

## Notes to Financial Statements

31 December 2002

### 1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- (i) Trading in goods, including industrial equipment and automobile parts;
- (ii) Property and other investments; and
- (iii) Manufacture and sale of gift boxes, watch boxes and spectacles cases.

### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

- SSAP 1 (Revised): "Presentation of financial statements"
- SSAP 11 (Revised): "Foreign currency translation"
- SSAP 15 (Revised): "Cash flow statements"
- SSAP 34: "Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs, are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 22 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries, jointly-controlled entity and associates are now translated to Hong Kong dollars at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

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### 2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPS") (Continued)

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Hong Kong dollars at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. Further details of these changes that have resulted from them are included in the accounting policy for "Cash and cash equivalents" and "Foreign currencies" in note 3 to the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the Company's share option schemes, as detailed in note 29 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

#### **Basis of consolidation**

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

#### **Subsidiaries**

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Joint venture companies**

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and neither has joint control of, nor is in a position to exercise significant influence over, the joint venture company.

#### **Jointly-controlled entities**

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's interests in jointly-controlled entities.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Associates**

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

#### **Negative goodwill**

Negative goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates and jointly-controlled entities, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries, associates or jointly-controlled entities, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

#### **Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

#### Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation of fixed assets is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Long term leasehold land	Over the terms of the leases
Buildings	2%
Leasehold improvements	20%
Furniture and fixtures	20%
Office equipment	20%
Motor vehicles and yachts	20%
Plant and machinery	10%
Moulds	15%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account, is the difference between the net sales proceeds and the carrying amount of the relevant asset.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Investment properties**

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

#### **Assets under hire purchase contracts**

Hire purchase contracts that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a hire purchase contract, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Such assets are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of assets held under hire purchase contracts are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

#### **Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

#### **Unlisted investments**

Unlisted investments represent club debentures, which are intended to be held for long term purposes and are stated at cost less any impairment losses.

#### **Convertible debentures and notes**

Convertible debentures and notes, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Other investments**

Investments in listed securities which are held for the purpose of capital gain are classified as other investments. They may be held for long term or trading purposes.

Other investments are stated at fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account for the period in which they arise.

#### **Stocks**

Stocks are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and in selling and distribution.

#### **Deferred tax**

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

#### **Foreign currencies**

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entity and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entity and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Prior to the adoption of the revised SSAPs 11 and 15 during the year, as explained in note 2 to the financial statements, the profit and loss accounts of overseas subsidiaries, jointly-controlled entity and associates and the cash flows of overseas subsidiaries were translated to Hong Kong dollars at the exchange rates at the balance sheet date. The adoption of revised SSAP 11 has had no material effect on the financial statements, while the adoption of the revised SSAP 15 has resulted in changes to the layout of the consolidated cash flow statement.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Cash and cash equivalents**

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

#### **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 bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;
- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) from the sale of listed securities, on the trade date.

#### **Dividends**

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.



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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Borrowing costs**

Borrowing costs indirectly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such 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 the borrowing costs capitalised.

All other borrowing costs are charged to the profit and loss account in the period in which they are incurred.

#### **Employee benefits**

##### ***Retirement benefits scheme***

The Group, other than Qualipak International Holdings Limited ("Qualipak") and its subsidiaries (details of whose retirement benefits scheme are included below), operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Qualipak, a subsidiary of the Company, together with its subsidiaries (collectively, the "Qualipak Group"), operates a defined contribution retirement benefits scheme for those employees who are eligible and who have elected to participate in the scheme. The assets of the scheme are held separately from those of the Qualipak Group in an independently administered fund. Contributions are made at specified rates and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Qualipak Group's employer contributions vesting fully, the ongoing contributions payable by the Qualipak Group may be reduced by the relevant amount of forfeited contributions.

Following the introduction of the MPF Scheme, the Qualipak Group has restructured its retirement arrangements to comply with the Mandatory Provident Fund Schemes Ordinance. The Qualipak Group has secured Mandatory Provident Fund exemption status for its retirement benefits scheme and, in addition, has participated in an approved MPF Scheme with effect from 1 December 2000 to provide a choice of schemes to its existing employees. All of its new employees are required to participate in the MPF Scheme.

## Notes to Financial Statements

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **Employee benefits** *(Continued)*

##### **Share option scheme**

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

##### **Employment Ordinance long service payments**

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

##### **Paid leave carried forward**

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Prior to the adoption of SSAP 34 during the year, as explained in note 2 to the financial statements, the Group did not accrue for paid annual leave carried forward at the balance sheet date. This change in accounting policy has no significant impact on the Group's financial statements.

## Notes to Financial Statements

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### 4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the trading of automobile parts segment is a dealer of automobile parts mainly for use in the manufacture of automobiles;
- (b) the manufacture and sale of packaging products segment produces watch boxes, gift boxes, spectacles cases and stationery for resale; and
- (c) the property and other investments segment comprises rental income from investment properties, interest income from loan receivables and potential income on securities investment.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

## Notes to Financial Statements

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### 4. SEGMENT INFORMATION (Continued)

