

Notes to the Financial Statements

For the year ended 31 December, 2002

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Yugang International Limited ("Yugang"), a company which is also incorporated in Bermuda with its shares listed on the Stock Exchange.

The Company is an investment holding company and provides corporate management services. The principal activities of the Company's subsidiaries are set out in note 37.

2. ADOPTION OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE

In the current year, the Group has adopted, for the first time, the following new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements
SSAP 33	Discontinuing operations
SSAP 34	Employee benefits

The adoption of these new and revised SSAPs has resulted in a change in the format of presentation of the cash flow statement and the statement of changes in equity, but has no effect on the results for the current or prior accounting periods. Comparative amounts for the prior period have been restated in order to achieve a consistent presentation.

3. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENTS

In previous years, the Group revalued its leasehold land and buildings and carried these leasehold land and buildings in its balance sheet on a valuation basis. Having considered the leasehold land and buildings are held for long term operating purposes, the Company's directors in current year considered that the adoption of the cost basis of measurement for the Group's leasehold land and buildings and the change in the accounting policy to restate the previous valuation of its leasehold land and buildings to historical cost would result in a more appropriate presentation of the performance of the Group.

3. CHANGE IN ACCOUNTING POLICY AND PRIOR YEAR ADJUSTMENTS (continued)

This change has the effect of increasing the net asset value of the Group as well as the depreciation charges and reducing the leasehold land and building revaluation reserve of the Group. Following the restatement in accordance with the above revised basis, the land and buildings revaluation reserve of the Group at 1 January, 2001 has been reduced by HK\$1,000,000, the net profit of the Group for the year ended 31 December, 2001 and accumulated profits at 1 January, 2001 has been decreased and increased by approximately HK\$154,000 and HK\$3,164,000, respectively, and the net asset value of property, plant and equipment at 31 December, 2001 has been increased by approximately HK\$2,010,000.

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties, and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to the balance sheet date of each accounting period.

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

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

Revenue recognition

Sales of goods are recognised when the goods are delivered to customers and title has passed.

Rental income, including rental invoiced in advance, from properties under operating leases is recognised on a straight line basis over the lease terms.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the rate applicable.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length. Investment properties are stated at their open market value based on a professional valuation at the balance sheet date.

Any surplus or deficit arising on the valuation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance of the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequent arises, this surplus is credited to the income statement to the extent of the deficit previously charged. On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is transferred to the income statement.

Depreciation and amortisation are not provided for investment properties which are held on leases with an unexpired term, including the renewable period, of more than twenty years.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and accumulated impairment losses at the balance sheet date.

Depreciation and amortisation are provided to write off the cost of property, plant and equipment, over their estimated useful lives using the straight line method, at the following rates per annum:

Leasehold land	Over the unexpired terms of the leases
Buildings	2% or over the unexpired terms of the leases, if less than 50 years
Leasehold improvements	20% or over the unexpired terms of the leases, if less than 5 years
Plant and machinery	10%
Electricity supply system	10%
Furniture, fixtures and equipment	10%
Moulds	15%
Motor vehicles	25%

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Interest in properties

Interest in properties is stated at cost or carrying value less accumulated amortisation and accumulated impairment losses at the balance sheet date. Amortisation is provided to write off the cost of interest in properties on a straight line basis over the unexpired lease terms.

Convertible note receivables

Convertible note receivables are stated at cost less any identified impairment loss.

Club membership

Costs incurred in the acquisition of club membership are capitalised and amortised on a straight-line basis over their estimated useful lives.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Income from investments in subsidiaries is accounted for when the Company's right to receive the dividend payment has been established.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Foreign currencies

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

Convertible note payable

Convertible note payable is separately disclosed and regarded as a liability unless conversion actually occurs. The finance cost recognised in the income statement in respect of the convertible note payable is calculated so as to produce a constant periodic rate of charge on the remaining balance of the convertible note payable for each accounting period.

The costs incurred in connection with the issue of convertible note payable are deferred and amortised on a straight-line basis over the lives of the convertible notes from the date of issue of the notes to their final redemption date. If any of the notes are purchased and cancelled, redeemed or converted prior to the final redemption date, an appropriate portion of any remaining unamortised costs will be charged immediately to the income statement.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the lease terms.

