

Notes to Financial Statements

31 December 2004

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) treasury investment;
- (iii) manufacture and sale of watch boxes, gift boxes, spectacles cases and stationery for resale; and
- (iv) property and other investments.

2. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

The Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also include Statements of Standard Accounting Practice and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, 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.

The accounting policies and basis of preparation and presentation used in the preparation of the financial statements are consistent with those used in the Group's audited financial statements for the year ended 31 December 2003, except that the trading of securities, interest and dividend income from securities investment and interest income from provision of financial services are reclassified under treasury investment as part of the principal activities of the Group. The directors are of the opinion that such reclassification is necessary in order to give a better understanding of the performance of the Group. Accordingly, the comparative turnover has been restated to conform with the current classification.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2004. 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.

Notes to Financial Statements

31 December 2004

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

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.

A joint venture company is treated as:

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

Jointly-controlled entities

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

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

Notes to Financial Statements

31 December 2004

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

Associates

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

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

Negative goodwill

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

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

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

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

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

Related parties

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

Notes to Financial Statements

31 December 2004

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

Impairment of assets

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

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

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

Fixed assets and depreciation

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

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

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

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

Notes to Financial Statements

31 December 2004

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.

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.

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.

Long term investments

Long term investments mainly represent club debentures and investment in unlisted shares, 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.

Other investments

Investments in listed securities which are held for the purpose of capital gain are classified as other investments.

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.

Inventories

Inventories 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.

Notes to Financial Statements

31 December 2004

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

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.

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.

Notes to Financial Statements

31 December 2004

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

Foreign currencies *(continued)*

On consolidation, the financial statements of overseas subsidiaries, the jointly-controlled entity and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, the 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;
- (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.

Notes to Financial Statements

31 December 2004

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

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 schemes

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.

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.

Notes to Financial Statements

31 December 2004

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

Employee benefits *(continued)*

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.

During the year, the Group has reclassified the businesses of securities investment and provision of financial services under a new segment of treasury investment. The directors are of the opinion that such reclassification is necessary in order to give a better understanding of the current operations of the Group.

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 consists of the trading of automobile parts mainly for use in the manufacture of automobiles (no turnover was generated during the year);
- (b) the treasury investment segment includes the trading of securities, interest and dividend income from securities investment and interest income from provision of financing services;
- (c) the manufacture and sale of packaging products segment produces watch boxes, gift boxes, spectacles cases and stationery for resale; and
- (d) the property and other investments segment comprises income from investment properties and unlisted investments.

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 2004

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 2004.

Group 2004

	Trading of automobile parts HK\$'000	Treasury investment HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenue:						
Turnover from external customers	—	138,323	254,443	—	—	392,766
Other revenue	—	—	—	603	—	603
Total revenue	—	138,323	254,443	603	—	393,369
Segment results	(14,225)	232,455	46,938	(29,252)	—	235,916
Unallocated expenses, net						(26,516)
Interest income on bank deposits						4,459
Finance costs						(4,150)
Share of profits and losses of:						
A jointly-controlled entity	—	—	—	(725)	—	(725)
Associates	—	10,799	—	43,202	—	54,001
Profit before tax						262,985
Tax						(19,178)
Minority interests						(16,391)
Net profit from ordinary activities attributable to shareholders						227,416
Segment assets	35,000	957,231	455,696	95,030	—	1,542,957
Investment in a jointly-controlled entity	—	—	—	4,578	—	4,578
Investments in associates	—	—	—	667,418	—	667,418
Unallocated assets						222,564
Total assets						2,437,517
Segment liabilities	3,455	7,154	38,244	—	—	48,853
Unallocated liabilities						153,930
Total liabilities						202,783
Other segment information:						
Capital expenditure	(760)	(182)	(5,702)	—	(9,249)	(15,893)
Negative goodwill recognised as income	—	—	7,584	526	—	8,110
Depreciation	—	(63)	(7,680)	—	(4,280)	(12,023)
Provision for doubtful debts	—	(4,962)	(9,681)	—	—	(14,643)
Provision against obsolete inventories	—	—	(3,339)	—	—	(3,339)
Unrealised holding gains on other investments	—	128,179	—	—	—	128,179
Gain on disposal of other investments	—	111,112	—	—	—	111,112

Notes to Financial Statements

31 December 2004

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 2003.