#### (a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2002.

<b>Group 2002</b>	<b>Trading of automobile parts HK\$'000</b>	<b>Manufacture and sale of packaging products HK\$'000</b>	<b>Property and other investments HK\$'000</b>	<b>Unallocated HK\$'000</b>	<b>Consolidated HK\$'000</b>
Segment revenue:					
Sales to external customers	23,528	218,895	413	—	242,836
Segment results	(49,074)	34,886	(124,090)	—	(138,278)
Unallocated expenses, net					(14,727)
Interest and dividend income					31,630
Finance costs					(12,199)
Share of profits and losses of:					
Jointly-controlled entity	—	—	(5,325)	—	(5,325)
Associates	—	—	6,561	—	6,561
Loss before tax					(132,338)
Tax					(5,777)
Minority interests					(13,305)
Net loss from ordinary activities attributable to shareholders					(151,420)
Segment assets	120,566	258,811	815,514	—	1,194,891
Interest in a jointly-controlled entity	—	—	4,660	—	4,660
Interests in associates	—	—	609,944	—	609,944
Unallocated assets					301,914
Total assets					2,111,409
Segment liabilities	4,656	32,808	—	—	37,464
Unallocated liabilities					178,030
Total liabilities					215,494
Other segment information:					
Capital expenditure	—	(25,371)	—	(28,441)	(53,812)
Recognition of negative goodwill	—	6,245	773	—	7,018
Depreciation	—	(6,727)	—	(5,425)	(12,152)
Deficit arising from revaluation of investment properties	—	—	(500)	—	(500)
Write back of provision/ (provision) for doubtful debts, net	(15,636)	1,500	(57,359)	—	(71,495)
Provision against stocks	—	(6,957)	—	—	(6,957)
Unrealised holding losses on other investments	—	—	(58,797)	—	(58,797)
Gain on disposal of other investments	—	—	951	—	951

## Notes to Financial Statements

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### 4. SEGMENT INFORMATION (Continued)

#### (a) Business segments (Continued)

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2001.

Group 2001	Trading of automobile parts HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	143,370	221,540	454	—	365,364
Segment results	(36,826)	29,639	49,383	—	42,196
Unallocated expenses, net					(4,365)
Interest and dividend income					54,998
Finance costs					(13,922)
Share of profits of:					
Jointly-controlled entity	—	—	142	—	142
Associates	—	—	12,013	—	12,013
Profit before tax					91,062
Tax					(4,658)
Minority interests					(11,689)
Net profit from ordinary activities attributable to shareholders					74,715
Segment assets	175,535	218,876	1,156,177	—	1,550,588
Interest in a jointly- controlled entity	—	—	9,985	—	9,985
Interests in associates	—	—	611,299	—	611,299
Unallocated assets					299,437
Total assets					2,471,309
Segment liabilities	10,553	35,986	—	—	46,539
Unallocated liabilities					400,990
Total liabilities					447,529
Other segment information:					
Capital expenditure	—	(17,318)	—	(1,090)	(18,408)
Recognition of negative goodwill	—	6,107	772	—	6,879
Depreciation	—	(4,280)	—	(5,028)	(9,308)
Deficit arising from revaluation of investment properties	—	—	(300)	—	(300)
Provision for doubtful debts, net	(12,444)	(1,375)	—	—	(13,819)
Write back of provision against stocks	—	1,570	—	—	1,570
Provision for impairment in value of convertible notes	—	—	(10,000)	—	(10,000)
Unrealised holding gains on other investments	—	—	78,045	—	78,045
Warrant subscription reserve recognised as income upon expiry of warrants	—	—	—	8,364	8,364
Loss on disposal of other investments	—	—	(5,111)	—	(5,111)
Removal costs of production plants	—	(5,129)	—	—	(5,129)

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### 4. SEGMENT INFORMATION (Continued)

#### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

#### Group 2002

	Hong Kong	Elsewhere in the PRC	North and South Americas	European Union	Others	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:						
Sales to external customers	50,172	23,528	89,764	58,063	21,309	242,836
Other segment information:						
Segment assets	1,941,356	170,053	—	—	—	2,111,409
Capital expenditure	48,927	4,885	—	—	—	53,812

#### 2001

Segment revenue:						
Sales to external customers	72,218	143,370	63,730	70,726	15,320	365,364
Other segment information:						
Segment assets	2,095,944	375,142	223	—	—	2,471,309
Capital expenditure	2,676	15,732	—	—	—	18,408

### 5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, and gross rental income received and receivable from investment properties during the year.

An analysis of the Group's turnover, other revenue and gains is as follows:

	2002 HK\$'000	2001 HK\$'000
<b>Turnover</b>		
Sale of goods	242,423	364,910
Rental income	413	454
	<b>242,836</b>	365,364

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### 5. TURNOVER, REVENUE AND GAINS (Continued)

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
<b>Other revenue and gains</b>		
Interest income	<b>29,832</b>	54,178
Dividend income from listed investments	<b>1,798</b>	820
Gain on disposal of fixed assets	—	171
Negative goodwill recognised	<b>7,018</b>	6,879
Other	<b>2,505</b>	3,950
	<b>41,153</b>	65,998

### 6. OTHER OPERATING INCOME/(EXPENSES), NET

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Provision for doubtful debts, net	<b>(71,495)</b>	(13,819)
Deficit arising from revaluation of investment properties	<b>(500)</b>	(300)
Unrealised holding gains/(losses) on other investments	<b>(58,797)</b>	78,045
Gain/(loss) on disposal of other investments	<b>951</b>	(5,111)
Loss on deemed disposal of partial interest in a subsidiary	<b>(3,683)</b>	(1,201)
Provision for impairment in value of convertible notes	—	(10,000)
Warrant subscription reserve recognised		
as income upon expiry of warrants	—	8,364
Removal costs of production plants	—	(5,129)
Gain on disposal of subsidiaries	—	32
	<b>(133,524)</b>	50,881

## Notes to Financial Statements

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### 7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting) the following:

	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cost of inventories sold	175,470	300,384
Provision/(write back of provision) against stocks	6,957	(1,570)
Depreciation	12,152	9,308
(Gain)/loss on disposal of fixed assets	184	(171)
Minimum lease payments under operating leases in respect of land and buildings	4,300	5,486
Auditors' remuneration	1,774	1,746
Staff costs (including those of directors):		
Wages and salaries	34,474	35,178
Pension contributions	1,043	751
Less: Forfeited contributions	(20)	—
Net pension contributions*	1,023	751
	<b>35,497</b>	<b>35,929</b>
Gross rental income	(413)	(454)
Less: Outgoings	—	5
Net rental income	(413)	(449)
Exchange gains, net	(116)	(1,459)

\* At 31 December 2002, forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years amounted to nil (2001: nil)

### 8. FINANCE COSTS

	Group	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	637	812
Interest on convertible notes	11,557	13,104
Hire purchase interest	5	6
	<b>12,199</b>	<b>13,922</b>



## Notes to Financial Statements

31 December 2002

### 9. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Fees	1,300	1,300
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	6,069	5,265
Bonuses	2,600	4,800
Pension scheme contributions	48	48
	<b>10,017</b>	11,413

Fees include HK\$1,300,000 (2001: HK\$1,300,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The number of the directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	2	—
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$3,000,001 to HK\$3,500,000	—	1
	<b>7</b>	7

## Notes to Financial Statements

31 December 2002

### 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2001: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2001: one) non-director, highest paid employee are as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	2,946	2,942
Bonuses	1,000	1,000
Pension scheme contributions	102	102
	<b>4,048</b>	4,044

The above-mentioned non-director, highest paid employee's remuneration fell within the band of HK\$4,000,001 to HK\$4,500,000 in both 2001 and 2002.

### 11. TAX

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising in Hong Kong during the year.

	2002	2001
	HK\$'000	HK\$'000
Group:		
Hong Kong	2,689	3,092
Over-provision in prior year	(141)	(331)
	<b>2,548</b>	2,761
Share of tax attributable to:		
Jointly-controlled entity	—	24
Associates	3,229	1,873
Tax charge for the year	<b>5,777</b>	4,658

### 12. NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net loss from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is HK\$9,454,000 (2001: net profit of HK\$5,041,000).

## Notes to Financial Statements

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### 13. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year is based on the net loss from ordinary activities attributable to shareholders for the year of HK\$151,420,000 (2001: net profit of HK\$74,715,000), and the weighted average of 8,453,321,700 (2001: 8,453,321,700) ordinary shares in issue during the year.

The diluted loss per share for the year ended 31 December 2002 has not been shown as the share options, warrants and convertible notes outstanding during the year has an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2001 was based on the net profit from ordinary activities attributable to shareholders for that year of HK\$85,715,000 as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation was the sum of the number of ordinary shares in issue during that year used in the basic earnings per share calculation of 8,453,321,700, and the weighted average of 2,111,917,808 ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible notes into ordinary shares of the Company during that year. The share options and warrants outstanding during that year had no dilutive effect on the basic earnings per share for that year.

## Notes to Financial Statements

31 December 2002

### 14. FIXED ASSETS

#### Group

	Leasehold land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Furniture and fixtures <i>HK\$'000</i>	Office equipment <i>HK\$'000</i>	Motor vehicles and yachts <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Moulds <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:								
At 1 January 2002	174,368	2,333	15,583	2,282	19,982	23,300	5,260	243,108
Additions	44,587	1,723	3,050	55	1,338	1,685	1,374	53,812
Disposals	(1,694)	—	(504)	—	(1,654)	—	—	(3,852)
<b>At 31 December 2002</b>	<b>217,261</b>	<b>4,056</b>	<b>18,129</b>	<b>2,337</b>	<b>19,666</b>	<b>24,985</b>	<b>6,634</b>	<b>293,068</b>
Accumulated depreciation:								
At 1 January 2002	10,953	1,816	7,864	1,818	13,298	11,534	2,624	49,907
Provided during the year	4,206	569	1,561	150	2,813	2,094	759	12,152
Disposals	(1,694)	—	(299)	—	(1,654)	—	—	(3,647)
<b>At 31 December 2002</b>	<b>13,465</b>	<b>2,385</b>	<b>9,126</b>	<b>1,968</b>	<b>14,457</b>	<b>13,628</b>	<b>3,383</b>	<b>58,412</b>
Net book value:								
<b>At 31 December 2002</b>	<b>203,796</b>	<b>1,671</b>	<b>9,003</b>	<b>369</b>	<b>5,209</b>	<b>11,357</b>	<b>3,251</b>	<b>234,656</b>
At 31 December 2001	163,415	517	7,719	464	6,684	11,766	2,636	193,201

The Group's leasehold land and buildings included above are held under the following lease terms:

	People's Republic of China		
	Hong Kong <i>HK\$'000</i>	Elsewhere <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost:			
Long term leases	94,697	4,534	99,231
Medium term leases	37,316	80,714	118,030
	132,013	85,248	217,261

Certain of the Group's land and buildings were pledged to banks to secure banking facilities granted to the Group (note 34 to the financial statements).

The net book value of the Group's fixed assets held under hire purchase contracts included in the total amount of office equipment, and motor vehicles and yachts at 31 December 2002 amounted to nil and HK\$28,000, respectively (2001: HK\$3,582 and HK\$37,600, respectively).

## Notes to Financial Statements

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### 15. INVESTMENT PROPERTIES

	Group	
	2002 HK\$'000	2001 HK\$'000
At beginning of year	6,000	237,798
Deficit on revaluation	(500)	(300)
Transfer to fixed assets	—	(1,100)
Disposal of a subsidiary	—	(230,398)
At end of year	<b>5,500</b>	6,000

The Group's investment properties at 31 December 2002 are situated in Hong Kong and are held under long term leases.

