

To our shareholders

It gives me great pleasure to present to our shareholders the annual report of Qualipak International Holdings Limited for the year ended 31 December, 2002.

RESULTS

The Group's performance in the second half of the current financial year ended 31 December, 2002 was better than that in the first half of the current financial year. Turnover of the Group for the year amounted to HK\$218.9 million, representing a decrease of 1.2% from HK\$221.6 million recorded in the last financial year.

Operating profits of the Group for the year amounted to HK\$27.3 million, as compared with HK\$27.0 million (after deduction of non-recurring relocation cost) for the last financial year. The net profit attributable to the shareholders was HK\$24.8 million, an increase of HK\$0.5 million (2.2%).

Basic earnings per share for the year stood at 1.10 Hong Kong cents, compared with 1.17 Hong Kong cents for the last 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 26 May, 2003. Subject to approval at the forthcoming annual general meeting, dividend warrants will be sent to shareholders on or about 12 June, 2003.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from Wednesday, 21 May, 2003 to Monday, 26 May, 2003 (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 ("Annual General Meeting") to be held on Monday, 26 May, 2003 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 registrars of the Company in Hong Kong at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 20 May, 2003. Holder of convertible note, to be eligible to attend and vote at the Annual General Meeting of the Company to be held on Monday, 26 May, 2003 and to qualify for the proposed final dividend, have to exercise the rights of conversion attaching to its convertible note not later than 4:00 p.m. on Tuesday, 20 May, 2003.

BUSINESS REVIEW

As mentioned in the interim report, the tension from terrorism continued to prolong the sluggish consumer spending, and restrain the possible recovery that might have been led by seasonal sentiments in the first quarter of 2002. Business after the 911 tragedy remained flat as customers took a cautious approach in placing new orders. As a result of the downturn in global economy, and also due to the running down of inventories by customers worldwide, the packaging industry experienced a significant drop of orders. It was not until April 2002 when order bookings started to improve and the highest volume shipments were recorded in the subsequent six months period.

The decrease in global demand for packaging goods due to the economic downturn naturally resulted in keener competition. Yet on account of our superior quality and service both before and after sales, we remain as one of the key suppliers in packaging products for luxury goods.

Lower sales to the optical sector were recorded in the second half of the current financial year as compared to that in the first half. Demand from the other consumer sectors remained strong which amounted to 80.6% of turnover for the second half of the current financial year as compared with 62.5% of turnover for the first half of the current financial year.

The market has stabilised as compared to the previous year. The Group's sales volume in pieces had grown by 12% in the second half as compared to the first half of the current financial year.

In view of the economic environment, the Group has taken proactive measures to better manage the manufacturing costs, sourcing of materials, and deferment of capital expenditure on a need-to-spend basis.

FUTURE PROSPECTS

We remain cautiously optimistic about prospects for the packaging business in the new financial year. Current stability in our sales should continue, although they could be undermined if US and European consumers were to tighten spending significantly. We also expect competitive price pressure to remain. To distinguish our group, we continue to uphold our value-added services to customers during the development stage between the process of design and manufacture. The Zhongshan facility also enables us to meet these challenges through improved operating efficiency, which in turn improves competitiveness of the Group's products and service quality, and enhances our position to obtain orders from new customers. Our experienced sales team will seek to actively extend their reach to the US and European markets for more business from multi-national companies and to broaden our customer base. Specific sales teams are also closely serving the needs of major customers to maintain our market share.

Provided that the economies in the US and Europe improve in the coming year, the Directors expect improvements in the results for the new financial year.

MANAGEMENT DISCUSSION AND ANALYSIS

Liquidity and financial resources

During the year, the Group maintained a strong and healthy balance sheet. Shareholders' funds increased to HK\$354.4 million with the exercise of warrants as well as retained profits for the year.

Convertible note payable at 31 December, 2002 was HK\$150 million (31 December, 2001: HK\$150 million). To the extent that the note has not been previously converted into shares of the Company or redeemed, the note payable may be redeemed at its face value on 22 June, 2003. The gearing ratio of the convertible note payable, based on convertible note payable to the total amount of shareholders' funds and convertible note payable at 31 December, 2002, decreased from 32.0 percent at the end of last year to 29.7 percent at the end of this year.

As at 31 December, 2002, the current ratio decreased from 9.4 to 2.1 and the quick ratio decreased from 7.4 to 1.5 due to the convertible note payable of HK\$150 million being recorded as a current item. With cash on hand of HK\$244.3 million at the end of this year, the Group has adequate working capital to meet its future working capital requirements. The Group has no external borrowings.

The Group's trade receivables are mainly invoiced in Hong Kong and US dollars and have no significant exposure to foreign exchange risk. The Group does not currently undertake any foreign exchange hedging activity.

Capital expenditure

During the year, the Group invested HK\$5.9 million in plant, machinery, equipment and other tangible assets. This was financed primarily from internal resources.

Fixed assets

During the year, the Group purchased a property at Hong Kong Parkview at HK\$18.5 million which was financed by internally generated funds. The property will be used for director's quarter.

Pledge of assets

As at 31 December, 2002, the Group has pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,853,000.00 (2001: HK\$7,010,000.00) as security for general banking facilities granted to the Group.

Employees

As of 31 December, 2002, the Group had approximately 3,850 employees. The Company has established a bonus scheme and share option scheme for its employees, in which the benefits are determined based on the performance of the Group and individual employees.

The share option scheme was adopted on 9 April, 1999. Upon amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") on 1 September, 2001, 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, no more share is available for issue under the scheme. No option was granted by the Company during the period and no option was outstanding at 31 December, 2002.

Contingent liabilities

As at 31 December, 2002, the Company has executed guarantees amounting to HK\$20,000,000.00 to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilized as at 31 December, 2002.

The Group has no capital commitments for acquisition of machinery and equipment as at 31 December, 2002.

Use of proceeds

The convertible note of HK\$150 million as discussed under "Liquidity and financial resources" was issued to Faircom Limited on 22 June, 2000. Part of the proceeds received for investment purposes amounting to HK\$100 million have not been used and is available for future investment.

Investments

Subsequent to 31 December, 2002, the following events took place:-

- (a) The Group's convertible note receivable of HK\$28,000,000.00 was redeemed in January 2003.
- (b) The Group purchased a convertible note of HK\$35,000,000.00 issued by a company listed on The Stock Exchange of Hong Kong Limited.
- (c) The Group disposed of part of a convertible note to the value of HK\$15,250,000.00 which includes interest and principal.

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, 28 March, 2003