Group
2003 (Restated)

	Trading of automobile parts HK\$'000	Treasury investment HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenue:						
Turnover from external customers	12,722	12,879	191,898	—	—	217,499
Other revenue	—	—	—	546	—	546
Total revenue	<u>12,722</u>	<u>12,879</u>	<u>191,898</u>	<u>546</u>	<u>—</u>	<u>218,045</u>
Segment results	<u>(19,866)</u>	<u>84,628</u>	<u>37,606</u>	<u>(5,312)</u>	<u>—</u>	<u>97,056</u>
Unallocated income, net						6,473
Interest income on bank deposits						4,416
Finance costs						(5,313)
Share of profits of:						
A jointly-controlled entity	—	—	—	1,215	—	1,215
Associates	—	8,510	—	14,424	—	22,934
Profit before tax						126,781
Tax						(9,323)
Minority interests						(10,191)
Net profit from ordinary activities attributable to shareholders						<u>107,267</u>
Segment assets	34,762	922,748	369,458	12,937	—	1,339,905
Investment in a jointly-controlled entity	—	—	—	5,304	—	5,304
Investments in associates	—	—	—	623,518	—	623,518
Unallocated assets						291,189
Total assets						<u>2,259,916</u>
Segment liabilities	5,560	29	31,462	—	—	37,051
Unallocated liabilities						264,894
Total liabilities						<u>301,945</u>
Other segment information:						
Capital expenditure	—	—	(2,675)	—	(653)	(3,328)
Negative goodwill recognised as income	—	—	7,755	526	—	8,281
Depreciation	—	—	(7,493)	—	(4,633)	(12,126)
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	—	(17,049)	—	—	—	(17,049)

Notes to Financial Statements

31 December 2004

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 2004

	Hong Kong HK\$'000	Elsewhere in the PRC HK\$'000	North and South Americas HK\$'000	European Union HK\$'000	Others HK\$'000	Consolidated HK\$'000
Segment revenue:						
Turnover from external customers	215,551	—	80,461	81,162	15,592	392,766
Other revenue	603	—	—	—	—	603
Total revenue	<u>216,154</u>	<u>—</u>	<u>80,461</u>	<u>81,162</u>	<u>15,592</u>	<u>393,369</u>
Other segment information:						
Segment assets	2,253,414	149,389	283	—	34,431	2,437,517
Capital expenditure	<u>15,133</u>	<u>760</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,893</u>
2003 (Restated)						
Segment revenue:						
Turnover from external customers	58,667	10,092	67,107	64,624	17,009	217,499
Other revenue	546	—	—	—	—	546
Total revenue	<u>59,213</u>	<u>10,092</u>	<u>67,107</u>	<u>64,624</u>	<u>17,009</u>	<u>218,045</u>
Other segment information:						
Segment assets	2,117,752	141,745	419	—	—	2,259,916
Capital expenditure	<u>3,328</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,328</u>

5. TURNOVER, REVENUE AND GAINS

Turnover represents the aggregate of the net invoiced value of goods sold, after allowances for returns and trade discounts, gain/(loss) on disposal of trading securities, dividend income from listed investments and interest income from convertible notes and loans receivable during the year.

Notes to Financial Statements

31 December 2004

5. TURNOVER, REVENUE AND GAINS (continued)

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

	2004 HK\$'000	2003 HK\$'000 (Restated)
Turnover		
Sale of goods	254,443	204,620
Gain/(loss) on disposal of other investments	111,112	(17,049)
Dividend income from listed investments	3,422	1,153
Interest income from convertible notes and loans receivable	23,789	25,035
Loan arrangement fee income from provision of financial services	—	3,115
Commission income	—	625
	<u>392,766</u>	<u>217,499</u>
Other revenue and gains		
Rental income	603	546
Interest income on bank deposits	4,459	4,416
Negative goodwill recognised as income	8,110	8,281
Warrant subscription reserve recognised as income upon expiry of warrants	—	25,674
Other	2,688	2,520
	<u>15,860</u>	<u>41,437</u>

