

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 31 December, 2001.

RESULTS

The Group achieved a turnover of HK\$221.6 million compared to the turnover of HK\$277 million in the previous year, representing a decrease of approximately 20%. The profit attributable to shareholders for the year was HK\$24.4 million, including the deduction of non-recurring expenses and provisions of HK\$5.1 million in respect of payment to workers and related costs on relocation of the Group's production facilities to Zhongshan, compared with a profit of HK\$48.5 million in 2000. Earnings per share was 1.18 cents in comparison to that of 2.52 cents in the previous year.

FINAL DIVIDEND

The Directors are pleased to recommend a final dividend of HK\$0.003 per share to our shareholders whose names appear on the register of members of the Company on 29 May, 2002. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or about 15 June, 2002.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Friday, 24 May, 2002 to Wednesday, 29 May, 2002 (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 Wednesday, 29 May, 2002 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, not later than 4:00 p.m. on Thursday, 23 May, 2002. Warrantheolders and holder of convertible note, to be eligible to attend and vote at the Annual General Meeting of the Company to be held on Wednesday, 29 May, 2002 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 Thursday, 23 May, 2002.

BUSINESS REVIEW

The global economic slowdown has undermined consumer confidence, affecting demands for luxury goods and in turn demands for the Group's products. The Group's business performed relatively well during the eight months period up to August as a result of the broad customer base in the world and the Group's product quality helped to soften price reduction in the face of intense competition. In the wake of the events of 11 September, the slowdown in the United States, Europe and other major economies has been severe. This led to reduced demands for the Group's products, which is partly related to postponement of shipments in response to market sentiment by major customers.

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Sales orders received during the year changed due to certain customers looking for lower cost items, and also due to market competition. Turnover has therefore been affected by lower gross profit margin. However, the impact on profits was partially offset by extreme cost saving measures to contain costs. In view of the slowdown in the US and European economies and the increased uncertainties in customers repayment of outstanding receivables, the Group has made further provisions in both doubtful debts and stock, resulting in a lower reported profit for the current year.

FUTURE PROSPECTS

There are now some signs of recovery in the US and European economy as consumer sentiment appears to warm six months after the 11 September event. With 57% of the Group's sales to Europe and the United States, Qualipak's performance is closely related to developments in these consumer markets. Sales orders received by the Group have shown some encouraging signs of recovery since December, 2001. We expect the lowering of interest rates by the US Federal Reserve Board will stimulate demands to support sales activity going forward.

The Group has boosted the facility and capacity of the wood work factory and the training of workers to produce luxury wooden boxes. Qualipak has an excellent design and marketing team that has allowed us to develop quality products that are well received by customers. We continue to place emphasis on these two areas to ensure our luxury wooden products accommodate our customers' needs and so increasing our market share.

The Group's production facilities in Sanjiao Town, Zhongshan, have commenced production in the second half of the year. The paper and plastic operations have been relocated to this facility during the first quarter of 2002. In the longer term, this consolidation of operations will improve product quality and the Group's overall competitiveness. The Group also continues to focus on cost control in order to cope with the price war from competitors and position ourselves for future growth.

The directors are also actively looking for opportunities for expansion and diversification.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance and Treasury Operations

Shareholders' funds at 31 December, 2001 totalled HK\$316 million, representing an increase of 5.2% over last year.

The Group maintained its long-standing policy of conservative and prudent financial and treasury management. The Group enjoyed a healthy financial position with no bank borrowings and its cash reserves as at 31 December, 2001 amounted to HK\$239.6 million (2000 : HK\$297.8 million). Surplus funds were placed in majority in Hong Kong dollar time deposits with reputable banks.

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At 31 December, 2001, the Group had a convertible note of HK\$150,000,000 in issue, details of which were set out in the circular to shareholders dated 26 May, 2000 (2000 : HK\$150,000,000). The Note is unsecured, bears interest at 5% 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 32.2 percent at 31 December, 2001 (2000 : 33.3%).

Since both sales and purchase transactions of the Group were primarily denominated in United States Dollars and/or Hong Kong Dollars, the exposure to foreign exchange risk was minimal.

Pledge of Assets

At 31 December, 2001, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$4 million as security for general banking facilities granted to the Group. (2000: HK\$4 million).

Contingent Liabilities

At 31 December, 2001, the Group executed guarantees amounting to HK\$20,000,000 (2000: HK\$30,500,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilized at 31 December, 2001.

Employees

At 31 December, 2001, the Group had approximately 2,600 employees, the majority of whom are employed in the PRC. The Group remunerates its employees based largely on industry practice. The Group has established a discretionary bonus scheme and share options which are designed to motivate and reward employees at all levels.

Investments

The Group purchased during the year convertible notes of two listed companies in Hong Kong totalling HK\$53,000,000. These notes yield interest of 5% and 7% per annum respectively. The total interest income received during the year amounted to HK\$2,230,000 approximately.

The Group has purchased a property at Hong Kong Parkview for investment purposes. The transaction was completed on 28 February, 2002. The cost of purchase was financed by internally generated funds.

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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 31/12/2000 <i>HK\$'000</i>	Amount raised in the year <i>HK\$'000</i>	Applications <i>HK\$'000</i>	Balance at 31/12/2001 <i>HK\$'000</i>
New issue of shares				
– cost of construction, fitting out and equipment purchase in relation to new industrial complex	13,790	–	13,790	–
Issue of convertible note				
– further investment	100,000	–	–	100,000
Issue of bonus warrants				
– working capital	–	1,708	1,708	–

ACKNOWLEDGEMENT

On behalf of the Board, I would like to express my sincere gratitude to the Group's management and staff member for their dedication and hard work, our customers for their support, and our shareholders for the trust and support during the year.

Lam How Mun Peter
Chairman

Hong Kong, 12 April, 2002