

Chairman's Statement

To our shareholders

I am very pleased to present to our shareholders the annual report of Qualipak International Holdings Limited for the year ended December 31, 2000.

RESULTS

The Group's turnover for the year ended December 31, 2000 was HK\$277 million. The turnover represented an increase of 39 per cent as compared with the previous nine months period ended December 31, 1999. Sales of packaging products amounted to HK\$256.7 million, an increase of 29 per cent.

The group achieved a growth in profit after tax of 42 per cent or HK\$14.4 million to HK\$48.6 million (as compared to the results achieved for the nine months period ended December 31, 1999). The Group's earnings per share increased to 2.52 cents per share from 2.18 cents per share in 1999, mainly as a result of the overall improvements in the Group's operating performance, despite the dilutive effect arising from the increase in issued shares during the year.

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK\$0.005 per share to our shareholders whose names appear on the register of members of the Company on May 24, 2001. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or about June 20, 2001.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, May 21, 2001 to Thursday, May 24, 2001 (both days inclusive), during which period no share transfers will be registered. In order to be eligible to attend and vote at the Annual General Meeting of the Company to be held on Thursday, May 24, 2001 and to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with Secretaries Limited, the branch share registrar of the Company in Hong Kong, at 5th Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong by no later than 4:00 p.m. on Friday, May 18, 2001. Warrant holders and holder of convertible note, to be eligible to attend and vote at the Annual General Meeting of the Company to be held on Thursday, May 24, 2001 and to qualify for the proposed final dividend, have to exercise the rights of subscription or conversion attaching to their warrants or convertible note as the case may be not later than 4:00 p.m. on Friday, May 18, 2001.

BUSINESS REVIEW

Demand for packaging products remained strong during the period. The increase in turnover was primarily attributable to the development of a wider range of product lines and contributions from our broadened customer base in the US and the Europe markets. Marketing activities in the period were focused on building up co-operation with renowned brandname customers in developing new product lines.

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With the solid back up of the Group's experienced in-house product development teams, product design and quality have been maintained at a high standard. The maintaining of the superb qualities of our products and services, and delivery reliability, have enabled the Group to secure and expand its market share. The continued efforts of cost control have resulted in improvement in net profit margin of the Group's packaging products from 17.2 per cent to 18.7 per cent during the year.

FUTURE PROSPECTS

The slowdown in the US economy in the past few months may have softened market demands for consumer goods and therefore those for the Group's products. However, with the recent action taken by the US authorities to relax its monetary policy in the first quarter of 2001 and the downward trend in interest rates, the US economy may stabilize or improve, and if so, demand for the Group's products should pick up in the coming year. The Group's past effort in broadening its customer base into Europe and the Asia Pacific region should help cushion the effect, if any, of the US economy slowdown on the Group's business performance. Orders on hand are in line with the Group's past performance and on track with the sales plans.

With Hong Kong's economy expected to continue to emerge from the worst situation in the past year, despite a not so bullish stock market, and the stabilizing economies in the Asian countries to where we export our products, the directors foresee increase in demand for quality packaging for retail goods which would bring forth business opportunities to the Group.

The Group's expansion plan for its production capacity in Sanjiao Town, Zhongshan, have just been completed and the facility is set to start production in the second half of the financial year 2001. The consolidation of our operations in one industrial complex, together with the resulting integration of production methods and processes, will continue to improve product quality and overall competitiveness to meet our business expansion requirements. With continued efforts to develop new product lines, the Group plans to add the highest-grade luxury wooden boxes to its product line and is actively exploring such opportunities.

Backed by the financial strength of the Group, the Directors are also actively looking into opportunities for diversification and expansion.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's total shareholders' equity strengthened further by HK\$71.7 million from HK\$218.4 million at December 31, 1999 to HK\$290.1 million at December 31, 2000. The increase was due to an increase in retained earnings, and increase in share premium arising from the subscription of shares by the Group's holding company, the issue of shares due to exercise of share options and bonus warrants during the year.

During the year under review, other revenues increased by HK\$9.5 million mainly due to interest income received on bank deposits. Finance cost of HK\$4 million was incurred in respect of interest payment on the convertible note payable.

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Liquidity and Financial Resources

The Group's financial position remained healthy. At December 31, 2000, there were HK\$297.8 million in cash reserves, and sufficient unused lines of credit available from financial institutions.

The Group has no bank borrowings as at December 31, 2000.

Whilst sales of the Group denominated in Hong Kong and US dollars, purchases of raw materials are in majority in Hong Kong dollars. Most bank deposits are maintained in Hong Kong dollars. Hence, the Group's exposure to foreign exchange risk is minimal.

Pledge of Assets

At December 31, 2000, the Group pledged its leasehold properties and investment property with an aggregate carrying value of approximately HK\$4,000,000 as security for general banking facilities granted to the Group.

Employee

At December 31, 2000, the Group has a total of 50 employees in HK and a workforce of 3,200 in the PRC.

The Group's emolument policies are formulated on the performance of individual employees and on the basis of the salary trends in various locations in which the Group operates and this includes basic salary, bonus, provident fund scheme, discretionary performance bonus and share options where appropriate.

Future Plans for Material Investments

Total capital commitments at December 31, 2000 amounted to HK\$11.6 million of which HK\$10.5 million are related to the construction of the factory complex in Zhongshan, PRC, and will be financed by the net proceeds of the new issue of shares in 1999. The balance of HK\$1.1 million will be financed by internally generated funds.

The Group purchased in January 2001 a convertible note of a listed company in Hong Kong amounting to HK\$28,000,000, which was financed by internally generated funds.

Gearing Ratio

The Group issued on June 22, 2000 a convertible note with a principal amount of HK\$150,000,000 in aggregate to a wholly owned subsidiary of Yugang International Limited, details of which were set out in the circular to shareholders dated May 26, 2000. The Note is unsecured, bears interest at 5 per cent per annum, accrued on a daily basis, calculated on the principal amount and payable every six months in arrears. The gearing ratio of the convertible note payable was 33.3 per cent at December 31, 2000.

*Chairman's Statement***USE OF PROCEEDS**

The use of proceeds in relation to capital raised during the year and in the previous year was as follows:

	Balance at 12/31/1999	Amount raised in the year	Applications	Balance at 12/31/2000
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
New issue of shares				
– cost of construction, fitting out and equipment purchase in relation to new industrial complex	18,100	–	4,310	13,790
– expansion of design centre	170	–	170	–
Issue of convertible note				
– further investment	–	100,000	–	100,000
– working capital	–	49,114	49,114	–
Placing of shares				
– working capital	–	24,607	24,607	–
Issue of bonus warrants				
– working capital	–	5,806	5,806	–

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to take this opportunity to express our appreciation to our customers, suppliers and shareholders for their continued support. I would also like to thank my fellow directors for their valuable contributions and, in particular, all our staff members for their devotion and dedicated work throughout the period. I am earnestly looking forward to such continued support in the ensuing year.

Lam How Mun Peter
Chairman

Hong Kong, April 20, 2001