6. OTHER OPERATING INCOME/EXPENSES

	Group	
	2004 HK\$'000	2003 HK\$'000 (Restated)
Other operating income		
Unrealised holding gains on other investments	128,179	91,116
Write back of impairment loss on convertible debentures	1,553	2,340
Gain on partial disposal of a subsidiary	22,480	—
Surplus arising from revaluation of investment properties	100	—
	<u>152,312</u>	<u>93,456</u>
Other operating expenses		
Provision for doubtful debts, net	14,643	4,343
Deficit arising from revaluation of investment properties	—	6,332
Provision for impairment loss on unlisted investments	30,000	—
	<u>44,643</u>	<u>10,675</u>

Notes to Financial Statements

31 December 2004

7. PROFIT FROM OPERATING ACTIVITIES

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

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cost of inventories sold	200,715	154,741
Provision against obsolete inventories	3,339	—
Depreciation	12,023	12,126
Gain on disposal of fixed assets	(150)	(99)
Minimum lease payments under operating leases in respect of land and buildings	3,778	3,870
Auditors' remuneration	1,498	1,416
Staff costs (including those of directors):		
Wages and salaries	44,554	33,727
Pension scheme contributions	1,110	1,066
Less: Forfeited contributions	(17)	(30)
Net pension scheme contributions*	1,093	1,036
	45,647	34,763
Gain on sale of convertible notes	—	(4,000)
Gross rental income	(603)	(546)
Exchange losses/(gains), net	(167)	1,013

* At 31 December 2004, there was no forfeited contributions available to the Group to reduce its contributions to the pension scheme in future years (2003: Nil).

8. FINANCE COSTS

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on bank loans, overdrafts and other loans wholly repayable within five years	374	306
Interest on convertible notes	3,776	5,000
Hire purchase interest	—	7
	4,150	5,313

Notes to Financial Statements

31 December 2004

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	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Fees	1,500	1,500
Other emoluments:		
Basic salaries, housing allowances, other allowances and benefits in kind	6,480	6,240
Bonuses	5,400	3,200
Pension scheme contributions	48	48
	<u>13,428</u>	<u>10,988</u>

Fees include HK\$500,000 (2003: HK\$500,000) payable to the current independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: 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	
	2004	2003
Nil to HK\$1,000,000	4	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	—	—
HK\$2,500,001 to HK\$3,000,000	1	2
HK\$5,000,001 to HK\$5,500,000	1	—
	<u>9</u>	<u>7</u>

Notes to Financial Statements

31 December 2004

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2003: two) non-director highest paid employees for the year are as follows:

	Group	
	2004 HK\$'000	2003 HK\$'000
Basic salaries, housing allowances, other allowances and benefits in kind	5,171	3,750
Bonuses	7,400	500
Pension scheme contributions	132	114
	<u>12,703</u>	<u>4,364</u>

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

	Number of employees	
	2004	2003
HK\$1,500,001 to HK\$2,000,000	2	1
HK\$2,500,001 to HK\$3,000,000	—	1
HK\$9,000,001 to HK\$9,500,000	1	—
	<u>3</u>	<u>2</u>

Notes to Financial Statements

31 December 2004

11. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profits arising in Hong Kong during the year.

	2004	2003
	HK\$'000	HK\$'000
Group:		
Current — Hong Kong		
Charge for the year	8,577	4,351
Underprovision/(overprovision) in prior years	(4,118)	377
Additional tax assessments for the years of assessment from 1993/94 to 2002/03*	4,694	—
	9,153	4,728
Deferred (Note 29)	2,062	(672)
	11,215	4,056
Share of tax attributable to:		
A jointly-controlled entity	—	572
Associates	7,963	4,695
Total tax charge for the year	19,178	9,323

* In prior years, certain subsidiaries of Qualipak, a subsidiary of the Company, were in discussion with the Hong Kong Inland Revenue Department (the "IRD") regarding their prior year tax computations. During the year, these subsidiaries and the IRD reached a compromise settlement of HK\$4,694,000 in respect of additional tax liabilities for the years of assessment from 1993/94 to 2002/03.