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable in respect of the current year to the Group's defined contribution scheme and mandatory provident fund scheme.

5. TURNOVER

Turnover represents the amounts received and receivable for goods sold, less returns and discounts, to outside parties and rental income received and receivable from outside parties during the year.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Geographical segments

The Group is engaged in the manufacture and trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units. The nature of products, the nature of production processes and the methods used to distribute the products to customers in different geographical locations are similar. The Group's operations and assets are principally carried out and situated in the People's Republic of China (the "PRC"), including Hong Kong. The directors of the Company consider the geographical segments by location of customers as financing source of the Group's risks and return.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(a) Geographical segments (continued)

A geographical breakdown of the Group's turnover and segment results by geographical market is as follows:

	Turnover		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000
North and South America	89,764	63,730	11,635	6,725
Europe	58,063	70,726	7,526	7,463
Hong Kong	49,759	71,794	6,450	7,598
Others	21,309	15,320	2,762	1,617
	218,895	221,570	28,373	23,403
Interest income			6,594	11,213
Profit from operations			34,967	34,616
Finance costs			(7,594)	(7,594)
Profit before taxation			27,373	27,022
Taxation			(2,562)	(2,736)
Net profit for the year			24,811	24,286

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Business segments

The Group is currently engaged in sales of goods and property rental. These operations are the Group's secondary segment information.

Sales of goods of the Group includes sales of watch boxes, gift boxes, spectacles cases, bags and pouches, display unit and stationery.

INCOME STATEMENT

	Turnover		Segment results	
	2002 HK\$'000	2001 HK\$'000	2002 HK\$'000	2001 HK\$'000 (restated)
Sales of goods	218,895	221,540	28,373	23,378
Property rental	-	30	-	25
	218,895	221,570	28,373	23,403
Interest income			6,594	11,213
Profit from operations			34,967	34,616
Finance costs			(7,594)	(7,594)
Profit before taxation			27,373	27,022
Taxation			(2,562)	(2,736)
Net profit for the year			24,811	24,286

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

(b) Business segments (continued)

BALANCE SHEET

	Sales of goods HK\$'000	2002 Property rental HK\$'000	Consolidated HK\$'000	Sales of goods HK\$'000 (restated)	2001 Property rental HK\$'000	Consolidated HK\$'000 (restated)
Assets						
Segment assets	<u>356,087</u>	<u>-</u>	<u>356,087</u>	<u>321,524</u>	<u>-</u>	<u>321,524</u>
Other corporate assets			<u>183,186</u>			<u>183,508</u>
			<u>539,273</u>			<u>505,032</u>
Liabilities						
Segment liabilities	<u>32,993</u>	<u>-</u>	<u>32,993</u>	<u>36,171</u>	<u>-</u>	<u>36,171</u>
Other corporate liabilities			<u>151,875</u>			<u>150,574</u>
			<u>184,868</u>			<u>186,745</u>

7. OTHER OPERATING EXPENSES

The amounts represented non-recurrent costs incurred relating to the removal of the Group's production plant in 2001.

Notes to the Financial Statements

For the year ended 31 December, 2002

8. PROFIT FROM OPERATIONS

	2002 HK\$'000	2001 HK\$'000 (restated)
Profit from operations has been arrived at after charging:		
Directors' remuneration (note 10)	6,712	6,770
Other staff costs	8,048	8,503
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Total staff costs	14,760	15,273
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Auditors' remuneration	525	500
Depreciation and amortisation	6,177	4,481
Loss on disposals of property, plant and equipment	6	–
Minimum rental payments under operating lease in respect of land and buildings	3,279	4,579
and after crediting:		
Interest income	6,594	11,213
Gain on disposals of property, plant and equipment	–	52
Rental income less outgoings of nil (2001: HK\$5,000)	–	25
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9. FINANCE COSTS

	2002 HK\$'000	2001 HK\$'000
Interest in respect of convertible note payable	(7,594)	(7,594)
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10. DIRECTORS' REMUNERATION

	2002	2001
	HK\$'000	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	400	400
Other emoluments (executive directors):		
Salaries and other benefits	5,026	5,022
Performance related incentive payments	1,088	1,175
Retirement benefit scheme contributions	198	173
Total directors' remuneration	6,712	6,770

Emoluments of the directors were within the following bands:

	Number of directors	Number of directors
HK\$Nil to HK\$1,000,000	5	5
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	1

No emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No directors have waived any emoluments during the year.