The revaluation of the above investment properties was carried out by FPD Savills (Hong Kong) Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2002.

The Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 34 to the financial statements).

Details of the investment properties at the balance sheet date were as follows:

Location	Existing use
Workshop numbers 2 and 7, 4th Floor, Kodak House II, 39 Healthy Street East, North Point, Hong Kong	Warehouse for rental

## Notes to Financial Statements

31 December 2002

### 16. NEGATIVE GOODWILL

The amounts of the negative goodwill recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	<b>Group</b> <i>HK\$'000</i>
Cost:	
At beginning of year	79,441
Arising from additional investment in a subsidiary	4,452
Arising from deemed disposal of partial interest in a subsidiary	(4,428)
<b>At 31 December 2002</b>	<b>79,465</b>
Accumulated recognition as income:	
At beginning of year	31,417
Recognised as income during the year	6,245
Arising from deemed disposal of partial interest in a subsidiary	(1,115)
<b>At 31 December 2002</b>	<b>36,547</b>
Net book value:	
<b>At 31 December 2002</b>	<b>42,918</b>
At 31 December 2001	48,024

### 17. INTERESTS IN SUBSIDIARIES

	<b>Company</b>	
	<b>2002</b>	2001
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
Unlisted shares, at cost	<b>105,759</b>	105,759
Due from subsidiaries	<b>1,795,645</b>	2,011,818
Due to subsidiaries	<b>(21,991)</b>	(5,050)
	<b>1,879,413</b>	2,112,527

The amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

## Notes to Financial Statements

31 December 2002

### 17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Aquatic Assets Limited	British Virgin Islands	US\$1	100	100	Not yet commenced business
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment in listed securities
Chase Create Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Dynamic Award International Limited	British Virgin Islands	US\$1	100	—	Not yet commenced business
Emergreen Holdings Limited	British Virgin Islands/PRC	US\$1	100	100	General trading
Faircom Limited	British Virgin Islands	US\$1	100	100	Investment holding
Ferrex Holdings Limited	British Virgin Islands	US\$1	100	—	Not yet commenced business
Funrise Limited	British Virgin Islands	US\$1	100	100	Investment holding
First River Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding

## Notes to Financial Statements

31 December 2002

### 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Grand Island Development Limited	British Virgin Islands	US\$1	100	100	Investment holding
Honfame Trading Limited	Hong Kong	HK\$2	100	100	Office management
Kent Smart Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Maxking Industries Limited	Hong Kong	HK\$2	100	100	Not yet commenced business
Maxlord Enterprises Limited	Hong Kong	HK\$2	100	100	Money lending
Megaspace Asia Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Property holding
Regulator Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Senico Investments Limited	British Virgin Islands	US\$1	100	—	Not yet commenced business
Sinorex Development Limited	Hong Kong	HK\$2	100	100	Not yet commenced business
Time Lander Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding



## Notes to Financial Statements

31 December 2002

### 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Unity Concord International Limited	Hong Kong	HK\$2	100	100	Dormant
Vigorous Assets Limited	British Virgin Islands	US\$1	100	100	Investment holding
Yugang Enterprises Limited	Hong Kong	HK\$2	100	100	Investment holding
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding
iChoice Limited	British Virgin Islands	US\$10	60	60	Investment holding
iFortune Limited	British Virgin Islands	US\$1	60	60	Investment holding
iNoble Inc.	British Virgin Islands	US\$1	60	60	Investment holding
Gainwin Packaging Limited*	Hong Kong	HK\$2	50.06	51.48	Dormant
Global Palace Investments Limited*	British Virgin Islands/ Hong Kong	US\$1,000	50.06	—	Property holding
Magic Hands International Limited*	British Virgin Islands	US\$100	50.06	—	Not yet commenced business
Permate Production Inc.*	British Virgin Islands/PRC	US\$20	50.06	51.48	Dormant
Qualipak Development Limited*	British Virgin Islands	US\$10,000	50.06	51.48	Investment holding

## Notes to Financial Statements

31 December 2002

### 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Qualipak Enterprises Limited*	Republic of Mauritius	US\$1,000	<b>50.06</b>	51.48	Dormant
Qualipak Finance Limited*	Hong Kong	HK\$2	<b>50.06</b>	51.48	Dormant
Qualipak Fortune Inc.*	British Virgin Islands/ PRC	US\$10,000	<b>50.06</b>	51.48	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak International Holdings Limited*	Bermuda	HK\$23,770,000	<b>50.06</b>	51.48	Investment holding
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US\$1	<b>50.06</b>	51.48	Investment holding
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK\$100 non-voting deferred# HK\$22,303,857	<b>50.06</b>	51.48	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.*	PRC	HK\$16,000,000	<b>50.06</b>	51.48	Dormant
Qualipak Nominees Limited*	British Virgin Islands	US\$1	<b>50.06</b>	51.48	Provision of nominee services
Qualipak Production Inc.*	British Virgin Islands/PRC	US\$10,000	<b>50.06</b>	51.48	Manufacture of watch boxes and gift boxes

## Notes to Financial Statements

31 December 2002

### 17. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2002	2001	
Qualipak Vision Inc.*	British Virgin Islands/PRC	US\$10,000	<b>50.06</b>	51.48	Dormant
Qualipak Wonder Inc.*	British Virgin Islands/PRC	US\$10,000	<b>50.06</b>	51.48	Manufacture of watch boxes, gift boxes, spectacles cases and display units
Winning Hand Management Limited*	British Virgin Islands/PRC	US\$1	<b>50.06</b>	51.48	Property holding
Wisdom Way Limited*	Hong Kong	HK\$2	<b>50.06</b>	51.48	Property holding
Worthwell Investments Limited*	British Virgin Islands	US\$50,000	<b>50.06</b>	51.48	Investment holding

Except for Yugang International (B.V.I.) Limited, all of the subsidiaries are indirectly held by the Company.

