (Continued)

The tax charge for the year can be reconciled to the profit before taxation in the consolidated income statement as follows:

	2003 HK\$'000	2002 HK\$'000
Profit before taxation	<u>39,960</u>	<u>45,950</u>
Tax at the domestic income tax rate of 15% (2002: 15%)	(5,994)	(6,893)
Tax effect of expenses not deductible for tax purpose	(920)	(462)
Tax effect of income not taxable for tax purpose	1,046	1,145
Over (under) provision in respect of prior year	21	(36)
Tax effect of tax losses not recognised	(1,122)	(1,655)
Utilisation of tax losses previously not recognised	580	709
Income tax on concessionary rate	3,589	3,289
Increase in opening deferred taxation liability resulting from an increase in applicable tax rate	(26)	—
Effect of different tax rates of subsidiaries operating in other jurisdictions	<u>(106)</u>	<u>(19)</u>
Tax charge for the year	<u>(2,932)</u>	<u>(3,922)</u>

10. DIVIDENDS

	2003 HK\$'000	2002 HK\$'000
Interim paid: 0.5 cent per share (2002: 0.5 cent per share)	3,382	3,382
Final proposed: 0.5 cent per share (2002: 0.5 cent per share)	<u>3,382</u>	<u>3,382</u>
	<u>6,764</u>	<u>6,764</u>

The final dividend proposed of 0.5 cent (2002: 0.5 cent) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

The final dividend for 2002 was paid in June 2003.

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11. EARNINGS PER SHARE

The calculations of the basic and diluted earnings per share are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Earnings for the purpose of calculating basic earnings per share	<u>37,028</u>	<u>42,028</u>
	Number of shares	
	2003	2002
Number of shares for the purpose of calculating basic earnings per share	<u>676,417,401</u>	<u>676,417,401</u>
Effect of dilutive potential shares:		
Share options	<u>152,954</u>	
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>676,570,355</u>	
Basic earnings per share	<u>5.5 cents</u>	<u>6.2 cents</u>
Diluted earnings per share	<u>5.5 cents</u>	<u>N/A</u>

In 2002, no diluted earnings per share has been presented because the exercise price of the Company's options was higher than the average market price of the Company's shares.

12. INVESTMENT PROPERTIES

The investment properties are situated in Hong Kong and are held under medium-term leases. They are stated at valuation at the balance sheet date and the movements during the year are as follows:

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
At 1 January, at valuation	15,200	17,530
Surplus (deficit) arising on valuation at 31 December	<u>20</u>	<u>(2,330)</u>
At 31 December, at valuation	<u>15,220</u>	<u>15,200</u>

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12. INVESTMENT PROPERTIES (Continued)

The Group's investment properties were valued as at 31 December 2003 on an open market value basis by Knight Frank, an independent firm of professional property valuers. The surplus arising on valuation is credited to the income statement.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Buildings under construction HK\$'000	Furniture, fixtures and equipment HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Plant and machinery HK\$'000	Total HK\$'000
THE GROUP							
COST							
At 1 January 2003	279,388	105,023	69,183	62,817	22,063	532,577	1,071,051
Currency realignments	(1,361)	(199)	(367)	(324)	(44)	(3,097)	(5,392)
Additions	26,807	2,771	3,196	736	999	27,845	62,354
Reclassifications	23,136	(23,274)	—	—	—	138	—
Disposals	—	—	(486)	(2,213)	(4,578)	—	(7,277)
At 31 December 2003	327,970	84,321	71,526	61,016	18,440	557,463	1,120,736
DEPRECIATION							
At 1 January 2003	52,971	—	50,150	44,506	14,558	246,687	408,872
Currency realignments	(266)	—	(255)	(224)	(19)	(1,336)	(2,100)
Provided for the year	11,358	—	3,694	2,651	1,532	28,744	47,979
Eliminated on disposals	—	—	(382)	(1,791)	(3,958)	—	(6,131)
At 31 December 2003	64,063	—	53,207	45,142	12,113	274,095	448,620
NET BOOK VALUES							
At 31 December 2003	263,907	84,321	18,319	15,874	6,327	283,368	672,116
At 31 December 2002	226,417	105,023	19,033	18,311	7,505	285,890	662,179

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13. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book values of the Group's leasehold land and buildings comprise:

	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings in Hong Kong		
under medium term leases	40,368	41,567
Land and buildings elsewhere in the PRC on land for		
which the Group has been granted land use right		
and the land is under medium term	223,539	184,850
	<u>263,907</u>	<u>226,417</u>

The buildings under construction at 31 December 2003 are located in Hong Kong and other parts of the PRC. The balance shown includes capitalised interest of HK\$4,897,000 (2002: HK\$4,897,000).

14. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<u>32,917</u>	<u>32,917</u>

The details of the Company's principal subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place and nature of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Attributable equity interest of the Group	Principal activities
Action Land Limited	Hong Kong — limited liability company	HK\$6,000,000	100%	Provision of transportation services
Asian Fabulous Enterprise (Shenzhen) Co., Ltd.	PRC — wholly owned foreign enterprise	HK\$100,000,000	100%	Manufacturing of household products

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14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place and nature of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Attributable equity interest of the Group	Principal activities
Fundbor Industries Limited	Hong Kong — limited liability company	HK\$7,000,000	100%	Trading of polyester fibres
Greatflow Investments Limited	British Virgin Islands (“BVI”) — limited liability company	US\$1	100%	Property holding
Hopemain Industries Limited	Hong Kong — limited liability company	HK\$5,000,000	100%	Investment holding
Hopemain Industries (Shenzhen) Limited	PRC — wholly owned foreign enterprise	HK\$5,000,000	100%	Manufacturing of PVC products
Hopestar Industries Limited	Hong Kong — limited liability company	HK\$1,000	100%	Trading in moulds
Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd.	PRC — wholly owned foreign enterprise	***	100%	Manufacturing of PVC pipes and fittings and moulds
Nam Sok Building Material & Plastic Products (Shenzhen) Co., Ltd.	PRC — wholly owned foreign enterprise	HK\$230,000,000	100%	Manufacturing of PVC pipes and fittings and moulds
Nam Sok Houseware Producing (Changshu) Co., Ltd.	PRC — wholly owned foreign enterprise	***	100%	Manufacturing of household products
South China Plastic Building Material Manufacturing Limited	Hong Kong — limited liability company	HK\$2	100%	Trading in building materials and supplies

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14. INVESTMENT IN SUBSIDIARIES (Continued)

Name of subsidiary	Place and nature of incorporation/ registration	Nominal value of issued ordinary share/ registered capital*	Attributable equity interest of the Group	Principal activities
Welidy Limited	Hong Kong — limited liability company	HK\$10,000	100%	Property holding
World Home Linen Manufacturing Company Limited	Hong Kong — limited liability company	HK\$200 Deferred non-voting shares HK\$10,000	100% ****	Property holding
World Houseware (B.V.I.) Limited	BVI — limited liability company	HK\$50,000	100%	Investment holding
World Houseware Producing (China) Company Limited	Hong Kong — limited liability company	HK\$1,500,000 Deferred non-voting shares HK\$500,000	100% ****	Subcontracting and manufacturing of household products
World Houseware Producing Company Limited	Hong Kong — limited liability company	HK\$200 Deferred non-voting shares HK\$160,500	100% ****	Trading in household products
World Plastic Mat (Baoan) Company Limited	PRC — wholly owned foreign enterprise	HK\$350,000,000	100%	Manufacturing of household products
World Plastic-ware Manufacturing Limited	Hong Kong — limited liability company	HK\$32,500,000	100%	Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

14. INVESTMENT IN SUBSIDIARIES (Continued)

- * All are ordinary share/registered capital unless otherwise stated.
- ** The registered capital of Nam Sok Building Material & Plastic Products (Changshu) Co., Ltd. is US\$19,000,000. As at 31 December 2003, US\$5,242,059 had been contributed to this company.
- *** The registered capital of Nam Sok Houseware Producing (Changshu) Co., Ltd. is US\$19,000,000. As at 31 December 2003, US\$4,520,651 had been contributed to this company.
- **** None of the deferred non-voting shares are held by the Group.

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

Only World Houseware (B.V.I.) Limited is directly held by the Company.

All the subsidiaries operate in their respective places of incorporation/registration except World Houseware Producing (China) Company Limited which operates in the PRC and Greatflow Investments Limited which holds properties in Hong Kong.

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

15. INVENTORIES

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	78,464	62,227
Work in progress	31,528	23,315
Finished goods	27,539	29,812
	<u>137,531</u>	<u>115,354</u>

Finished goods of approximately HK\$17,825,000 (2002: HK\$16,178,000) included above are carried at net realisable value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

16. TRADE AND OTHER RECEIVABLES

The Group allows credit periods of up to 180 days, depending on the product sold, to its trade customers.

