

# Notes to the Financial Statements

For the year ended 31 December, 2003

## 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 34.

## 2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARD

In the current year, the Group has adopted, for the first time, the following Hong Kong Financial Reporting Standard ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP") and Interpretations approved by the HKSA.

In the current year, the Group has adopted SSAP 12 (Revised) "Income taxes". The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognised in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 3. 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.

Loan arrangement fee income is recognised when services are rendered and no further obligations are required to be performed by the Group.

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

#### **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 subsequently 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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Investment properties (continued)

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.

#### Interest in properties

Interest in properties is stated at cost 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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Taxation** (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future.

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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### **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.

### 4. TURNOVER

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

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 5. SEGMENTAL INFORMATION

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 the major source of the Group's risks and return, and the Group operates within a single business segment. Accordingly, no business segmental information is prepared by the Group.

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

	Turnover		Segment results	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
North and South America	<b>66,284</b>	89,764	<b>8,643</b>	11,635
Europe	<b>62,002</b>	58,063	<b>8,084</b>	7,526
Hong Kong	<b>46,603</b>	49,759	<b>6,076</b>	6,450
Others	<b>17,009</b>	21,309	<b>2,218</b>	2,762
	<b>191,898</b>	218,895	<b>25,021</b>	28,373
Interest income			<b>5,043</b>	6,594
Income from other operating activities			<b>7,325</b>	–
Profit from operations			<b>37,389</b>	34,967
Finance costs			<b>(3,517)</b>	(7,594)
Profit before taxation			<b>33,872</b>	27,373
Taxation			<b>(4,970)</b>	(2,562)
Net profit for the year			<b>28,902</b>	24,811

Analysis of carrying amount of segment assets and additions to property, plant and equipment, analysed by the geographical area in which the assets are located has not been presented as they are substantially situated in the PRC, including Hong Kong.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 6. PROFIT FROM OPERATIONS

	2003 <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Profit from operations has been arrived at after charging:		
Directors' remuneration ( <i>note 8</i> )	<b>5,388</b>	6,712
Other staff costs	<b>8,812</b>	8,048
Total staff costs	<b>14,200</b>	14,760
Auditors' remuneration		
– Current year	<b>525</b>	525
– Overprovision in prior year	<b>(25)</b>	–
Depreciation and amortisation	<b>7,753</b>	6,177
Loss on disposals of property, plant and equipment	–	6
Minimum rental payments under operating lease in respect of land and buildings	<b>2,689</b>	3,279
and after crediting:		
Gain on disposals of property, plant and equipment	<b>97</b>	–
Interest income	<b>5,043</b>	6,594

### 7. FINANCE COSTS

	2003 <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Interest in respect of convertible note payable	<b>(3,517)</b>	(7,594)



## Notes to the Financial Statements

For the year ended 31 December, 2003

### 8. DIRECTORS' REMUNERATION

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	<b>400</b>	400
Other emoluments (executive directors):		
Salaries and other benefits	<b>4,790</b>	5,026
Performance related incentive payments	–	1,088
Retirement benefit scheme contributions	<b>198</b>	198
<b>Total directors' remuneration</b>	<b>5,388</b>	6,712

During the year, the Group also provided one of its leasehold properties in Hong Kong as a quarter for one of the executive directors. The estimated monetary value of such accommodation, included in the amount disclosed above, using the rateable value as an approximation, is HK\$500,000 (2002: nil).

Emoluments of the directors were within the following bands:

	<b>2003</b> <b>Number</b> <b>of directors</b>	2002 Number of directors
HK\$Nil to HK\$1,000,000	<b>5</b>	5
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	–	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, 2003

### 9. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December, 2003 included three (2002: three) executive directors of the Company, whose emoluments are included in note 8. The emoluments of all the five highest paid individuals are analysed as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Salaries and other benefits	<b>5,752</b>	5,989
Performance related incentive payments	–	1,105
Retirement benefit scheme contributions	<b>242</b>	242
	<b>5,994</b>	7,336

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

	<b>Number of individuals</b>	
	<b>2003</b>	2002
HK\$Nil to HK\$1,000,000	<b>2</b>	2
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$2,500,001 to HK\$3,000,000	<b>1</b>	–
HK\$4,000,001 to HK\$4,500,000	–	1
	<b>5</b>	5

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 10. TAXATION

	2003 HK\$'000	2002 HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
Current year	(4,351)	(2,689)
(Under)overprovision in prior years	(377)	127
	(4,728)	(2,562)
Deferred tax charge for the year (note 23)	(242)	–
	<b>(4,970)</b>	<b>(2,562)</b>

Hong Kong Profits Tax is calculated at 17.5% (2002: 16%) of the estimated assessable profit for the year. The Hong Kong Profits Tax rate has been increased with effect from the current year of assessment.