Notes to the Financial Statements

For the year ended 31 December, 2002

11. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December, 2002 included three (2001: three) executive directors of the Company, whose emoluments are included in note 10. The emoluments of all the five highest paid individuals are analysed as follows:

	2002	2001
	HK\$'000	HK\$'000
Salaries and other benefits	5,989	5,984
Performance related incentive payments	1,105	1,210
Retirement benefit scheme contributions	242	242
	7,336	7,436

Emoluments of the five highest paid individuals were within the following bands:

	Number of individuals	
	2002	2001
HK\$Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$4,000,001 to HK\$4,500,000	1	1
	5	5

12. TAXATION

	2002	2001
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	(2,689)	(3,067)
Overprovision in prior years	127	331
	(2,562)	(2,736)

12. TAXATION (continued)

Hong Kong Profits Tax is calculated at 16% (2001: 16%) of the assessable profits for the year.

In the opinion of the directors, profits of certain subsidiaries neither arise in, nor are derived from Hong Kong, and are not subject to taxation in any of the jurisdictions in which they operate. Accordingly, no provision for taxation has been made on profits of those subsidiaries.

Also, certain subsidiaries 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. The directors believe that the prior year tax computations of these subsidiaries were prepared on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April, 1999 made between Chuang Hing Limited ("CHL"), China United International Holdings Limited ("CUIHL") (formerly known as China United Holdings Limited) and the Company as set out in the paragraph headed "Other Information" in Appendix 5 to the prospectus dated 15 April, 1999 issued by the Company, CHL and CUIHL agreed with the Company and its subsidiaries (together the "Companies") that CHL and CUIHL would jointly and severally indemnify each of the Companies against taxation falling on any of the Companies resulting from profits or gains earned or accrued on or before 27 April, 1999.

After taking into consideration of the above-mentioned matters, no provision for additional tax liabilities is considered necessary by the directors.

Details of deferred taxation are set out in note 25.

13. DIVIDENDS

	2002	2001
	HK\$'000	HK\$'000
Proposed final dividend of HK\$0.003 (2001: HK\$0.003) per share	7,131	6,295
Additional prior year's dividend paid as a result of new shares issued subsequent to the approval of the previous year's financial statements	594	16
	7,725	6,311

The final dividend of HK\$0.003 (2001: HK\$0.003) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Notes to the Financial Statements

For the year ended 31 December, 2002

14. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2002 HK\$'000	2001 HK\$'000 (restated)
Net profit for the year	24,811	24,286
Effect of dilutive potential shares for interest saving on convertible note	7,594	7,594
Earnings for the purpose of diluted earnings per share	32,405	31,880
	Number of shares	Number of shares
Weighted average number of shares for the purposes of basic earnings per share	2,265,469,635	2,079,342,296
Effect of dilutive potential shares:		
Warrants	97,275,443	188,087,593
Convertible note payable	1,629,825,654	1,774,364,651
Weighted average number of shares for the purposes of diluted earnings per share	3,992,570,732	4,041,794,540

15. INVESTMENT PROPERTY

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
At 1 January	–	1,100
Additions	19,384	–
Deficit arising on revaluation	(817)	–
Transfer to leasehold properties	(18,567)	(1,100)
At 31 December	–	–

At 31 July, 2002, the investment property which is situated in Hong Kong and held under a medium-term lease was revalued by Vigers Hong Kong Limited, a firm of international property consultants, on an open market value existing state basis and it was transferred to leasehold properties for the Company's own use. The deficit arising on revaluation has been charged to the income statement.