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0-30 days	54,950	46,899
31-60 days	24,884	19,185
61-90 days	14,290	11,092
Over 90 days	27,113	19,054
	<hr/>	<hr/>
Total trade receivables	121,237	96,230
Other receivables	82,209	39,850
	<hr/>	<hr/>
Total trade and other receivables	203,446	136,080
	<hr/>	<hr/>

17. TRADING SECURITIES

Trading securities comprise equity shares listed on The Stock Exchange of Hong Kong Limited and are carried at market value at the balance sheet date.

18. TRADE AND OTHER PAYABLES

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

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
0-30 days	53,243	29,655
31-60 days	37,922	19,280
61-90 days	16,864	19,083
Over 90 days	12,943	14,753
	<hr/>	<hr/>
Total trade payables	120,972	82,771
Other payables	25,018	33,372
	<hr/>	<hr/>
Total trade and other payables	145,990	116,143
	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

19. BANK BORROWINGS — AMOUNT DUE WITHIN ONE YEAR

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Bank overdrafts	6,567	12,262
Trust receipts and import loans	6,165	7,421
Short term loans	133,899	63,721
Portion of non-current loans due within one year (<i>note 20</i>)	26,558	16,836
	<u>173,189</u>	<u>100,240</u>
Analysed as:		
Secured	114,722	51,477
Unsecured	58,467	48,763
	<u>173,189</u>	<u>100,240</u>

20. BANK BORROWINGS — AMOUNT DUE AFTER ONE YEAR

The Group has bank loans which have repayment periods in excess of one year. These loans bear interest at market rates and are repayable as follows:

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Within one year	26,558	16,836
In the second year	15,892	13,832
In the third to fifth year	—	8,550
After five years	—	475
	<u>42,450</u>	<u>39,693</u>
Less: Amount due within one year and shown under current liabilities (<i>note 19</i>)	<u>(26,558)</u>	<u>(16,836)</u>
Amount due after one year shown as non-current	<u>15,892</u>	<u>22,857</u>
Analysed as:		
Secured	15,892	19,107
Unsecured	—	3,750
	<u>15,892</u>	<u>22,857</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

21. DEFERRED TAXATION

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
THE GROUP			
At 1 January 2002	4,061	(1,515)	2,546
Charge to consolidated income statement for the year	707	1,158	1,865
At 31 December 2002	4,768	(357)	4,411
Currency realignment	(26)	—	(26)
Effect of change in tax rate	64	(33)	31
Charge to consolidated income statement for the year	1,175	390	1,565
At 31 December 2003	5,981	—	5,981

At the balance sheet date, the Group had tax losses of approximately HK\$10,615,000 (2002: HK\$10,810,000) available to offset future assessable profits. In 2002, a deferred taxation asset amounting to approximately HK\$357,000 (2003: nil) of such losses was recognised. No deferred taxation asset has been recognised in respect of the remaining approximately HK\$10,615,000 (2002: HK\$10,453,000) due to the unpredictability of future profit streams. The Group had no other significant unprovided deferred taxation at the balances sheet date.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

22. SHARE CAPITAL

	2003 & 2002
	<i>HK\$'000</i>
Authorised:	
1,500,000,000 shares of HK\$0.10 each	150,000
	<hr/>
	Nominal
	value
	2003 & 2002
	<i>HK\$'000</i>
Issued and fully paid:	
676,417,401 shares of HK\$0.10 each	67,642
	<hr/>

There were no changes in the authorised, issued and fully paid share capital in both years.

23. SHARE OPTION SCHEME

The Company has a share option scheme under which options may be granted as incentives to directors and employees of the Company and its subsidiaries to subscribe for shares in the Company at any time during the ten year period following the adoption of the scheme. The scheme was adopted at an extraordinary general meeting of the Company held on 11 March 1993. Under the scheme, the subscription price will not be less than 80% of the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited on the five trading days immediately preceding the offer of the option provided that in no circumstances shall the subscription price be less than the nominal value of the Company's share.

The maximum number of shares in respect of which options may be granted under this scheme may not exceed 10% of the issued share capital of the Company from time to time. An option can be exercised six months after the date of acceptance but not later than five years from the date of the offer.

Options granted must be taken up within 30 days from the date of grant, upon payment of HK\$1 as the nominal consideration. On 19 February 2000, options to subscribe for 4,460,000 shares in the Company were granted to certain directors and employees of the Group at an exercise price of HK\$0.32 per share. Consideration received by the Company for options granted during that year amounted to HK\$7.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

23. SHARE OPTION SCHEME (Continued)

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

The following options were granted to the directors of the Company and employees of the Group to subscribe for shares in the Company.