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") and the Company as set out in the paragraph headed "Other Information" in Appendix 5 of 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 any additional 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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 10. TAXATION (continued)

The charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Profit before taxation	<b>33,872</b>	27,373
Tax at the domestic income tax rate of 17.5% (2002: 16%)	<b>(5,928)</b>	(4,380)
Tax effect of non-taxable income in determining taxable profit	<b>1,053</b>	361
Tax effect of expenses that are not deductible in determining taxable profit	<b>(1,255)</b>	(1,636)
Tax effect of profit of subsidiaries not subject to income tax	<b>1,736</b>	2,354
(Under)overprovision of Hong Kong Profits Tax in prior years	<b>(377)</b>	127
Others	<b>(199)</b>	612
<b>Taxation charge of the year</b>	<b>(4,970)</b>	(2,562)

### 11. DIVIDENDS

	<b>2003</b> <b>HK\$'000</b>	2002 HK\$'000
Proposed final dividend of HK\$0.0035 (2002: HK\$0.003) per share	<b>13,788</b>	7,131
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
	<b>13,788</b>	7,725

The final dividend of HK\$0.0035 (2002: HK\$0.003) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 12. EARNINGS PER SHARE

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

	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
Net profit for the year	<b>28,902</b>	24,811
Effect of dilutive potential shares for interest saving on convertible note payable	<b>3,517</b>	7,594
<u>Earnings for the purpose of diluted earnings per share</u>	<u><b>32,419</b></u>	<u>32,405</u>
	<b>Number of shares</b>	Number of shares
Weighted average number of shares for the purposes of basic earnings per share	<b>3,216,077,966</b>	2,265,469,635
Effect of dilutive potential shares:		
Warrants	-	97,275,443
Convertible note payable	<b>723,458,904</b>	1,629,825,654
<u>Weighted average number of shares for the purposes of diluted earnings per share</u>	<u><b>3,939,536,870</b></u>	<u>3,992,570,732</u>

### 13. INVESTMENT PROPERTY

	<b>THE GROUP</b>	
	<b>2003</b> <b>HK\$'000</b>	2002 <i>HK\$'000</i>
At 1 January	-	-
Additions	-	19,384
Deficit arising on revaluation	-	(817)
Transfer to leasehold properties	-	(18,567)
<u>At 31 December</u>	<u>-</u>	<u>-</u>

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, 2003

### 14. 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
<b>THE GROUP</b>								
COST								
At 1 January, 2003	100,672	3,740	22,268	2,717	13,457	6,634	3,267	152,755
Additions	56	116	537	12	881	1,073	-	2,675
Disposals	-	-	-	-	-	-	(615)	(615)
<b>At 31 December, 2003</b>	<b>100,728</b>	<b>3,856</b>	<b>22,805</b>	<b>2,729</b>	<b>14,338</b>	<b>7,707</b>	<b>2,652</b>	<b>154,815</b>
DEPRECIATION AND AMORTISATION								
At 1 January, 2003	2,162	2,386	13,243	385	5,759	3,383	1,880	29,198
Provided for the year	2,183	331	1,898	272	1,241	878	592	7,395
Eliminated on disposals	-	-	-	-	-	-	(529)	(529)
<b>At 31 December, 2003</b>	<b>4,345</b>	<b>2,717</b>	<b>15,141</b>	<b>657</b>	<b>7,000</b>	<b>4,261</b>	<b>1,943</b>	<b>36,064</b>
NET BOOK VALUES								
<b>At 31 December, 2003</b>	<b>96,383</b>	<b>1,139</b>	<b>7,664</b>	<b>2,072</b>	<b>7,338</b>	<b>3,446</b>	<b>709</b>	<b>118,751</b>
At 31 December, 2002	98,510	1,354	9,025	2,332	7,698	3,251	1,387	123,557

The Group's leasehold properties are situated in Hong Kong and the PRC of HK\$24,689,000 (2002: HK\$25,217,000) and HK\$71,694,000 (2002: HK\$73,293,000), respectively, and these leasehold properties are held under medium-term leases.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 15. INTEREST IN PROPERTIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Expenditure incurred, at cost	10,701	10,701
Accumulated amortisation	(1,736)	(1,565)
	<b>8,965</b>	9,136
Less: Provision for impairment loss	(2,347)	(2,347)
	<b>6,618</b>	6,789

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.

