Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

The principal place of business of Yugang International Limited is located at Rooms 3301-07, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

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

(i) trading in automobile parts;

(ii) property and other investments; and

(iii) manufacture and sale of gift boxes, watch boxes and spectacles cases.

2. IMPACT OF REVISED STATEMENT OF STANDARD ACCOUNTING PRACTICE ("SSAP")

SSAP 12 (Revised): "Income taxes" is effective for the first time for the current year's financial statements. SSAP 12 prescribes the accounting for income taxes payable or recoverable, arising from the taxable profit or loss for the current period (current tax); and income taxes payable or recoverable in future periods, principally arising from taxable and deductible temporary differences and the carryforward of unused tax losses (deferred tax).

The principal impact of the revision of this SSAP on these financial statements is described below:

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and

- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

- the related note disclosures are now more extensive than previously required. These disclosures are presented in notes 11 and 29 to the financial statements and include a reconciliation between the accounting profit/(loss) and the tax expense for the year.

Further details of these changes and the prior year adjustments arising from them are included in the accounting policy for deferred tax in note 3 and in note 20 to the financial statements.

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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 2003. 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 results of subsidiaries are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

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.

Notes to Financial Statements

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Joint venture companies *(continued)*

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.

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

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

31 December 2003

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

31 December 2003

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.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the profit and loss account or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax assets and unused tax losses can be utilised:

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

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 ruling 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 ruling 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.

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;

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition *(continued)*

(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.

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

31 December 2003

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.

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 gain or loss on securities investment.

In determining the Group's geographical segments, revenues 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

31 December 2003

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 2003.

Group

2003

	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	12,722	191,898	546	—	205,166
Segment results	(19,866)	33,035	55,250	—	68,419
Unallocated income, net					8,922
Interest and dividend income					30,604
Finance costs					(5,313)
Share of profits and losses of:					
A jointly-controlled entity	—	—	1,215	—	1,215
Associates	—	—	22,934	—	22,934
Profit before tax					126,781
Tax					(9,323)
Minority interests					(10,191)
Net profit from ordinary activities attributable to shareholders					107,267
Segment assets	34,762	349,148	1,103,435	—	1,487,345
Interest in a jointly-controlled entity	—	—	5,304	—	5,304
Interests in associates	—	—	623,518	—	623,518
Unallocated assets					143,749
Total assets					2,259,916
Segment liabilities	5,560	32,605	—	—	38,165
Unallocated liabilities					263,780
Total liabilities					301,945
Other segment information:					
Capital expenditure	—	(2,675)	—	(653)	(3,328)
Recognition of negative goodwill	—	7,755	526	—	8,281
Depreciation	—	(7,493)	—	(4,633)	(12,126)
Deficit arising from revaluation of investment properties	—	—	(6,332)	—	(6,332)
Write back of provision/(provision) for doubtful debts, net	(6,887)	2,544	—	—	(4,343)
Unrealised holding gains on other investments	—	—	91,116	—	91,116
Loss on disposal of other investments	—	—	(17,214)	—	(17,214)

Notes to Financial Statements

31 December 2003

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 2002.

Group

2002 (Restated)

	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	23,528	218,895	413	—	242,836
Segment results	(49,074)	34,886	(124,337)	—	(138,525)
Unallocated expenses, net					(14,727)
Interest and dividend income					31,630
Finance costs					(12,199)
Share of profits and losses of:					
A jointly-controlled entity	—	—	(5,325)	—	(5,325)
Associates	—	—	6,751	—	6,751
Loss before tax					(132,395)
Tax					(5,668)
Minority interests					(13,305)
Net loss from ordinary activities attributable to shareholders					(151,368)
Segment assets	120,566	258,811	815,514	—	1,194,891
Interest in a jointly-controlled entity	—	—	4,660	—	4,660
Interests in associates	—	—	608,848	—	608,848
Unallocated assets					301,914
Total assets					2,110,313
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	526	—	6,771
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