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 would 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 assessable profits earned or accrued on or before 27 April 1999.

Thereafter the composition of the management of CHL and CUIHL has changed. The directors of Qualipak are of the opinion that the recovery of tax indemnity involves lengthy and costly litigation procedures, the outcome of which cannot be determined with reasonable certainty and being beneficial to the Qualipak Group in consideration of the time and expenditure required. Hence, Qualipak has considered not to pursue recovery of the tax indemnity, and consequently the tax amounts relating to the above compromise settlements in respect of the years of assessment from 1993/94 to 1999/00, were borne by Qualipak.

Notes to Financial Statements

31 December 2004

11. TAX (continued)

A reconciliation of the tax expense applicable to profit 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

	2004		2003	
	HK\$'000	%	HK\$'000	%
Profit before tax	262,985		126,781	
Tax at the statutory tax rate	46,022	17.5	22,187	17.5
Underprovision/(overprovision) of tax in prior years	(4,118)	(1.5)	377	0.3
Additional tax assessments for the years of assessment 1993/94 to 2002/03	4,694	1.8	—	—
Income not subject to tax	(34,081)	(13.0)	(30,377)	(24.0)
Expenses not deductible for tax	16,413	6.3	30,592	24.1
Utilisation of tax losses brought forward from previous years	(12,038)	(4.6)	(17,623)	(13.9)
Losses incurred by group companies not eligible for offsetting against assessable income of other group companies	2,231	0.8	4,883	3.9
Others	55	—	(716)	(0.6)
Tax charge at the Group's effective rate	19,178	7.3	9,323	7.3

12. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2004 dealt with in the financial statements of the Company is HK\$26,607,000 (2003: HK\$31,833,000).

13. DIVIDEND

	2004	2003
	HK\$'000	HK\$'000
Proposed final — HK\$0.003 (2003: HK\$0.002) per ordinary share	25,360	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 both of the years.

Notes to Financial Statements

31 December 2004

14. EARNINGS PER SHARE

The calculation of basic earnings per share for the year is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$227,416,000 (2003: HK\$107,267,000), and the weighted average of 8,453,321,700 (2003: 8,453,321,700) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$230,531,000 (2003: 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 (2003: 8,453,321,700), and the weighted average of 877,808,219 (2003: 909,090,909) ordinary shares assumed to have been issued on the deemed conversion of all convertible notes into ordinary shares of the Company during the year.

15. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Office equipment HK\$'000	Motor vehicles and yachts HK\$'000	Plant and machinery HK\$'000	Moulds HK\$'000	Total HK\$'000
Cost:								
At 1 January 2004	208,712	4,110	19,160	2,395	16,144	25,534	7,707	283,762
Additions	9,448	146	1,138	55	1,862	1,922	1,322	15,893
Disposals	—	—	—	—	(474)	—	—	(474)
At 31 December 2004	218,160	4,256	20,298	2,450	17,532	27,456	9,029	299,181
Accumulated depreciation:								
At 1 January 2004	16,467	2,791	10,678	2,108	13,323	15,798	4,261	65,426
Provided during the year	4,810	345	1,646	119	1,889	2,212	1,002	12,023
Disposals	—	—	—	—	(474)	—	—	(474)
At 31 December 2004	21,277	3,136	12,324	2,227	14,738	18,010	5,263	76,975
Net book value:								
At 31 December 2004	196,883	1,120	7,974	223	2,794	9,446	3,766	222,206
At 31 December 2003	192,245	1,319	8,482	287	2,821	9,736	3,446	218,336

Notes to Financial Statements

31 December 2004

15. FIXED ASSETS (continued)

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

	People's Republic of China (the "PRC")		
	Hong Kong	Elsewhere	Total
	HK\$'000	HK\$'000	HK\$'000
Long term leases	74,167	3,865	78,032
Medium term leases	42,367	76,484	118,851
	<u>116,534</u>	<u>80,349</u>	<u>196,883</u>

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).