### 16. CONVERTIBLE NOTE RECEIVABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Unlisted debt securities, at cost	42,500	53,000
Analysed as:		
Current	10,500	28,000
Non-current	32,000	25,000
	<b>42,500</b>	53,000

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 16. CONVERTIBLE NOTE RECEIVABLES (continued)

At 31 December, 2003, the Group held two convertible notes amounting to HK\$32,000,000 and HK\$10,500,000, 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\$1.10 to HK\$1.20 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 2005 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.

### 17. CLUB MEMBERSHIP

	THE GROUP	
	2003	2002
	HK\$'000	HK\$'000
<b>COST</b>		
At 1 January	620	620
Addition	160	–
At 31 December	780	620
<b>AMORTISATION</b>		
At 1 January	(351)	(227)
Provided for the year	(187)	(124)
At 31 December	(538)	(351)
<b>NET BOOK VALUE</b>		
At 31 December	242	269



## Notes to the Financial Statements

For the year ended 31 December, 2003

### 18. INVESTMENT IN SUBSIDIARIES

	THE COMPANY	
	2003 HK\$'000	2002 HK\$'000
Unlisted shares, at cost	<b>159,531</b>	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 34.

### 19. INVENTORIES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
<b>COST</b>		
Raw materials	<b>20,981</b>	20,327
Work in progress	<b>11,471</b>	12,085
Finished goods	<b>9,793</b>	11,687
	<b>42,245</b>	44,099

### 20. TRADE AND OTHER RECEIVABLES

	THE GROUP	
	2003 HK\$'000	2002 HK\$'000
Trade receivables	<b>34,283</b>	32,345
Loan receivable	<b>77,900</b>	–
Other receivables	<b>39,921</b>	34,780
	<b>152,104</b>	67,125

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

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 20. TRADE AND OTHER RECEIVABLES (continued)

The ageing analysis of trade receivables at the balance sheet date is as follows:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>15,682</b>	13,555
31 to 60 days	<b>9,049</b>	8,159
Over 60 days	<b>9,552</b>	10,631
	<b>34,283</b>	32,345

Loan receivable is unsecured but guaranteed by personal guarantee of the borrower, interest bearing at 4% per annum and repayable at a lump sum together with accrued interest on or before 11 June, 2004. An arrangement fee income of approximately HK\$3,116,000 (2002: nil) has been received from this loan receivable during the year.

### 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$17,207,000 (2002: HK\$14,034,000). The ageing analysis of trade payables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>8,198</b>	6,317
31 to 60 days	<b>5,121</b>	4,272
Over 60 days	<b>3,888</b>	3,445
	<b>17,207</b>	14,034

### 22. CONVERTIBLE NOTE PAYABLE

On 22 June, 2000, the Company issued a convertible note ("the Note Payable") of HK\$150,000,000 to Faircom Limited ("Faircom"), 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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 22. CONVERTIBLE NOTE PAYABLE (continued)

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 the 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.

During the year, the Note Payable of HK\$150,000,000 was fully converted into shares of the Company.

### 23. DEFERRED TAXATION

The following are the major deferred tax liabilities recognised by the Group and movements thereon during the year:

	<b>Accelerated tax depreciation</b> <i>HK\$'000</i>	<b>Prepaid expenses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January, 2002 and 1 January, 2003	480	61	541
Charge (credit) to income for year	303	(61)	242
<b>At 31 December, 2003</b>	<b>783</b>	<b>-</b>	<b>783</b>

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

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 24. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Shares of HK\$0.01 each		
<b>Authorised share capital:</b>		
At 1 January, 2002, at 31 December, 2002 and at 31 December, 2003	10,000,000	100,000
<b>Issued and fully paid:</b>		
Balance at 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 and 1 January, 2003	2,377,037	23,770
Issue of shares resulting from conversion of the Company's convertible note payable	1,562,500	15,625
<b>At 31 December, 2003</b>	<b>3,939,537</b>	<b>39,395</b>

Shares of HK\$0.01 each were allotted and issued at a price of HK\$0.065 and HK\$0.096 per share, respectively, as a result of exercise of the Company's warrants in 2002 and conversion of the Company's convertible note payable in 2003.

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

### 25. 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 both years and there were no options outstanding at 31 December, 2003 and 2002.

The financial impact of share options granted 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 recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the 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 lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

## Notes to the Financial Statements

*For the year ended 31 December, 2003*

### 26. 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.

During the period from 1 January, 2002 to 11 June, 2002, an aggregate amount of warrants of HK\$18,196,277 were exercised at the subscription price of HK\$0.065 per share, resulting in the issue by the Company of 279,942,730 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. No warrants were outstanding at 31 December, 2003 and 2002.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 27. 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 in 1998.