Notes to the Financial Statements

For the year ended 31 December, 2002

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties HK\$'000	Leasehold improvements HK\$'000	Plant and machinery HK\$'000	Electricity supply system HK\$'000	Furniture, fixtures and equipment HK\$'000	Moulds HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP								
COST								
At 1 January, 2002								
– as originally stated	78,623	5,159	20,583	2,717	11,897	5,260	2,888	127,127
– prior year adjustment for the change in accounting policy (note 3)	2,881	–	–	–	–	–	–	2,881
– as restated	81,504	5,159	20,583	2,717	11,897	5,260	2,888	130,008
Additions	618	275	1,685	–	1,655	1,374	379	5,986
Transfer from investment properties	18,567	–	–	–	–	–	–	18,567
Reclassification	(17)	–	–	–	17	–	–	–
Disposals	–	(1,694)	–	–	(112)	–	–	(1,806)
At 31 December, 2002	100,672	3,740	22,268	2,717	13,457	6,634	3,267	152,755
DEPRECIATION AND AMORTISATION								
At 1 January, 2002								
– as originally stated	189	3,877	11,421	113	4,772	2,624	1,234	24,230
– prior year adjustment for the change in accounting policy (note 3)	871	–	–	–	–	–	–	871
– as restated	1,060	3,877	11,421	113	4,772	2,624	1,234	25,101
Provided for the year	1,102	203	1,822	272	1,078	759	646	5,882
Eliminated on disposals	–	(1,694)	–	–	(91)	–	–	(1,785)
At 31 December, 2002	2,162	2,386	13,243	385	5,759	3,383	1,880	29,198
NET BOOK VALUES								
At 31 December, 2002	98,510	1,354	9,025	2,332	7,698	3,251	1,387	123,557
At 31 December, 2001	80,444	1,282	9,162	2,604	7,125	2,636	1,654	104,907

The Group's leasehold properties are situated in Hong Kong and the PRC of HK\$25,217,000 and HK\$73,293,000, respectively and these leasehold properties are held under medium-term leases.

Notes to the Financial Statements

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17. INTEREST IN PROPERTIES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Expenditure incurred, at cost	10,701	10,701
Accumulated amortisation	(1,565)	(1,394)
	9,136	9,307
Less: Provision for impairment loss	(2,347)	(2,347)
	6,789	6,960

Pursuant to respective lease agreements entered into by the Group with relevant parties of the PRC in 1991, the Group has leased, for a period of 50 years up to 2042, the leasehold properties which are erected on land designated to the relevant PRC parties, who had the rights to sub-let the leasehold properties during the terms of the leases. These leasehold properties are used by the Group for the processing of the Group's products.

The considerations for entering the respective lease agreements have been capitalised as interest in properties. These amounts and the construction costs incurred subsequently are amortised to the income statement on a straight line basis over the unexpired lease terms.

18. CONVERTIBLE NOTE RECEIVABLES

	THE GROUP	
	2002 HK\$'000	2001 HK\$'000
Unlisted debt securities, at cost	53,000	53,000
Analysed as:		
Current	28,000	—
Non-current	25,000	53,000
	53,000	53,000

18. CONVERTIBLE NOTE RECEIVABLES (continued)

At 31 December, 2002, the Group held two convertible notes amounting to HK\$28,000,000 and HK\$25,000,000, respectively, which were issued by companies with their shares listed on the Stock Exchange. The convertible notes bear interest rates at 5% and 7% per annum, respectively and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of the companies at the conversion prices, subject to adjustments, which range from HK\$4.40 to HK\$4.50 per share and HK\$0.028 to HK\$0.034 per share, respectively in different defined periods.

These convertible notes can only be redeemed at their face value upon maturity in January 2003 and July 2004, respectively to the extent of the amount not previously converted.

In the opinion of the directors, the above convertible notes are worth at least their respective carrying values.

19. CLUB MEMBERSHIP

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
COST		
At 1 January and 31 December	620	620
AMORTISATION		
At 1 January	(227)	(103)
Provided for the year	(124)	(124)
At 31 December	(351)	(227)
NET BOOK VALUE		
At 31 December	269	393

20. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Unlisted shares, at cost	159,531	159,531

The carrying value of the Company's investment in subsidiaries is estimated by the directors on the basis of the underlying net assets of the subsidiaries at the time they were acquired by the Company pursuant to a group reorganisation which took place on 9 April, 1999 (the "Group Reorganisation").

Particulars of the Company's subsidiaries are set out in note 37.