# The non-voting deferred shares have restricted rights as to the distribution of profits, capital and voting.

\* These subsidiaries were not audited by Ernst & Young.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

### 18. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets	<b>4,660</b>	9,985

## Notes to Financial Statements

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### 18. INTEREST IN A JOINTLY-CONTROLLED ENTITY (Continued)

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of			Principal activities
			Ownership interest	Voting power	Profit sharing	
青島海信網絡科技股份有限公司	Corporate	People's Republic of China	35	40	35	Trading and manufacturing of software products

The above jointly-controlled entity was not audited by Ernst & Young and is held through a subsidiary.

### 19. INTERESTS IN ASSOCIATES

	Group	
	2002 HK\$'000	2001 HK\$'000
Share of net assets:		
Listed investment	617,481	619,609
Negative goodwill on acquisition	(7,537)	(8,310)
	<b>609,944</b>	611,299
Market value of listed shares of an associate	<b>76,440</b>	87,360

The amount of negative goodwill recognised in interests in associates arising from the acquisition of associates in prior years is as follows:

	Group HK\$'000
Cost:	
At beginning of year and at 31 December 2002	9,275
Accumulated recognition as income:	
At beginning of year	965
Recognised as income during the year	773
At 31 December 2002	1,738
<b>Net book value:</b>	
<b>At 31 December 2002</b>	<b>7,537</b>
At 31 December 2001	8,310

## Notes to Financial Statements

31 December 2002

### 19. INTERESTS IN ASSOCIATES (Continued)

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Y.T. Realty Group Limited (formerly known as Prestige Properties Holdings Limited)	Corporate	Bermuda	<b>34.25</b>	34.25	Investment holding
Achiever Assets Limited	Corporate	Hong Kong	<b>34.25</b>	34.25	Property development
Asset Class Developments Limited	Corporate	British Virgin Islands/PRC	<b>34.25</b>	34.25	Property trading
Benefit Plus Company Limited	Corporate	Hong Kong	<b>34.25</b>	34.25	Property investment
Best View Limited	Corporate	British Virgin Islands/ Hong Kong	<b>34.25</b>	34.25	Property holding
E-Tech Services Limited	Corporate	Hong Kong	<b>34.25</b>	34.25	Property management
Gold Region Developments Limited	Corporate	British Virgin Islands/PRC	<b>34.25</b>	34.25	Property trading
Harson Investment Limited	Corporate	Hong Kong	<b>34.25</b>	34.25	Property investment
Honway Limited	Corporate	British Virgin Islands/ Hong Kong	<b>34.25</b>	34.25	Investment holding
Luckleen Development Limited	Corporate	Hong Kong	<b>34.25</b>	34.25	Property trading
Mainland Sun Limited	Corporate	British Virgin Islands/ Hong Kong	<b>34.25</b>	—	Property Investment

## Notes to Financial Statements

31 December 2002

### 19. INTERESTS IN ASSOCIATES (Continued)

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2002	2001	
Pencester Properties Limited	Corporate	British Virgin Islands/PRC	<b>34.25</b>	34.25	Property trading
Y.T. (China) Limited (formerly known as Prestige (China) Limited)	Corporate	Hong Kong/ PRC	<b>34.25</b>	34.25	Investment holding
Y.T. Finance Limited (formerly known as Prestige Finance Limited)	Corporate	Hong Kong	<b>34.25</b>	34.25	Finance vehicle

None of the above associates were audited by Ernst & Young, and all are held through subsidiaries.

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

Extracts of the consolidated operating results and consolidated financial position of the major associate, Y.T. Realty Group Limited, are as follows:

	2002 HK\$'000	2001 HK\$'000
Operating results for the year:		
Turnover	<b>153,445</b>	233,002
Net profit attributable to the shareholders	<b>22,440</b>	33,130
Financial position at 31 December:		
Non-current assets	<b>2,576,072</b>	2,556,340
Current assets	<b>124,843</b>	235,643
Current liabilities	<b>(229,050)</b>	(339,909)
Non-current liabilities	<b>(669,000)</b>	(643,000)
Net asset value	<b>1,802,865</b>	1,809,074

## Notes to Financial Statements

31 December 2002

### 19. INTERESTS IN ASSOCIATES (Continued)

A 34.25%-owned associate of the Group has claimed against the contractor of a property development project, and deducted approximately HK\$11 million from payments to the contractor for the delay in completion and defects of the construction works. In addition, there is a dispute over approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming against the associate for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss expenses. The case is currently pending arbitration. As at 31 December 2002, provisions of HK\$7.4 million (2001: HK\$7.4 million) have been made by this associate for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received.

### 20. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unsecured and interest-bearing	99,700	99,700
Provision for impairment	(21,700)	(21,700)
	<b>78,000</b>	78,000
Less: Amount classified as current assets	<b>(53,000)</b>	—
Amount classified as non-current assets	<b>25,000</b>	78,000

In December 1999, a wholly-owned subsidiary of the Company entered into a convertible debenture and warrant purchase agreement with Tengtu International Corp. ("TIC"), a company whose shares are traded on the National Association of Securities Dealers Over-the-Counter Bulletin Board Market of the United States of America. Pursuant to the agreement, TIC issued to the Group, at par value, a debenture of US\$1,500,000, repayable on 15 December 2003 (the "Maturity Date"), together with 1,500,000 warrants issued to the Group at nil consideration exchangeable for shares in TIC at prices ranging from US\$1 to US\$4 per share depending on the time of exercise from 15 December 1999 up to the third anniversary thereof. The convertible debenture bears interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2%.