Details of changes in reserves of the Group are set out in the consolidated statement of changes in equity on page 23.

	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>
<b>THE COMPANY</b>					
At 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 and 1 January, 2003	65,526	158,331	50,052	7,131	281,040
Premium arising on issue of shares resulting from conversion of the Company's convertible note payable	134,375	-	-	-	134,375
Net profit for the year	-	-	27,628	-	27,628
Dividend paid	-	-	-	(7,131)	(7,131)
Declaration of 2003 final dividend	-	-	(13,788)	13,788	-
<b>At 31 December, 2003</b>	<b>199,901</b>	<b>158,331</b>	<b>63,892</b>	<b>13,788</b>	<b>435,912</b>

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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 27. RESERVES (continued)

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:

	<b>2003</b>	2002
	<b>HK\$'000</b>	HK\$'000
Accumulated profits	<b>63,892</b>	50,052
Dividend reserve	<b>13,788</b>	7,131
Contributed surplus	<b>158,331</b>	158,331
	<b>236,011</b>	215,514

### 28. PLEDGE OF ASSETS

At 31 December, 2003, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,695,000 (2002: HK\$6,853,000) as securities for general banking facilities granted to the Group.

The Company had not pledged any of its assets at 31 December, 2003 and 2002.



## Notes to the Financial Statements

For the year ended 31 December, 2003

### 29. 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	
	2003	2002
	HK\$'000	HK\$'000
Within one year	417	1,845

Operating lease payments represent rental payable by the Group for certain of its manufactory plants, office properties and quarters. These leases are negotiated for terms of one 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, 2003 and 2002.

### 30. CONTINGENT LIABILITIES

#### THE COMPANY

At 31 December, 2003, the Company executed guarantees amounting to HK\$20,000,000 (2002: HK\$20,000,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at 31 December, 2003 and 2002.

### 31. 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.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 31. RETIREMENT BENEFIT SCHEME (continued)

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	
	2003	2002
	HK\$'000	HK\$'000
Gross retirement benefit scheme contributions	697	687
Less: Forfeited contributions utilised to offset contributions	(30)	(20)
Net retirement benefit scheme contributions	667	667

At 31 December, 2003 and 2002, there were no forfeited contributions outstanding in the forfeiture accounts which were available to offset future employers' contributions to the scheme.

### 32. RELATED PARTY TRANSACTIONS

During the year, the Group paid interest on the Note Payable of approximately HK\$3,517,000 (2002: HK\$7,594,000) to Faircom.

On 17 June, 2003, Faircom transferred the Note Payable to Regulator Holdings Limited ("Regulator"). On 18 June, 2003, Regulator exercised its conversion rights attaching to the Note Payable and converted it into 1,562,500,000 shares of the Company at the conversion price of HK\$0.096 per share. Both Faircom and Regulator are wholly-owned subsidiaries of Yugang, the ultimate holding company of the Company.

In the opinion of the Company's directors, the above related party transactions were carried out at terms agreed by both parties. Details of the terms are set out in note 22.

### 33. SUBSEQUENT EVENTS

Subsequent to 31 December, 2003, the Group's convertible note receivable of HK\$20,400,000 was converted into 17,000,000 common shares of a company listed on the Stock Exchange at the conversion price of HK\$1.20 per share. The Group has thereafter disposed of 10,000,000 common shares of the aforesaid company.

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December, 2003 are as follows:

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Ablelink Investments Limited	British Virgin Islands <sup>#</sup>	Ordinary US\$100	Investment holding
Gainwin Packaging Limited	Hong Kong	Ordinary HK\$2	Inactive
Global Palace Investments Limited	British Virgin Islands/ Hong Kong	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
Qualipak Development Limited (Note a)	British Virgin Islands <sup>#</sup>	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	Provision of financial services
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 <sup>#</sup>	Ordinary US\$1	Investment holding
Qualipak Manufacturing Limited (Note b)	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

## Notes to the Financial Statements

For the year ended 31 December, 2003

### 34. PARTICULARS OF SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ registration and operation	Issued and fully paid share capital/ registered capital	Principal activities
Qualipak Manufacturing Packaging (Zhongshan) Co., Ltd.	PRC (wholly-owned Foreign Enterprise)	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
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 <sup>#</sup>	Ordinary US\$50,000	Investment holding

<sup>#</sup> 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, 2003 or at any time during the year.