31 December 2003

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

2003

	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	**47,149**	**10,100**	**66,284**	**64,624**	**17,009**	**205,166**
Other segment information:						
Segment assets	**2,140,438**	**119,478**	**—**	**—**	**—**	**2,259,916**
Capital expenditure	**3,328**	**—**	**—**	**—**	**—**	**3,328**
2002 (Restated)						
Segment revenue:						
Sales to external customers	50,172	23,528	89,764	58,063	21,309	242,836
Other segment information:						
Segment assets	1,940,260	170,053	—	—	—	2,110,313
Capital expenditure	48,927	4,885	—	—	—	53,812

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:

	2003	2002
	HK$'000	*HK$'000*
Turnover		
Sale of goods	**204,620**	242,423
Rental income	**546**	413
	205,166	242,836

Notes to Financial Statements

31 December 2003

5. TURNOVER, REVENUE AND GAINS *(continued)*

	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Other revenue and gains		
Interest income	**29,451**	29,832
Dividend income from listed investments	**1,153**	1,798
Gain on disposal of fixed assets	**99**	—
Negative goodwill recognised	**8,281**	6,771
Warrant subscription reserve recognised as income upon expiry of warrants	**25,674**	—
Other	**7,339**	2,505
	71,997	40,906

6. OTHER OPERATING INCOME/(EXPENSES), NET

	Group	
	2003	2002
	HK$'000	*HK$'000*
Provision for doubtful debts, net	**(4,343)**	(71,495)
Deficit arising from revaluation of investment properties	**(6,332)**	(500)
Unrealised holding gains/(losses) on other investments	**91,116**	(58,797)
Gain/(loss) on disposal of other investments	**(17,214)**	951
Loss on deemed disposal of partial interest in a subsidiary	**—**	(3,683)
Write back of impairment loss on convertible notes	**2,340**	—
	65,567	(133,524)

Notes to Financial Statements

31 December 2003

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2003	2002
	HK$'000	*HK$'000*
Cost of inventories sold	**154,741**	175,470
Provision against stocks	**—**	6,957
Depreciation	**12,126**	12,152
Loss/(gain) on disposal of fixed assets	**(99)**	184
Minimum lease payments under operating leases in respect of land and buildings	**3,870**	4,300
Auditors' remuneration	**1,416**	1,774
Staff costs (including those of directors):		
Wages and salaries	**33,727**	34,474
Pension scheme contributions	**1,066**	1,043
Less: Forfeited contributions	**(30)**	(20)
Net pension scheme contributions*	**1,036**	1,023
	34,763	35,497
Gain on sale of convertible notes	**(4,000)**	—
Gross and net rental income	**(546)**	(413)
Exchange losses/(gains), net	**1,013**	(116)

* At 31 December 2003, there was no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2002: Nil).

8. FINANCE COSTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Interest on bank loans, overdrafts and other loans wholly repayable within five years	**306**	637
Interest on convertible notes	**5,000**	11,557
Hire purchase interest	**7**	5
	5,313	12,199

Notes to Financial Statements

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9. DIRECTORS' REMUNERATION

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Fees	**1,500**	1,300
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	**6,240**	6,069
Bonuses	**3,200**	2,600
Pension scheme contributions	**48**	48
	10,988	10,017

Fees include HK$1,500,000 (2002: 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 (2002: 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	
	2003	2002
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	**2**	—
	7	7

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included three (2002: four) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining two (2002: one) non-director, highest paid employees for the year are as follows:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Basic salaries, bonuses, housing allowances, other allowances and benefits in kind	**3,750**	2,946
Bonuses	**500**	1,000
Pension scheme contributions	**114**	102
	4,364	4,048

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2003	2002
	HK$'000	*HK$'000*
HK$1,500,001 to HK$2,000,000	**1**	—
HK$2,500,001 to HK$3,000,000	**1**	—
HK$4,000,001 to HK$4,500,000	**—**	1
	2	1

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11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in Hong Kong during the year. The increased Hong Kong profits tax rate became effective from the year of assessment 2003/2004, and so is applicable to the assessable profits arising in Hong Kong for the whole of the year ended 31 December 2003.