16. INVESTMENT PROPERTIES

	Group	
	2004	2003
	HK\$'000	HK\$'000
At beginning of year	6,600	5,500
Transfer from fixed assets	—	7,432
Surplus/(deficit) on revaluation	100	(6,332)
At end of year	<u>6,700</u>	<u>6,600</u>

The Group's investment properties at 31 December 2004 are situated in Hong Kong and are held under medium term leases.

The revaluation of the above investment properties was carried out by Savills (Hong Kong) Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2004.

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

Notes to Financial Statements

31 December 2004

17. NEGATIVE GOODWILL

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

	Group
	<i>HK\$'000</i>
Cost:	
At beginning of year	104,535
Realised upon partial disposal of subsidiary	(12,692)
At 31 December 2004	91,843
Accumulated recognition as income:	
At beginning of year	44,302
Recognised as income during the year	7,584
Realised upon partial disposal of subsidiary	(3,993)
At 31 December 2004	47,893
Net book value:	
At 31 December 2004	43,950
At 31 December 2003	60,233

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	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Unlisted shares, at cost	105,759	105,759
Due from subsidiaries	1,820,899	1,790,266
Due to subsidiaries	(59,715)	(10,603)
	1,866,943	1,885,422

Except for the amount due from a subsidiary amounting to HK\$7,800,000 (2003: 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.

Notes to Financial Statements

31 December 2004

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 share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Bonco Limited	British Virgin Islands/ Hong Kong	US\$1	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
Eastern Bloom Limited	British Virgin Islands/ Hong Kong	US\$1	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

Notes to Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Honfame Trading Limited	Hong Kong	HK\$2	100	100	Office management
Joystar Limited	British Virgin Islands/ Hong Kong	US\$1	100	—	Investment holding
Joywell Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
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	100	Property investment
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

Notes to Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Yugang Enterprises Limited	Hong Kong	HK\$2	100	100	Investment holding
Yugang Finance Limited	Hong Kong	HK\$2	100	100	Finance vehicle
iNoble Inc.	British Virgin Islands	US\$1	60	60	Investment holding
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding
Yugang Management Limited	Hong Kong	HK\$2	100	100	Office management
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	59.71	69.87	Investment holding
Global Palace Investments Limited*	British Virgin Islands/ Hong Kong	US\$1,000	59.71	69.87	Property holding
Qualipak International Holdings Limited*	Bermuda	HK\$39,395,000	59.71	69.87	Investment holding
Qualipak Development Limited*	British Virgin Islands	US\$10,000	59.71	69.87	Investment holding
Qualipak Finance Limited*	Hong Kong	HK\$2	59.71	69.87	Provision of financial services

Notes to Financial Statements

31 December 2004

18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			2004	2003	
Qualipak Fortune Inc.*	British Virgin Islands/PRC	US\$10,000	59.71	69.87	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US\$1	59.71	69.87	Investment holding
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK\$100 non-voting deferred HK\$22,303,857	59.71	69.87	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Production Inc.*	British Virgin Islands/PRC	US\$10,000	59.71	69.87	Manufacture of watch boxes, gift boxes and display units
Winning Hand Management Limited*	British Virgin Islands/PRC	US\$1	59.71	69.87	Property holding
Wisdom Way Limited*	Hong Kong	HK\$2	59.71	69.87	Property holding
Worthwell Investments Limited*	British Virgin Islands	US\$50,000	59.71	69.87	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.

Notes to Financial Statements

31 December 2004

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets	4,578	5,304

Particulars of the jointly-controlled entity are as follows:

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

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

20. INVESTMENTS IN ASSOCIATES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Share of net assets:		
Listed investment	671,933	628,559
Negative goodwill on acquisition	(4,515)	(5,041)
	667,418	623,518
Market value of listed shares of an associate	212,940	136,500

Notes to Financial Statements

31 December 2004

20. INVESTMENTS IN ASSOCIATES (continued)

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

	Group <i>HK\$'000</i>
Cost:	
At beginning and end of year	6,813
Accumulated recognition as income:	
At beginning of year	1,772
Recognised as income during the year	526
At 31 December 2004	2,298
Net book value:	
At 31 December 2004	4,515
At 31 December 2003	5,041