21. INVENTORIES

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
COST		
Raw materials	20,327	20,529
Work in progress	12,085	10,809
Finished goods	11,687	7,312
	44,099	38,650

22. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables are trade receivables of approximately HK\$32,345,000 (2001: HK\$20,065,000). The aged analysis of trade receivables at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
0 to 30 days	13,555	8,547
31 to 60 days	8,159	4,958
Over 60 days	10,631	6,560
	32,345	20,065

23. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$14,034,000 (2001: HK\$13,278,000). The aged analysis of trade payables at the balance sheet date is as follows:

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
0 to 30 days	6,317	4,741
31 to 60 days	4,272	2,576
Over 60 days	3,445	5,961
	14,034	13,278

24. CONVERTIBLE NOTE PAYABLE

On 22 June, 2000, the Company issued a convertible note ("the Note Payable") of HK\$150,000,000 to Faircom Limited, a wholly-owned subsidiary of Yugang. The Note Payable is unsecured and bears interest at 5% per annum, accrued on a daily basis and payable every six months in arrears, at an issue price of 100% of the principal amount.

The outstanding principal amount of the Note Payable may be converted into shares of the Company, at the discretion of the holders of the Note Payable, in amounts not less than HK\$1,000,000 at an initial conversion price of HK\$0.81 per share and the conversion prices will be HK\$0.88 and HK\$0.96 per share for the period from the date immediately following the first anniversary of the date of issue of the Note Payable and for the period from the date immediately following second anniversary of the date of issue of the Note Payable to the third anniversary of the date of issue of the Note Payable, respectively. The conversion prices have been adjusted to HK\$0.081, HK\$0.088 and HK\$0.096 per share for respective periods after subdivision of the Company's shares which became effective on 13 June, 2000, subject to adjustment, for three years from the date of issue of the Note Payable. To the extent not previously converted or redeemed, the Note Payable will be redeemed at its face value on 22 June, 2003.

No Note Payable was converted or redeemed during the year.

25. DEFERRED TAXATION

THE GROUP
2002 & 2001
HK\$'000

Balance at 1 January and 31 December **541**

At the balance sheet date, the major components of the deferred taxation liability of the Group are analysed as follows:

THE GROUP
2002 & 2001
HK\$'000

Tax effect of timing differences attributable to excess of depreciation allowances claimed for tax purposes over depreciation charged in the financial statements	480
Other timing differences	61
	541

25. DEFERRED TAXATION (continued)

Neither the Group nor the Company had any significant unprovided deferred taxation for the year or at the balance sheet date.

Deferred taxation has not been provided on the surplus or deficit arising on revaluation of property, plant and equipment as profits or losses arising on the disposals of these assets would not be subject to taxation or tax deduction. Accordingly, the revaluation does not constitute a timing difference for deferred tax purposes.

26. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Shares of HK\$0.01 each		
Authorised share capital:		
At 1 January, 2001, at 31 December, 2001 and at 31 December, 2002	10,000,000	100,000
Issued and fully paid:		
Balance at 1 January, 2001	2,070,820	20,708
Issue of shares resulting from exercise of the Company's warrants	26,274	263
At 31 December, 2001 and 1 January, 2002	2,097,094	20,971
Issue of shares resulting from exercise of the Company's warrants	279,943	2,799
At 31 December, 2002	2,377,037	23,770

Shares of HK\$0.01 each were allotted and issued at a price of HK\$0.065 per share as a result of exercise of the Company's warrants in both years.

The new shares allotted and issued as set out above rank pari passu in all respects with the then existing shares.

27. SHARE OPTIONS

The Company has adopted a share option scheme (the "Scheme"), which was approved at a special general meeting of the Company held on 9 April, 1999, for the primary purpose of providing incentives to its employees. Pursuant to the Scheme, the board of directors of the Company may, at its discretion, grant options to eligible employees, including executive directors, of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than 80% of the average of the closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date of grant of the options or the nominal value of the shares, whichever is the higher. The share options are exercisable at any time for a period to be determined by its directors, which shall not be more than ten years from the adoption of the Scheme up to 8 April, 2009. Options granted must be taken up within 28 days from the date of grant, upon payment of HK\$1. Unless otherwise terminated or altered, the Scheme will remain in force for a period of ten years from the date of adoption.

The maximum number of shares in respect of which options may be granted under the Scheme together with shares previously issued pursuant to options exercised under the Scheme shall not exceed 10% of the issued share capital of the Company from time to time and the maximum number of shares in respect of which options may be granted to any one employee shall not exceed 25% of the maximum number of shares in respect of which options may be granted under the Scheme.