	Date of grant	Exercisable period	Exercise price HK\$	Number of share options outstanding
Directors	19.2.2000	19.8.2000 — 18.2.2005	0.32	2,960,000
Employees	19.2.2000	19.8.2000 — 18.2.2005	0.32	1,500,000
				<u>4,460,000</u>

No share options were granted to directors or employees during the two years ended 31 December 2003 and none of the above share options were exercised, cancelled or lapsed in the same period.

24. RESERVES

	Share premium HK\$'000	Special reserve HK\$'000	Dividend reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE COMPANY					
At 1 January 2002	313,127	8,917	3,382	405	325,831
Net profit for the year	—	—	—	8,107	8,107
2001 final dividend paid in cash	—	—	(3,382)	—	(3,382)
2002 interim dividend paid in cash	—	—	—	(3,382)	(3,382)
2002 final dividend declared	—	—	3,382	(3,382)	—
At 31 December 2002	313,127	8,917	3,382	1,748	327,174
Net profit for the year	—	—	—	6,654	6,654
2002 final dividend paid in cash	—	—	(3,382)	—	(3,382)
2003 interim dividend paid in cash	—	—	—	(3,382)	(3,382)
2003 final dividend declared	—	—	3,382	(3,382)	—
At 31 December 2003	<u>313,127</u>	<u>8,917</u>	<u>3,382</u>	<u>1,638</u>	<u>327,064</u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

24. RESERVES (Continued)

The special reserve of the Company arose as a result of the group reorganisation in 1993. It represents the excess of the consolidated net assets of World Houseware (B.V.I.) Limited at the date on which its shares were acquired by the Company over the nominal value of the Company's shares which were issued in the acquisition.

Under the Companies Law in the Cayman Islands and the provisions of the Memorandum and Articles of Association of the Company, all reserves of the Company are available for distribution to shareholders, either by way of dividend or bonus issue of shares, provided that the Company will be able to pay its debts as they fall due in the ordinary course of business immediately following the date on which any such distribution is proposed to be paid.

25. ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Bank balances and cash	68,636	54,001
Bank overdrafts	(6,567)	(12,262)
	<u>62,069</u>	<u>41,739</u>

26. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
Capital expenditure contracted for but not provided in the financial statements in respect of		
— leasehold land and buildings	16,050	19,962
— plant and equipment	12,719	4,890
— investment in a joint venture	390	388
	<u>29,159</u>	<u>25,240</u>
Capital expenditure authorised but not contracted for in respect of the acquisition of plant and machinery	<u>152,520</u>	<u>19,674</u>

The Company did not have any significant capital commitments at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

27. OPERATING LEASES

The Group as lessee

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

	2003 HK\$'000	2002 HK\$'000
Within one year	3,875	5,058
After one year and not later than five years	2,273	5,914
	<u>6,148</u>	<u>10,972</u>

Under the leases entered into by the Group, the lease payments are fixed and predetermined.

The Group as lessor

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	2003 HK\$'000	2002 HK\$'000
Within one year	1,839	590
After one year and not later than five years	816	77
	<u>2,655</u>	<u>667</u>

The Group's investment properties are held for rental purposes. The properties held have committed tenants for periods of up to four years.

The Company did not have any significant operating lease commitment at the balance sheet date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2003

28. PLEDGE OF ASSETS

At the balance sheet date, the Group's borrowings were secured by the following assets:

	2003 HK\$'000	2002 HK\$'000
Leasehold land and buildings	95,999	98,777
Investment properties	15,220	15,200
	<u>111,219</u>	<u>113,977</u>

29. CONTINGENT LIABILITIES

	THE GROUP		THE COMPANY	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Bills discounted with recourse	8,446	5,290	—	—
Banking facilities utilised by subsidiaries which are guaranteed by the Company	<u>—</u>	<u>—</u>	<u>146,297</u>	<u>135,723</u>

30. RETIREMENT BENEFIT SCHEMES

The Group operates a MPF Scheme for all qualifying Hong Kong employees. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Mandatory benefits are provided under the MPF Scheme. The Group contributes the lower of 5% of the relevant payroll costs and HK\$1,000 per employee to the MPF Scheme.

Employees of subsidiaries in the PRC are members of the state-sponsored pension schemes operated by the PRC government. The subsidiaries 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 state-sponsored pension schemes is to make the required contributions.

The total contribution to the retirement benefit schemes charged to the income statement is HK\$3,441,000 (2002: HK\$2,379,000).

31. POST BALANCE SHEET EVENTS

Subsequent to the balance sheet date, the Group:

- acquired five properties for an aggregate consideration of approximately HK\$102 million; and
- obtained term loan facilities of totalling HK\$187 million from two banks.