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

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation/ registration and operations	Percentage of equity attributable to the Group		Principal activities
			2004	2003	
Y.T. Realty Group Limited	Corporate	Bermuda	34.25	34.25	Investment holding
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

Notes to Financial Statements

31 December 2004

20. INVESTMENTS IN ASSOCIATES (continued)

Name	Business structure	Place of incorporation/ registration/ and operations	Percentage of equity attributable to the Group		Principal activities
			2004	2003	
E-Tech Services Limited	Corporate	Hong Kong	34.25	34.25	Property technical consultant services
Harson Investment Limited	Corporate	Hong Kong	34.25	34.25	Property investment
Honway Holdings Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	34.25	Investment holding
Luckleen Development Limited	Corporate	Hong Kong	34.25	34.25	Property trading
Mainland Sun Ltd.	Corporate	British Virgin Islands/PRC	34.25	34.25	Property investment
Score Goal Investment Limited	Corporate	Hong Kong	34.25	34.25	Property investment
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
Y.T. Investment Management Limited	Corporate	British Virgin Islands/PRC	34.25	34.25	Securities investment
Y.T. Property Services Limited	Corporate	Hong Kong	34.25	34.25	Property management

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.

Notes to Financial Statements

31 December 2004

20. INVESTMENTS IN ASSOCIATES (continued)

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

	2004 HK\$'000	2003 HK\$'000
Operating results for the year:		
Turnover	<u>89,843</u>	<u>105,640</u>
Net profit from ordinary activities attributable to shareholders	<u>102,886</u>	<u>28,405</u>
Financial position as at 31 December:		
Non-current assets	2,562,775	2,631,814
Current assets	69,212	108,464
Current liabilities	(252,837)	(412,268)
Non-current liabilities	<u>(417,308)</u>	<u>(492,801)</u>
Net asset value	<u>1,961,842</u>	<u>1,835,209</u>

In 1997, a 34.25%-owned associate of the Group, which has been under voluntary liquidation since September 2004, claimed against the contractor of a property development project, and deducted approximately HK\$11 million from payments to the contractor for delay in the completion of 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 are of the opinion that the case will not result in any additional liabilities. The liquidation of this associate and its pending affairs have been handled by the appointed professional liquidators.

21. CONVERTIBLE DEBENTURES AND NOTES

	Group	
	2004 HK\$'000	2003 HK\$'000
Unsecured and interest-bearing	23,807	71,860
Provision for impairment	<u>(7,807)</u>	<u>(9,360)</u>
	16,000	62,500
Less: Amount classified as current assets	—	<u>(10,500)</u>
Amount classified as non-current assets	<u>16,000</u>	<u>52,000</u>

Notes to Financial Statements

31 December 2004

21. CONVERTIBLE DEBENTURES AND NOTES *(continued)*

At 31 December 2004, the Group held a convertible note of HK\$16,000,000 which was issued by a company with shares listed on the Stock Exchange of Hong Kong. The convertible note bears an interest rate of 6.8% per annum and conferred rights to the bearer to convert the whole or part of the outstanding principal amount into shares of the company at a conversion price of HK\$0.15 per share in the defined period. The convertible note can only be redeemed at its face value upon maturity in April 2007 to the extent of the amount not previously converted.

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

22. OTHER INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Listed equity investments:		
Hong Kong	488,747	371,852
Overseas	26,408	—
	<u>515,155</u>	<u>371,852</u>
Listed debt security:		
Overseas	8,023	—
	<u>8,023</u>	<u>—</u>
	<u>523,178</u>	<u>371,852</u>

23. LOANS RECEIVABLE

	Group	
	2004 HK\$'000	2003 HK\$'000
Non-current:		
Secured	25,000	—
Unsecured	3,000	4,000
	<u>28,000</u>	<u>4,000</u>
Current:		
Unsecured	266,766	364,962
	<u>294,766</u>	<u>368,962</u>

Notes to Financial Statements

31 December 2004

24. LONG TERM INVESTMENTS

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Club membership debentures	7,101	7,101
Unlisted equity investment	100,000	—
Other investments	13,166	1,164
	<u>120,267</u>	<u>8,265</u>
Less: Impairment loss	(30,000)	—
	<u><u>90,267</u></u>	<u><u>8,265</u></u>

25. INVENTORIES

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Raw materials	20,268	20,981
Work in progress	12,679	11,471
Finished goods	10,919	9,793
	<u>43,866</u>	<u>42,245</u>

There was no inventories carried at net realisable value at 31 December 2004 (2003: Nil).