	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Group:		
Current — Hong Kong		
Charge for the year	**4,351**	2,689
Underprovision/(overprovision) in prior years	**377**	(141)
	4,728	2,548
Deferred *(note 29)*	**(672)**	—
	4,056	2,548
Share of tax attributable to:		
A jointly-controlled entity	**572**	—
Associates	**4,695**	3,120
Total tax charge for the year	**9,323**	5,668

A reconciliation of the tax expense applicable to profit/(loss) before tax using the statutory rate to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

Group

	2003		2002	
	HK$'000	%	*HK$'000*	%
			(Restated)	
Profit/(loss) before tax	**126,781**		(132,395)	
Tax at the statutory tax rate	**22,187**	**17.5**	(21,182)	16.0
Underprovision/(overprovision) of tax in prior years	**377**	**0.3**	(141)	0.1
Income not subject to tax	**(30,377)**	**(24.0)**	(7,027)	5.3
Expenses not deductible for tax	**30,592**	**24.1**	20,640	(15.6)
Utilisation of tax losses brought forwards from previous years	**(17,623)**	**(13.9)**	—	—
Losses incurred by group companies not eligible for offsetting with assessable income of other group companies	**4,883**	**3.9**	13,990	(10.6)
Others	**(716)**	**(0.6)**	(612)	0.4
Tax charge at the Group's effective rate	**9,323**	**7.3**	5,668	(4.4)

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

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2003 dealt with in the financial statements of the Company is HK$31,833,000 (2002: net loss of HK$9,454,000).

13. DIVIDEND

	2003	2002
	HK$'000	*HK$'000*
Proposed final — HK$0.002 (2002: nil) per ordinary share	**16,907**	—

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting. No interim dividend was declared in respect of the financial year of 2002 and 2003.

14. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK$107,267,000 (2002: net loss of HK$151,368,000 as restated), and the weighted average of 8,453,321,700 (2002: 8,453,321,700) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2003 is based on the net profit from ordinary activities attributable to shareholders for the year of HK$111,392,000 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 is the sum of the number of ordinary shares in issue during the year used in the basic earnings per share calculation of 8,453,321,700, and the weighted average of 909,090,909 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 the year. The share options and warrants outstanding during the year had no dilutive effect on the basic earnings per share for the year.

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

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15. FIXED ASSETS

Group

	Leasehold land and buildings	Leasehold improvements	Furniture and fixtures	Office equipment	Motor vehicles and yachts	Plant and machinery	Moulds	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost:								
At 1 January 2003	217,261	4,056	18,129	2,337	19,666	24,985	6,634	293,068
Additions	552	54	1,035	65	—	549	1,073	3,328
Disposals	—	—	(4)	(7)	(615)	—	—	(626)
Write off	—	—	—	—	(2,907)	—	—	(2,907)
Transfer to investment properties	(9,101)	—	—	—	—	—	—	(9,101)
At 31 December 2003	**208,712**	**4,110**	**19,160**	**2,395**	**16,144**	**25,534**	**7,707**	**283,762**
Accumulated depreciation:								
At 1 January 2003	13,465	2,385	9,126	1,968	14,457	13,628	3,383	58,412
Provided during the year	4,671	406	1,553	147	2,301	2,170	878	12,126
Disposals	—	—	(1)	(7)	(528)	—	—	(536)
Write off	—	—	—	—	(2,907)	—	—	(2,907)
Transfer to investment properties	(1,669)	—	—	—	—	—	—	(1,669)
At 31 December 2003	**16,467**	**2,791**	**10,678**	**2,108**	**13,323**	**15,798**	**4,261**	**65,426**
Net book value:								
At 31 December 2003	**192,245**	**1,319**	**8,482**	**287**	**2,821**	**9,736**	**3,446**	**218,336**
At 31 December 2002	203,796	1,671	9,003	369	5,209	11,357	3,251	234,656

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

	Hong Kong	People's Republic of China Elsewhere	Total
	HK$'000	*HK$'000*	*HK$'000*
Long term leases	75,189	3,955	79,144
Medium term leases	34,789	78,312	113,101
	109,978	82,267	192,245

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15. FIXED ASSETS *(continued)*

Certain of the Group's land and buildings were pledged to banks to secure banking facilities granted to the Group (note 35 to the financial statements).