In accordance with The Rules Governing the Listing of Securities on the Stock Exchange (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, no more share is available for issue under the Scheme.

No options were granted by the Company during the year and there were no options outstanding at 31 December, 2002.

28. WARRANTS

Pursuant to a bonus issue proposal approved by the Company on 12 June, 2000, an amount of warrants of HK\$25,759,500 was issued to the shareholders whose name appeared on the register of members of the Company on 12 June, 2000 on the basis of one warrant for every five shares held on that day. The warrants entitle the holders to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at an initial subscription price of HK\$0.065 per share, subject to adjustment, from the date of issue thereof until 11 June, 2002.

28. WARRANTS (continued)

During the period from 1 January, 2002 to 11 June, 2002, an aggregate amount of warrants of HK\$18,196,277 (2001: HK\$1,707,815) were exercised at the subscription price of HK\$0.065 per share, resulting in the issue by the Company of 279,942,730 (2001: 26,274,080) shares of HK\$0.01 each in the Company. The remaining balances of outstanding warrants of HK\$49,604, entitling the holders thereof to subscribe in cash for fully paid shares of HK\$0.01 each in the Company at a subscription price of HK\$0.065, were lapsed on 11 June, 2002.

29. RESERVES

THE GROUP

The surplus account represents the aggregate of reserves other than accumulated profits of the subsidiaries as at 1 April, 1998 and the excess of the nominal value of the shares issued and issuable by the Company over the nominal value of the issued share capital of the subsidiaries acquired pursuant to the Group Reorganisation.

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 26.

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Dividend reserve <i>HK\$'000</i>	Total <i>HK\$'000</i>
THE COMPANY					
At 1 January, 2001	48,684	158,331	16,915	10,379	234,309
Premium arising on issue of shares resulting from exercise of warrants	1,445	-	-	-	1,445
Net profit for the year	-	-	25,774	-	25,774
Allocation of dividend	-	-	(16)	16	-
Dividends paid	-	-	-	(10,395)	(10,395)
Declaration of 2001 final dividend	-	-	(6,295)	6,295	-
At 31 December, 2001 and 1 January, 2002	50,129	158,331	36,378	6,295	251,133
Premium arising on issue of shares resulting from exercise of warrants	15,397	-	-	-	15,397
Net profit for the year	-	-	21,399	-	21,399
Allocation of dividend	-	-	(594)	594	-
Dividends paid	-	-	-	(6,889)	(6,889)
Declaration of 2002 final dividend	-	-	(7,131)	7,131	-
At 31 December, 2002	65,526	158,331	50,052	7,131	281,040

29. RESERVES (continued)

The contributed surplus of the Company represents the difference between the consolidated shareholders' funds of Qualipak Development Limited at the date on which its shares were acquired by the Company, and the nominal value of the Company's shares issued and issuable for the acquisition.

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is also available for distribution to shareholders. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The Company's reserves available for distribution to shareholders at the balance sheet date are as follows:

	2002	2001
	HK\$'000	HK\$'000
Accumulated profits	50,052	36,378
Dividend reserve	7,131	6,295
Contributed surplus	158,331	158,331
	215,514	201,004

30. PLEDGE OF ASSETS

At 31 December, 2002, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,853,000 (2001: HK\$7,010,000) as securities for general banking facilities granted to the Group.

The Company had not pledged any of its assets at 31 December, 2002 and 2001.

31. CAPITAL COMMITMENTS

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Capital expenditure contracted for but not provided in the financial statements in respect of acquisition of property, plant and equipment	-	52

The Company did not have any outstanding capital commitments at 31 December, 2002 and 2001.

32. OPERATING LEASE COMMITMENTS

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

	THE GROUP	
	2002	2001
	HK\$'000	<i>HK\$'000</i>
Within one year	1,845	1,954
In the second to fifth year inclusive	-	1,673
	1,845	3,627

Operating lease payments represent rental payable by the Group for certain of its manufactory plants, office properties and quarters. These leases are negotiated for an average terms of two to five years and rentals are fixed throughout the lease period.

The Company did not have any commitments for future minimum lease payments under non-cancellable operating leases at 31 December, 2002 and 2001.

33. CONTINGENT LIABILITIES

THE COMPANY

At 31 December, 2002, the Company executed guarantees amounting to HK\$20,000,000 (2001: HK\$20,000,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at 31 December, 2002.