26. TRADE DEBTORS

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

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
0 — 30 days	12,802	13,131
31 — 60 days	8,989	6,970
More than 60 days	2,216	7,636
	<u>24,007</u>	<u>27,737</u>

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

Notes to Financial Statements

31 December 2004

27. TRADE CREDITORS

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

	Group	
	2004 HK\$'000	2003 HK\$'000
0 — 30 days	9,456	8,198
31 — 60 days	6,965	4,539
More than 60 days	7,665	4,983
	24,086	17,720

28. CONVERTIBLE NOTES

On 25 May 2004, the Company entered into an agreement with Timmex Investment Limited ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$70,000,000 (the "Note"). Timmex is 100% beneficially owned by Mr. Cheung Chung Kiu, a director of the Company. The Note conferred the right on the holder to convert the whole or part of the principal amount of the Note into ordinary shares of the Company at any time from 31 July 2004 (the date of issuance) for a period of three years, at a conversion price of HK\$0.075 per share in the first year, HK\$0.082 per share in the second year and HK\$0.089 per share in the third year (subject to adjustment). The Note will mature for principal repayment on 31 July 2007. Interest on the Note is accrued from the date of issue on a day-to-day basis at 3% per annum on the principal amount of the Note and is payable annually in arrears.

The convertible note in the prior year of HK\$100,000,000 was issued to Timmex, which matured and was replaced by the Note upon its maturity together with the repayment of a sum of HK\$30,000,000 to Timmex by the Company.

29. DEFERRED TAX

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

	Group		
	Accelerated tax depreciation HK\$'000	2004 Others HK\$'000	Total HK\$'000
At 1 January 2004	722	61	783
Deferred tax charged/(credited) to the profit and loss account during the year (Note 11)	2,287	(225)	2,062
Deferred tax liabilities at 31 December 2004	3,009	(164)	2,845

Notes to Financial Statements

31 December 2004

29. DEFERRED TAX (continued)

Group

	2003		
	Accelerated	Others	Total
	tax depreciation 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 (Note 11)	(672)	—	(672)
Deferred tax liabilities at 31 December 2003	<u>722</u>	<u>61</u>	<u>783</u>

The Group has tax losses arising in Hong Kong of HK\$34,469,000 (2003: HK\$130,968,000) 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 2004, there is no significant unrecognised deferred tax liability (2003: 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

	2004 HK\$'000	2003 HK\$'000
Authorised:		
50,000,000,000 ordinary shares of HK\$0.01 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid:		
8,453,321,700 ordinary shares of HK\$0.01 each	<u>84,533</u>	<u>84,533</u>

Share options

There was no share option scheme of the Company at the year end. The share option scheme previously adopted for the Company on 19 October 1993 (the "Old Scheme"), prior to the amendments to Chapter 17 of the listing rules of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") taking effect on 1 September 2001, expired on 18 October 2003. According to the listing rules of the Stock Exchange as amended, the Company cannot grant any further options under the Old Scheme unless it complies with the new requirements of Chapter 17 of the listing rules of the Stock Exchange.

Notes to Financial Statements

31 December 2004

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 21 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
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 and 1 January 2004		840,629	839,108	—	4,222	1,683,959
Net profit for the year		—	—	—	26,607	26,607
Proposed final dividend	13	—	—	—	(25,360)	(25,360)
At 31 December 2004		840,629	839,108	—	5,469	1,685,206

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 Bermuda Companies Act 1981 (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