The net book value of the Group's fixed assets held under hire purchase contracts in office equipment at 31 December 2003 amounted to nil (2002: HK$28,000).

16. INVESTMENT PROPERTIES

	Group	
	2003	2002
	HK$'000	*HK$'000*
At beginning of year	**5,500**	6,000
Transfer from fixed assets	**7,432**	—
Deficit on revaluation	**(6,332)**	(500)
At end of year	**6,600**	5,500

The Group's investment properties at 31 December 2003 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 2003.

The Group's investment properties were pledged to banks to secure banking facilities granted to the Group (note 35 to the financial statements).

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17. NEGATIVE GOODWILL

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

	Group
	HK$'000
Cost:	
At beginning of year	79,465
Arising from additional investment in a subsidiary	25,070
At 31 December 2003	**104,535**
Accumulated recognition as income:	
At beginning of year	36,547
Recognised as income during the year	7,755
At 31 December 2003	**44,302**
Net book value:	
At 31 December 2003	**60,233**
At 31 December 2002	42,918

The negative goodwill is recognised in the consolidated profit and loss account on the straight-line basis at an annual rate of 10%.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK$'000	*HK$'000*
Unlisted shares, at cost	**105,759**	105,759
Due from subsidiaries	**1,790,266**	1,795,645
Due to subsidiaries	**(10,603)**	(21,991)
	1,885,422	1,879,413

Except for an amount due from a subsidiary amounting to HK$9,317,000 which bears interest at the best lending rate of The Hongkong and Shanghai Banking Corporation Limited plus 2% per annum, the amounts due from and to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

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18. 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 2003	2002	Principal activities
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**	100	Investment holding
Faircom Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Ferrex Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Funrise Limited	British Virgin Islands	US$1	**100**	100	Investment holding
First River Investments Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Grand Island Development Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Honfame Trading Limited	Hong Kong	HK$2	**100**	100	Office management
Joywell Holdings Limited	British Virgin Islands	US$1	**100**	—	Investment holding

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18. 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 2003	2002	Principal activities
Kent Smart Investments Limited	Hong Kong	HK$2	**100**	100	Property holding
Maxking Industries Limited	Hong Kong	HK$2	**100**	100	Investment holding
Maxlord Enterprises Limited	Hong Kong	HK$2	**100**	100	Money lending
Megaspace Asia Limited	British Virgin Islands/ Hong Kong	US$1	**100**	100	Property holding
New Wealth Limited	Hong Kong	HK$2	**100**	—	Property holding
Regulator Holdings Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Senico Investments Limited	British Virgin Islands	US$1	**100**	100	General trading
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
Vigorous Assets Limited	British Virgin Islands	US$1	**100**	100	Investment holding
Yugang Enterprises Limited	Hong Kong	HK$2	**100**	100	Investment holding
Yugang Finance Limited	Hong Kong	HK$2	**100**	—	Finance vehicle
Yugang International (B.V.I.) Limited	British Virgin Islands	US$5	**100**	100	Investment holding
Yugang Management Limited	Hong Kong	HK$2	**100**	—	Office management

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18. 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 2003	2002	Principal activities
iChoice Limited	British Virgin Islands	US$10	**60**	60	Investment holding
iFortune Limited	British Virgin Islands	US$1	**60**	60	Investment holding
Ablelink Investments Limited*	British Virgin Islands	US$100	**69.87**	—	Securities investment
Global Palace Investments Limited*	British Virgin Islands/ Hong Kong	US$1,000	**69.87**	50.06	Property holding
Qualipak Development Limited*	British Virgin Islands	US$10,000	**69.87**	50.06	Investment holding
Qualipak Fortune Inc.*	British Virgin Islands/PRC	US$10,000	**69.87**	50.06	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US$1	**69.87**	50.06	Investment holding
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK$100 non-voting deferred HK$22,303,857	**69.87**	50.06	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Nominees Limited*	British Virgin Islands	US$1	**69.87**	50.06	Provision of nominee services
Qualipak Production Inc.*	British Virgin Islands/PRC	US$10,000	**69.87**	50.06	Manufacture of watch boxes, gift boxes and display units