In 2001, certain subsidiaries of the Company acquired unlisted convertible notes amounting to HK\$88,000,000 issued by companies with shares listed on the Stock Exchange. The convertible notes bear interest at rates ranging from 5% to 8% per annum and confer rights to the bearers to convert the whole or part of the outstanding principal amount into shares of those listed companies at pre-determined conversion prices ranging from HK\$0.028 to HK\$4.5 each.

Provision for impairment was made against certain convertible debentures and notes to reduce their carrying value to the estimated recoverable amount.

## Notes to Financial Statements

31 December 2002

### 21. OTHER INVESTMENTS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Equity investments listed in:		
Hong Kong	258,547	299,903
Elsewhere in the People's Republic of China	76	99
At market value	258,623	300,002
Less: Amount classified as current assets	(212,749)	(237,701)
Amount classified as non-current assets	45,874	62,301

The market value of the Group's other investments at the date of approval of these financial statements was approximately HK\$217,607,000.

### 22. STOCKS

	Group	
	2002	2001
	HK\$'000	HK\$'000
Raw materials	20,327	20,529
Work in progress	12,085	10,809
Finished goods	11,687	7,312
	44,099	38,650

There was no stock carried at net realisable value at 31 December 2002 (2001: Nil).

### 23. LOANS RECEIVABLE

	Group	
	2002	2001
	HK\$'000	HK\$'000
Unsecured	212,520	299,950



## Notes to Financial Statements

31 December 2002

### 24. TRADE DEBTORS

An aged analysis of the trade debtors at the balance sheet date is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	9,497	8,722
31 - 60 days	4,494	5,204
More than 60 days	9,588	24,576
	<b>23,579</b>	38,502

The Group allows an average credit period of 60 days to its customers.

### 25. TRADE CREDITORS

An aged analysis of the trade creditors at the balance sheet date is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
0 - 30 days	6,318	4,741
31 - 60 days	4,272	2,576
More than 60 days	4,426	6,790
	<b>15,016</b>	14,107

## Notes to Financial Statements

31 December 2002

### 26. HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its office equipment for its trading business. These leases are classified as finance leases and have remaining lease terms ranging from one to three years.

At the balance sheet date, the total future minimum lease payments under hire purchase contracts and their present values were as follows:

Group	<b>Minimum lease payments 2002 HK\$'000</b>	Minimum lease payments 2001 HK\$'000	<b>Present value of minimum lease payments 2002 HK\$'000</b>	Present value of minimum lease payments 2001 HK\$'000
Amounts payable:				
Within one year	<b>13</b>	16	<b>9</b>	12
In the second year	<b>13</b>	13	<b>9</b>	9
In the third to fifth years, inclusive	<b>5</b>	18	<b>4</b>	13
Total minimum finance lease payments	<b>31</b>	47	<b>22</b>	34
Future finance charges	<b>(9)</b>	(13)		
Total net finance lease payables	<b>22</b>	34		
Portion classified as current liabilities	<b>(9)</b>	(12)		
Long term portion	<b>13</b>	22		

### 27. CONVERTIBLE NOTES

On 5 September 2000, the Company issued convertible notes (the "Notes") of HK\$219,700,000 with a maturity date of 5 September 2002 which bear interest at the rate of 5% per annum. The Notes are convertible into 1,690,000,000 new shares of the Company at a conversion price of HK\$0.13 per share (subject to adjustment) at any time from 5 September 2000 to 5 September 2002. The Notes have been fully repaid during the year.

On 31 July 2001, the Company issued a convertible note of HK\$100,000,000 with a maturity date of 31 July 2004 which bears interest at the rate of 5% per annum. The note is convertible into new ordinary shares of the Company at a conversion price of HK\$0.10 per share during the period from 31 July 2001 to 31 July 2002, HK\$0.11 per share during the period from 1 August 2002 to 31 July 2003 and HK\$0.12 per share during the period from 1 August 2003 to 31 July 2004 (subject to adjustment). Further details of the note are set out in note 36(iii) to the financial statements.

## Notes to Financial Statements

31 December 2002

### 28. DEFERRED TAX

	<b>Group</b>	
	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
Balance at beginning and at end of year	<b>1,455</b>	1,455

There were no significant potential deferred tax liabilities for which provision has not been made.

Deferred tax has not been quantified on the surplus or deficit arising from the revaluation of investment properties, as the revaluation does not constitute a timing difference for tax purposes.

### 29. SHARE CAPITAL

#### Shares

	<b>2002</b>	2001
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
50,000,000,000 ordinary shares of HK\$0.01 each	<b>500,000</b>	500,000
<i>Issued and fully paid:</i>		
8,453,321,700 ordinary shares of HK\$0.01 each	<b>84,533</b>	84,533

#### Share options

SSAP 34 was adopted during the year, as explained in note 2 and under the heading "Employee benefits" in note 3 to the financial statements. As a result, these detailed disclosures relating to the Company's share option scheme are now included in the notes to the financial statements. In the prior year, these disclosures were included in the Report of the Directors, as their disclosure is also a requirement of the Listing Rules.