Notes to Financial Statements

31 December 2004

32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Notes	2004 HK\$'000	2003 HK\$'000 (Restated)
Profit before tax		262,985	126,781
Adjustments for:			
Share of profits and losses of:			
A jointly-controlled entity		725	(1,215)
Associates		(54,001)	(22,934)
Interest income from convertible notes and loans receivable	5	(23,789)	(25,035)
Interest income on bank deposits	5	(4,459)	(4,416)
Dividend income from listed investments	5	(3,422)	(1,153)
Negative goodwill recognised as income	5	(8,110)	(8,281)
Warrant subscription reserve recognised as income upon expiry of warrants	5	—	(25,674)
Provision for doubtful debts, net	6	14,643	4,343
Deficit/(surplus) arising from revaluation of investment properties	6	(100)	6,332
Unrealised holding gains on other investments	6	(128,179)	(91,116)
Loss/(gain) on disposal of other investments	5	(111,112)	17,049
Gain on partial disposal of a subsidiary	6	(22,480)	—
Write back of impairment loss on convertible debentures	6	(1,553)	(2,340)
Provision for impairment loss on unlisted investments	6	30,000	—
Provision against obsolete inventories	7	3,339	—
Depreciation	7	12,023	12,126
Gain on disposal of fixed assets	7	(150)	(99)
Finance costs	8	4,150	5,313
Operating loss before working capital changes		(29,490)	(10,319)
Decrease/(increase) in inventories		(4,960)	1,854
Increase in trade debtors		(5,951)	(8,501)
Decrease/(increase) in other debtors, deposits and prepayments		36,436	(4,746)
Decrease in bills receivable		4,674	3,103
Decrease/(increase) other investments		119,965	(21,662)
Decrease/(increase) in loans receivable		69,711	(156,442)
Increase in trade creditors		6,366	2,704
Increase/(decrease) in bills payable and trust receipt loans, secured		(2,576)	2,794
Increase/(decrease) in other payables		(3,807)	1,177
Increase/(decrease) in accrued expenses		6,671	(677)
Increase/(decrease) in customers' deposits received		1,042	(1,134)
Dividend received from listed investments		3,835	1,002
Interest income from convertible notes and loans receivable		20,797	24,763
Cash generated from/(used in) operations		222,713	(166,084)
Hong Kong profits tax paid		(6,733)	(2,415)
Net cash inflow/(outflow) from operating activities		215,980	(168,499)

Notes to Financial Statements

31 December 2004

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

(b) Major non-cash transactions

- (i) In 2003, the Group received an amount of HK\$20,000,000, in respect of the disposal of subsidiaries in 2001. The total consideration payable for the disposal amounted to HK\$230,398,000.
- (ii) During the year, the Group's convertible notes amounting to HK\$32,000,000 was converted into 26,666,666 shares of a company listed on the Stock Exchange at a conversion price of HK\$1.20 per share.

(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 two to three years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	696	403
In the second to fifth years, inclusive	773	—
	1,469	403

(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 one to five years.

Notes to Financial Statements

31 December 2004

33. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee (continued)

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within one year	787	1,048

34. COMMITMENTS

At the balance sheet date, the Group and the Company did not have any significant commitments (2003: 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\$8,143,000 (2003: HK\$8,060,000);
- (b) the Group's investment properties and certain fixed assets to the extent of HK\$66,693,000 (2003: HK\$77,770,000); and
- (c) corporate guarantees issued by the Company and its subsidiary, Qualipak.

36. CONTINGENT LIABILITIES

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

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Guarantees given to banks in connection with facilities granted to subsidiaries*	—	—	518,080	488,080

* No banking facilities were utilised at the balance sheet date (2003: HK\$80,000,000).

Notes to Financial Statements

31 December 2004

37. RELATED PARTY TRANSACTIONS

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

	Notes	Group	
		2004 HK\$'000	2003 HK\$'000
Rental expenses for office premises paid to a substantial shareholder	(i)	935	935
Interest expense paid to a related company	(ii)	3,776	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 interest expense paid to a related company was in respect of the convertible notes issued by the Company to Timmex Investment Limited as detailed in note 28 to the financial statements. The above transactions constituted connected transactions for the Company under the Listing Rules.

38. COMPARATIVE AMOUNTS

As further explained in note 3 to the financial statements, certain comparative amounts have been reclassified to conform with the current year's presentation.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 March 2005.