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18. 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 2003	2002	Principal activities
Winning Hand Management Limited*	British Virgin Islands/PRC	US$1	**69.87**	50.06	Property holding
Wisdom Way Limited*	Hong Kong	HK$2	**69.87**	50.06	Property holding
Worthwell Investments Limited*	British Virgin Islands	US$50,000	**69.87**	50.06	Investment holding

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

* 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.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003	2002
	HK$'000	*HK$'000*
Share of net assets	**5,304**	4,660

Particulars of the jointly-controlled entity are as follows:

Name	Business structure	Place of registration and operations	Percentage of Ownership interest	Voting power	Profit sharing	Principal activities
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.

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20. INTERESTS IN ASSOCIATES

	Group	
	2003	2002
	HK$'000	*HK$'000*
		(Restated)
Share of net assets:		
Listed investment	**628,559**	614,415
Negative goodwill on acquisition	**(5,041)**	(5,567)
	623,518	608,848
Market value of listed shares of an associate	**136,500**	76,440

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 and end of year:	
As previously reported	9,275
Prior year adjustment *(a)*	(2,462)
As restated	6,813
Accumulated recognition as income:	
At beginning of year:	
As previously reported	1,738
Prior year adjustment *(a)*	(492)
As restated	1,246
Recognised as income during the year	526
At 31 December 2003	1,772
Net book value:	
At 31 December 2003	**5,041**
At 31 December 2002 (restated)	5,567

The negative goodwill is recognised in the consolidated profit and loss account on the straight-line basis at an annual rate of 10%.

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20. INTERESTS IN ASSOCIATES *(continued)*

Note:

(a) SSAP 12 (revised) was adopted during the year, as further explained in note 2 to the financial statements. This change in accounting policy has resulted in a decrease in the Group's interests in associates as at 31 December 2002 by HK$1,096,000. As a consequence, the consolidated net loss attributable to shareholders for the year ended 31 December 2002 has been decreased by HK$52,000 and the consolidated retained profits at 1 January 2003 and 2002 have been reduced by HK$1,096,000 and HK$1,148,000, respectively, as detailed in the consolidated statement of changes in equity.

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
			2003	2002	
Y.T. Realty Group Limited	Corporate	Bermuda	**34.25**	34.25	Investment holding
Achiever Assets Limited	Corporate	Hong Kong	**34.25**	34.25	Property development
Asset Class Developments Limited	Corporate	British Virgin Islands/ Hong Kong	**34.25**	34.25	Property trading
Benefit Plus Company Limited	Corporate	Hong Kong	**34.25**	34.25	Property investment
Best View Limited	Corporate	British Virgin Islands/ Hong Kong	**34.25**	34.25	Property holding
E-Tech Services Limited	Corporate	Hong Kong	**34.25**	34.25	Property management
Gold Region Developments Limited	Corporate	British Virgin Islands/PRC	**34.25**	34.25	Property trading
Harson Investment Limited	Corporate	Hong Kong	**34.25**	34.25	Property investment
Honway Limited	Corporate	British Virgin Islands/ Hong Kong	**34.25**	34.25	Investment holding

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20. INTERESTS IN ASSOCIATES *(continued)*

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group 2003	2002	Principal activities
Luckleen Development Limited	Corporate	Hong Kong	**34.25**	34.25	Property trading
Mainland Sun Limited	Corporate	British Virgin Islands/PRC	**34.25**	—	Property investment
Pencester Properties Limited	Corporate	British Virgin Islands/PRC	**34.25**	34.25	Property trading
Y.T. (China) Limited	Corporate	Hong Kong/ PRC	**34.25**	34.25	Investment holding
Y.T. Finance Limited	Corporate	Hong Kong	**34.25**	34.25	Finance vehicle

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:

	2003 *HK$'000*	2002 *HK$'000* (Restated)
Operating results for the year:		
Turnover	**105,640**	153,445
Net profit attributable to the shareholders	**28,405**	23,314
Financial position at 31 December:		
Non-current assets	**2,631,814**	2,574,468
Current assets	**108,464**	124,843
Current liabilities	**(412,268)**	(229,050)
Non-current liabilities	**(492,801)**	(676,349)
Net asset value	**1,835,209**	1,793,912

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20. INTERESTS IN ASSOCIATES *(continued)*

In 1997, a 34.25%-owned associate of the Group 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. The directors of this associate, based on the advice from its legal counsel, believe that the associate has a valid defence to the litigation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs. As at 31 December 2003, provisions of HK$7.1 million (2002: 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.

21. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unsecured and interest-bearing	**71,860**	99,700
Provision for impairment	**(9,360)**	(21,700)
	62,500	78,000
Less: Amount classified as current assets	**(10,500)**	(53,000)
Amount classified as non-current assets	**52,000**	25,000

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 bore interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2%. On the Maturity Date, TIC repaid a sum of US$300,000 to the Group and issued to the Group a new floating convertible debenture amounting to US$1,200,000 on 15 December 2003 under a new agreement, of which US$200,000 will be repayable on 1 June 2004 and the remaining of US$1,000,000 will be repayable on 15 December 2004. The floating convertible debenture bears interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2% and confers right to the Group to convert the whole or part of the outstanding amount into shares of TIC at pre-determined conversion prices ranging from US$0.5 to US$1.5 each.

In addition, certain subsidiaries of the Company acquired unlisted convertible notes issued by companies with shares listed on the Stock Exchange. The convertible notes bear interest at rates ranging from 5% to 7% 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$1.2 each.

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

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22. OTHER INVESTMENTS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Equity investments listed in:		
Hong Kong	**371,852**	258,547
Elsewhere in the People's Republic of China	**—**	76
At market value	**371,852**	258,623
Less: Amount classified as current assets	**(371,852)**	(212,749)
Amount classified as non-current assets	**—**	45,874

The market value of the Group's other investments at the date of approval of these financial statements was approximately HK$488,480,000.

23. LOANS RECEIVABLE

	Group	
	2003	2002
	HK$'000	*HK$'000*
Unsecured:		
Non-current	**4,000**	—
Current	**364,962**	212,520
	368,962	212,520

24. STOCKS

	Group	
	2003	2002
	HK$'000	*HK$'000*
Raw materials	**20,981**	20,327
Work in progress	**11,471**	12,085
Finished goods	**9,793**	11,687
	42,245	44,099

There was no stock carried at net realisable value at 31 December 2003 (2002: Nil).

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25. TRADE DEBTORS

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
0 — 30 days	**13,131**	9,497
31 — 60 days	**6,970**	4,494
More than 60 days	**7,636**	9,588
	27,737	23,579

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

26. TRADE CREDITORS

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
0 — 30 days	**8,198**	6,318
31 — 60 days	**4,539**	4,272
More than 60 days	**4,983**	4,426
	17,720	15,016

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27. HIRE PURCHASE CONTRACT PAYABLES

The Group leases certain of its office equipment for its trading business. These leases are classified as finance leases.

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

Group	**Minimum lease payments 2003**	Minimum lease payments 2002	**Present value of minimum lease payments 2003**	Present value of minimum lease payments 2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable:				
Within one year	—	13	—	9
In the second year	—	13	—	9
In the third to fifth years, inclusive	—	5	—	4
Total minimum finance lease payments	—	31	—	22
Future finance charges	—	(9)		
Total net finance lease payables	—	22		
Portion classified as current liabilities	—	(9)		
Long term portion	—	13		

28. CONVERTIBLE NOTES

On 31 July 2001, the Company issued a convertible note of HK$100,000,000 to Timmex Investment Ltd., a company in which Cheung Chung Kiu, a director of the Company, has beneficial interest of 100%. The maturity date of the note is 31 July 2004 and the note 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).