The particulars in relation to the share option scheme (the "Scheme") of the Company that are required to be disclosed under Rules 17.07 to 17.09 of Chapter 17 of the Listing Rules and SSAP 34, are as follows:

## Notes to Financial Statements

31 December 2002

### 29. SHARE CAPITAL (Continued)

#### Share options (Continued)

- (a) The following share options were outstanding under the Company's Scheme during the year:

Name or category of participant	Number of share options at beginning and end of year	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options HK\$ **
<i>Directors</i>					
Cheung Chung Kiu	10,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Yuen Wing Shing	8,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Lam Hiu Lo	10,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Liang Kang	6,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
<i>Other employees*</i>					
In aggregate	199,000,000	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
	233,000,000				

\* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

\*\* The exercise price of the share option is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

- (b) Summary of the Company's Scheme

(1) Purpose of the Scheme	To provide incentives and rewards to eligible participants who contribute to the success of the Group's operations
(2) Participants of the Scheme	Any employee of the Company or of its subsidiaries, including any executive director of the Company or any such subsidiary

## Notes to Financial Statements

31 December 2002

### 29. SHARE CAPITAL (Continued)

#### Share options (Continued)

##### (b) Summary of the Company's Scheme (Continued)

- |     |   |  |
|-----|---|--|
| (3) | The total number of securities available for issue under the Scheme together with the percentage of the issued share capital that it represents as at the date of the annual report | 233,000,000 shares (2.8%)  |
| (4) | The maximum entitlement of each participant under the Scheme  | 25% of the aggregate of all shares subject to the Scheme   |
| (5) | The period within which the securities must be taken up under an option   | Any time during a period to be determined and notified by the directors to each grantee, which may commence on a day after the date upon which the option is granted, but shall end in any event not later than the end of the Scheme  |
| (6) | The minimum period for which an option must be held before it can be exercised  | Six months from the date of grant of such option   |
| (7) | The basis of determining the exercise price   | The exercise price is determined by the directors and is not less than the greater of:<br><br>(a) 80% of the average closing price of the existing shares of the Company on the Stock Exchange on the five trading days immediately preceding the date of offer of such option; and<br><br>(b) the nominal value of the Company's shares |
| (8) | The remaining life of the Scheme  | The Scheme will remain in force until 18 October 2003  |

In accordance with the Listing Rules, certain terms of the Scheme need to be amended, or alternatively, a new share option scheme needs to be implemented, in order to comply with the requirements of the Listing Rules. According to the Listing Rules as amended on 1 September 2001, no more share is available for issue under the Scheme. However, all options granted prior to 1 September 2001 will remain in full force and effect.

## Notes to Financial Statements

31 December 2002

### 29. SHARE CAPITAL (Continued)

#### Share options (Continued)

##### (b) Summary of the Company's Scheme (Continued)

Share options do not confer rights on the holders to dividends or to vote at shareholder meetings.

Since there were no share options granted under the Scheme during the year, no theoretical value of share options granted has been disclosed accordingly.

#### Warrants

On 18 July 2001, the Company issued 1,312,586,000 warrants at a price of HK\$0.02 each. These warrants entitle the holders to subscribe, during the period from 18 July 2001 to 18 July 2003, up to HK\$118,132,740 for new shares in the Company at HK\$0.09 per share (subject to adjustment). At the balance sheet date, all of these warrants remained outstanding. The exercise in full of these warrants would, under the present capital structure of the Company, result in the issue of 1,312,586,000 additional shares of HK\$0.01 each.

### 30. RESERVES

#### Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 22 of the financial statements.

#### Company

	Share premium account <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant subscription reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2001	840,629	78,309	8,364	(6,291)	921,011
Expiry of warrants	—	—	(8,364)	—	(8,364)
Issue of warrants	—	—	26,252	—	26,252
Warrant issue expenses	—	—	(578)	—	(578)
Arising from the reduction in par value of shares from HK\$0.10 to HK\$0.01 each	—	760,799	—	—	760,799
Net profit for the year	—	—	—	5,041	5,041
At 31 December 2001 and 1 January 2002	840,629	839,108	25,674	(1,250)	1,704,161
Net loss for the year	—	—	—	(9,454)	(9,454)
<b>At 31 December 2002</b>	<b>840,629</b>	<b>839,108</b>	<b>25,674</b>	<b>(10,704)</b>	<b>1,694,707</b>

The contributed surplus of the Company at 1 January 2001 represents the excess of the net asset values of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

## Notes to Financial Statements

31 December 2002

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/(loss) before tax to net cash inflow/(outflow) from operating activities:

	Notes	2002 HK\$'000	2001 HK\$'000 (Restated)
Profit/(loss) before tax		<b>(132,338)</b>	91,062
Adjustments for:			
Share of profit and loss of:			
Jointly-controlled entity		<b>5,325</b>	(142)
Associates		<b>(6,561)</b>	(12,013)
Interest income	5	<b>(29,832)</b>	(54,178)
Dividend income from listed investments	5	<b>(1,798)</b>	(820)
Negative goodwill recognised as income	5	<b>(7,018)</b>	(6,879)
Provision for doubtful debts, net	6	<b>71,495</b>	13,819
Deficit arising from revaluation of investment properties	6	<b>500</b>	300
Unrealised holding losses/(gains) on other investments	6	<b>58,797</b>	(78,045)
Loss/(gain) on disposal of other investments	6	<b>(951)</b>	5,111
Loss on deemed disposal of partial interest in a subsidiary	6	<b>3,683</b>	1,201
Provision for impairment in value of convertible notes	6	—	10,000
Warrant subscription reserve recognised as income upon expiry of warrants	6	—	(8,364)
Gain on disposal of subsidiaries	6	—	(32)
Provision/(write back of provision) against stocks	7	<b>6,957</b>	(1,570)
Depreciation	7	<b>12,152</b>	9,308
Loss/(gain) on disposal of fixed assets	7	<b>184</b>	(171)
Finance costs	8	<b>12,199</b>	13,922
Operating loss before working capital changes		<b>(7,206)</b>	(17,491)
Decrease/(increase) in stocks		<b>(12,406)</b>	2,943
Decrease in trade debtors		<b>787</b>	16,179
Decrease/(increase) in other debtors, deposits and prepayments		<b>6,638</b>	(35,076)
Decrease/(increase) in bills receivable		<b>(699)</b>	22,349
Decrease in bills payable and trust receipt loans, secured		<b>(6,161)</b>	(18,110)
Increase/(decrease) in trade creditors		<b>909</b>	(4,362)
Increase in other payables		<b>610</b>	11,312
Increase/(decrease) in accrued expenses		<b>(6,990)</b>	754
Increase/(decrease) in customers' deposits received		<b>1,585</b>	(569)
Cash generated from operations		<b>(22,933)</b>	(22,071)
Hong Kong profits tax paid		<b>(1,247)</b>	(1,161)
Net cash outflow from operating activities		<b>(24,180)</b>	(23,232)