34. RETIREMENT BENEFIT SCHEME

The Group has operated a defined contribution retirement benefit scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group in a provident fund managed by an independent trustee. The retirement benefit scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the scheme. Where there are employees who leave the scheme prior to vesting fully of the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

In light of the introduction of the Mandatory Provident Fund ("MPF") Scheme, the Group has restructured its retirement arrangements to comply with the MPF legislation. The Group has secured MPF exemption status for the retirement benefit scheme and participated in an approved MPF scheme with HSBC Life (International) Limited effective 1 December, 2000 to provide scheme choice to existing employees. All new employees after 1 December, 2000 are required to participate in the MPF Scheme. Mandatory and voluntary benefits are being provided under the MPF Scheme.

The details of retirement benefit scheme contributions for the Company's directors and the Group's employees, net of forfeited contributions, which have been dealt with in the income statement of the Group, are as follows:

	THE GROUP	
	2002	2001
	HK\$'000	HK\$'000
Gross retirement benefit scheme contributions	687	680
Less: Forfeited contributions utilised to offset contributions	(20)	(51)
Net retirement benefit scheme contributions	667	629

At 31 December, 2002, there were no forfeited contributions outstanding in the forfeiture accounts (2001: HK\$4,000) which were available to offset future employers' contributions to the scheme.

35. RELATED PARTY TRANSACTION

During the year, the Group paid interest in respect of the convertible note issued to a related company, Faircom Limited, amounted to approximately HK\$7,594,000 (2001: HK\$7,594,000). Faircom Limited is a wholly-owned subsidiary of Yugang, the ultimate holding company of the Company.

In the opinion of the Company's directors, the above related party transaction was carried out at terms agreed by both parties. Details of the terms are set out in note 24.

36. SUBSEQUENT EVENTS

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

- (a) The Group's convertible note receivable of HK\$28,000,000 was redeemed in January 2003.
- (b) The Group purchased a convertible note of HK\$35,000,000 issued by a company listed on the Stock Exchange.
- (c) The Group disposed of a convertible note receivable with carrying value of HK\$14,500,000 at a consideration of HK\$15,250,000.

37. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December, 2002 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Gainwin Packaging Limited	Hong Kong	Ordinary HK\$2	Inactive
Global Palace Investments Limited	British Virgin Islands #	Ordinary US\$1,000	Property holding
Magic Hands International Limited	British Virgin Islands	Ordinary US\$100	Inactive
Permate Production Inc.	British Virgin Islands/ PRC	Ordinary US\$20	Inactive

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37. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Qualipak Development Limited (<i>Note a</i>)	British Virgin Islands #	Ordinary US\$10,000	Investment holding
Qualipak Enterprises Limited	Republic of Mauritius	Ordinary US\$1,000	Inactive
Qualipak Finance Limited	Hong Kong	Ordinary HK\$2	Inactive
Qualipak Fortune Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited	British Virgin Islands #	Ordinary US\$1	Investment holding
Qualipak Manufacturing Limited (<i>Note b</i>)	Hong Kong	Ordinary HK\$100 Non-voting deferred HK\$22,303,857	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.	PRC	Registered HK\$16,000,000	Inactive
Qualipak Nominees Limited	British Virgin Islands #	Ordinary US\$1	Provision of nominee services
Qualipak Production Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Manufacture of watch boxes, gift boxes and display units
Qualipak Vision Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Inactive
Qualipak Wonder Inc.	British Virgin Islands/ PRC	Ordinary US\$10,000	Inactive

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37. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Winning Hand Management Limited	British Virgin Islands/ PRC	Ordinary US\$1	Property holding
Wisdom Way Limited	Hong Kong	Ordinary HK\$2	Property holding
Worthwell Investments Limited	British Virgin Islands #	Ordinary US\$50,000	Investment holding

These are investment holding companies which have no specific principal place of operations.

Notes:

- (a) The Company directly holds the entire interest in Qualipak Development Limited. The entire interests of all other companies are indirectly held by the Company.
- (b) The non-voting deferred shares have restricted rights on distribution of profits, capital and voting.

None of the subsidiaries had issued any debt securities at 31 December, 2002 or at any time during the year.