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29. DEFERRED TAX

The movement in deferred tax liabilities and assets during the year is as follows:

Group

	2003		
	Accelerated tax depreciation	**Others**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
At 1 January 2003	**1,394**	**61**	**1,455**
Deferred tax credited to the profit and loss account during the year	**(672)**	**—**	**(672)**
Deferred tax liabilities at 31 December 2003	**722**	**61**	**783**

	2002		
	Accelerated tax depreciation	Others	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2002 and at 31 December 2002	1,394	61	1,455

The Group has tax losses arising in Hong Kong of HK$130,968,000 (2002: HK$286,249,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

At 31 December 2003, there is no significant unrecognised deferred tax liability (2002: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries, associates or jointly-controlled entity as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

30. SHARE CAPITAL

Shares

	2003	2002
	HK$'000	*HK$'000*
Authorised:		
50,000,000,000 ordinary shares of HK$0.01 each	**500,000**	500,000
Issued and fully paid:		
8,453,321,700 ordinary shares of HK$0.01 each	**84,533**	84,533

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30. SHARE CAPITAL *(continued)*

Share options

The following share options were outstanding under the Company's expired share option scheme during the year:

Name or category of participants	At beginning of year	Expired during the year	At 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$ **
Directors							
Cheung Chung Kiu	10,000,000	(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	(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	(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	(6,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Other employees*							
In aggregate	199,000,000	(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	(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 options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

At the balance sheet date, the Company did not have any share option scheme.

Warrants

On 18 July 2001, the Company issued 1,312,586,000 warrants at a price of HK$0.02 each. These warrants entitled 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). No subscription right was exercised by the warrant holders up to the expiry date of the warrants on 18 July 2003, and accordingly the subscription rights attaching to these warrants lapsed and the warrants ceased to be valid thereafter.

Notes to Financial Statements

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31. 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 23 of the financial statements.

Company

	Note	Share premium account HK$'000	Contributed surplus HK$'000	Warrant subscription reserve HK$'000	Retained profits/ (accumulated losses) HK$'000	Total HK$'000
At 1 January 2002		840,629	839,108	25,674	(1,250)	1,704,161
Net loss for the year		—	—	—	(9,454)	(9,454)
At 31 December 2002 and 1 January 2003		840,629	839,108	25,674	(10,704)	1,694,707
Expiry of warrants		—	—	(25,674)	—	(25,674)
Net profit for the year		—	—	—	31,833	31,833
Proposed final dividend	*13*	—	—	—	(16,907)	(16,907)
At 31 December 2003		**840,629**	**839,108**	**—**	**4,222**	**1,683,959**

The contributed surplus of the Company originally represented 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.

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	**2003** **HK$'000**	2002 HK$'000 (Restated)
Profit/(loss) before tax		**126,781**	(132,395)
Adjustments for:			
Share of profits and losses of:			
A jointly-controlled entity		**(1,215)**	5,325
Associates		**(22,934)**	(6,751)
Interest income	5	**(29,451)**	(29,832)
Dividend income from listed investments	5	**(1,153)**	(1,798)
Negative goodwill recognised as income	5	**(8,281)**	(6,771)
Warrant subscription reserve recognised as income upon expiry of warrants	5	**(25,674)**	—
Provision for doubtful debts, net	6	**4,343**	71,495
Deficit arising from revaluation of investment properties	6	**6,332**	500
Unrealised holding losses/(gains) on other investments	6	**(91,116)**	58,797
Loss/(gain) on disposal of other investments	6	**17,214**	(951)
Loss on deemed disposal of partial interest in a subsidiary	6	**—**	3,683
Write back of impairment loss on convertible notes	6	**(2,340)**	—
Gain on sale of convertible notes	7	**(4,000)**	—
Provision against stocks	7	**—**	6,957
Depreciation	7	**12,126**	12,152
Loss/(gain) on disposal of fixed assets	7	**(99)**	184
Finance costs	8	**5,313**	12,199
Operating loss before working capital changes		**(14,154)**	(7,206)
Decrease/(increase) in stocks		**1,854**	(12,406)
Decrease/(increase) in trade debtors		**(8,501)**	787
Decrease/(increase) in other debtors, deposits and prepayments		**(4,746)**	6,638
Decrease/(increase) in bills receivable		**3,103**	(699)
Increase/(decrease) in bills payable and trust receipt loans, secured		**2,794**	(6,161)
Increase in trade creditors		**2,704**	909
Increase in other payables		**1,177**	610
Decrease in accrued expenses		**(677)**	(6,990)
Increase/(decrease) in customers' deposits received		**(1,134)**	1,585
Cash generated from operations		**(17,580)**	(22,933)
Hong Kong profits tax paid		**(2,415)**	(1,247)
Net cash outflow from operating activities		**(19,995)**	(24,180)