## Notes to Financial Statements

31 December 2002

### 31. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Disposal of subsidiaries

		<b>Group</b>	
	<i>Note</i>	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Net assets disposed of:			
Investment properties		—	230,398
Cash and bank balances		—	9,600
Other debtors		—	700
Other payables		—	(9,607)
Tax payable		—	(725)
			<u>230,366</u>
Gain on disposal of subsidiaries	6	—	32
			<u>230,398</u>
Satisfied by:			
Cash		—	23,039
Outstanding consideration receivable by cash*		—	207,359
			<u>230,398</u>

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	<b>2002</b> <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Cash consideration received	—	23,039
Cash and bank balances disposed of	—	(9,600)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	—	<u>13,439</u>

The subsidiaries disposed of during the year ended 31 December 2001 did not contribute significantly to the results and cash flows of the Group for that year.

\* In 2002, the Group received an amount of HK\$130,000,000 in respect of the disposal of subsidiaries in 2001. Subsequent to 31 December 2002, an additional amount of HK\$20,000,000 was received.

(c) Restricted cash and cash equivalent balances

Certain of the Group's time deposits are pledged to a bank to secure the bank facility granted to the Group, as further explained in note 34.



## Notes to Financial Statements

31 December 2002

### 32. OPERATING LEASE ARRANGEMENTS

#### (a) As lessor

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms of approximately two years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At the balance sheet date, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	546	649
In the second to fifth years, inclusive	403	—
	<b>949</b>	649

#### (b) As lessee

The Group leases certain of its manufacturing plants, office properties and quarters under operating lease arrangements. The leases for the manufacturing plants, office properties and quarters are negotiated for terms ranging from two to five years.

At the balance sheet date, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Within one year	2,476	2,621
In the second to fifth years, inclusive	—	1,673
	<b>2,476</b>	4,294

### 33. COMMITMENTS

In addition to the operating lease commitments detailed in note 32(b) above, the Group had the following commitments at the balance sheet date:

#### (a) Capital commitments in respect of purchases of fixed assets:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted for	342	11,752

#### (b) The Group's share of capital commitments of associates is as follows:

	Group	
	2002	2001
	HK\$'000	HK\$'000
Contracted for	3,478	3,538
Authorised, but not contracted for	4,920	3,420
	<b>8,398</b>	6,958

At the balance sheet date, the Company did not have any significant commitments (2001: Nil).

## Notes to Financial Statements

31 December 2002

### 34. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by:

- (a) a pledge of the Group's time deposits of HK\$8,044,000 (2001: HK\$7,947,000);
- (b) the Group's investment properties and certain fixed assets to the extent of HK\$79,948,000 (2001: HK\$68,795,000); and
- (c) corporate guarantees issued by the Company and its subsidiary, Qualipak.

### 35. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries*	—	—	493,076	718,500
Bills receivable discounted with recourse	—	7,755	—	—

\* The banking facilities were utilised to the extent of HK\$nil at the balance sheet date (2001: HK\$6,161,000).

- (b) Certain subsidiaries of Qualipak, a subsidiary of the Company, are in discussion with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. The IRD is presently requesting further information and explanations from these subsidiaries. In the opinion of the directors of Qualipak, these subsidiaries have prepared their prior year tax computations on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April 1999 made between Chuang Hing Limited ("CHL"), China United Holdings Limited ("CUHL") and Qualipak (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak's prospectus dated 15 April 1999), CHL and CUHL agreed with Qualipak and its subsidiaries (the "Qualipak Group") that CHL and CUHL will jointly and severally indemnify each of the companies in the Qualipak Group against tax falling due by any of the companies in the Qualipak Group resulting from profits or gains earned or accrued on or before 27 April 1999.

After taking into consideration the foregoing, no provision for any additional tax liabilities is considered necessary by the directors of Qualipak.

## Notes to Financial Statements

31 December 2002

### 36. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year:

		Group	
	Notes	2002 HK\$'000	2001 HK\$'000
Rental expenses for office premises paid			
to a substantial shareholder	(i)	1,700	1,333
Rental income for office premises			
received from an associate	(ii)	766	917
Interest expense paid to a related company	(iii)	5,000	2,110
Convertible note issued to a related company	(iii)	—	100,000

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Cheung Chung Kiu, a director of the Company, has beneficial interests in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction for the Company under the Listing Rules.
- (ii) The rental income was charged at cost, based on the floor area occupied by the associate in respect of the office premises rented from Chongqing Industrial Limited.
- (iii) The convertible note was issued to Timmex Investment Ltd., a company in which Cheung Chung Kiu, a director of the Company, has a beneficial interest of 100% in 2001. The interest expense paid to a related company was in respect of the convertible note issued. The above transactions constituted connected transactions for the Company under the Listing Rules.

### 37. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the presentation of the financial statements and certain supporting notes have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

### 38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2003.