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(b) In 2002 and 2003, the Group received amounts of HK$130,000,000 and HK$20,000,000, respectively, in respect of the disposal of subsidiaries in 2001. The total consideration payable for the disposal amounted to HK$230,398,000.

(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 35 to the financial statements.

33. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms of approximately one year. 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	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**403**	546
In the second to fifth years, inclusive	**—**	403
	403	949

(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 of approximately one year.

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

	Group	
	2003	2002
	HK$'000	*HK$'000*
Within one year	**1,048**	2,476

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34. COMMITMENTS

In addition to the operating lease commitments detailed in note 33(b) above, the Group had the following capital commitments in respect of purchases of fixed assets at the balance sheet date:

	Group	
	2003	2002
	HK$'000	*HK$'000*
Contracted for	**—**	342

At the balance sheet date, the Company did not have any significant commitments (2002: Nil).

35. 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$8,060,000 (2002: HK$8,044,000);

(b) the Group's investment properties and certain fixed assets to the extent of HK$77,770,000 (2002: HK$79,948,000); and

(c) corporate guarantees issued by the Company and its subsidiary, Qualipak.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2003	2002	**2003**	2002
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees given to banks in connection with facilities granted to subsidiaries*	**—**	—	**488,080**	493,076

* The banking facilities were utilised to the extent of HK$80,000,000 at the balance sheet date (2002: Nil).

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36. CONTINGENT LIABILITIES *(continued)*

(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 International Holdings Limited ("CUIHL") and Qualipak (as set out in the paragraph headed "Other Information" in Appendix 5 of Qualipak's prospectus dated 15 April 1999), CHL and CUIHL agreed with Qualipak and its subsidiaries (the "Qualipak Group") that CHL and CUIHL 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.

37. RELATED PARTY TRANSACTIONS

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

		Group	
		2003	2002
	Notes	***HK$'000***	*HK$'000*
Rental expenses for office premises paid to a substantial shareholder	*(i)*	**935**	1,700
Rental income for office premises received from an associate	*(ii)*	**—**	766
Interest expense paid to a related company	*(iii)*	**5,000**	5,000

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. Mr. 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 interest expense paid to a related company was in respect of the convertible note issued in 2001 to Timmex Investment Ltd., a company in which Mr. Cheung Chung Kiu, a director of the Company, has a beneficial interest of 100%. The above transactions constituted connected transactions for the Company under the Listing Rules.

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38. POST BALANCE SHEET EVENTS

(i) On 12 January and 18 February 2004, the Group disposed in aggregate of 400,000,000 shares in Qualipak, a subsidiary of the Company listed on the Stock Exchange, on the market to independent third parties at a price of HK$0.17 each. Immediately after these transactions, the shareholding of the Company in Qualipak dropped from 69.87% to 59.71%. The gain on the above disposals amounted to approximately HK$22 million.

(ii) On 3 March 2004, Joystar Limited, a wholly-owned subsidiary of the Company, subscribed for and was allotted a total of 80,000,000 shares of US$0.1 each of Hennabun Management Inc. ("HMI"), for a cash consideration of HK$100,000,000. HMI is a non-wholly owned subsidiary of a company listed on the Stock Exchange. As a result of this transaction, the Group has an equity interest of 20.56% in HMI.

39. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of the revised SSAP12 during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made and certain comparative amounts have been restated to conform with the current year's presentation.

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2004.