

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

## 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 31.

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (herein collectively referred to as "new HKFRSs") which are 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 commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investments in securities, 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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### 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.

Dividend income from investments is recognised when the shareholder's rights to receive payment have been established.

#### 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.

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December, 2004*

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **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 securities**

Investments in securities are recognised on a trade-date basis and are initially measured at cost.

At subsequent reporting dates, debt securities that the Group has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost, less any impairment loss recognised to reflect irrecoverable amounts. The annual amortisation of any discount or premium on the acquisition of a held-to-maturity security is aggregated with other investment income receivable over the term of the instrument so that the revenue recognised in each period represents a constant yield on the investment.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Convertible note receivables, which are held for long-term strategic purposes, are stated at cost less any identified impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Profits or losses on disposal of investments in securities are determined as the difference between the estimated net disposal proceeds and the carrying amount of the investments and are accounted for in the income statement as they arise.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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.

#### **Foreign currencies**

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in the net profit or loss for the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **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 bases 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.

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.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the 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 is realised. Deferred tax is charged or credited to the income statement.

#### **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**

Payments to defined contribution retirement benefit scheme and the Mandatory Provident Fund ("MPF") scheme are charged as expenses as they fall due.

### 4. TURNOVER

The trading of securities, income from securities investment and provision of financing 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 to give a better understanding of the performance of the Group and the comparative amounts presented have been restated to conform with the revised classification.

Turnover represents the amounts received and receivable in respect of sales of goods, less returns and discounts, to outside parties, net proceeds of trading in securities, investment income and interest income from provision of financial services during the year.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 4. TURNOVER (continued)

An analysis of the Group's turnover is as follows:

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000 (Restated)
Sales of goods	<b>254,443</b>	191,898
Net proceeds of trading in securities (Note a)	<b>36,192</b>	373
Net proceeds from disposal of convertible note receivables (Note b)	–	4,000
Investment income	<b>2,632</b>	2,669
Interest income from provision of financial services	<b>1,084</b>	171
Loan arrangement fee income from provision of financial services	–	3,116
	<b>294,351</b>	202,227

Note:

- (a) The amount was derived from after taking into account of the gross proceeds from trading in securities amounted to HK\$60,686,000 (2003: HK\$27,731,000) for the year ended 31 December 2004.
- (b) The amount was derived from after taking into account of the gross proceeds from the disposal of convertible note receivables amounted to HK\$21,500,000 (2004: Nil) for the year ended 31 December 2003.

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS

#### Business segments

For management purposes, the Group is currently organised into two operating divisions - sales of goods and treasury investment. These divisions are the basis on which the Group reports its primary segment information.

The principal activities are as follows:

- |                     |   |   |
|---------------------|---|---|
| Sales of goods      | – | Manufacture and trading of watch boxes, gift boxes, spectacles cases, bags and pouches, and display units |
| Treasury investment | – | Investments in securities and convertible notes, and provision of financial services                      |

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

Segment information about these businesses is presented below:

#### Year 2004

	Sales of goods HK\$'000	Treasury investment HK\$'000	Total HK\$'000
<i>(i) Income statement</i>			
Turnover	254,443	39,908	294,351
Result			
Segment result	16,596	49,030	65,626
Unallocated corporate expenses			(10,517)
Bank interest income			2,280
Profit from operations			57,389
<i>(ii) Balance sheet</i>			
ASSETS			
Segment assets	500,465	110,936	611,401
Taxation recoverable			11
Unallocated corporate assets			495
Consolidated total assets			611,907
LIABILITIES			
Segment liabilities	38,244	3,264	41,508
Taxation payable			9,982
Deferred taxation			2,845
Unallocated corporate liabilities			3,072
Consolidated total liabilities			57,407
<i>(iii) Other information</i>			
Allowance for bad and doubtful debts	9,681	–	9,681
Capital addition	5,702	182	5,884
Depreciation and amortisation	7,957	63	8,020
Allowance for obsolete inventories	3,339	–	3,339

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

#### Business segments (continued)

Year 2003 (Restated)

	Sales of goods HK\$'000	Treasury investment HK\$'000	Total HK\$'000
<i>(i) Income statement</i>			
Turnover	191,898	10,329	202,227
Result			
Segment result	26,075	8,072	34,147
Unallocated corporate income			1,039
Bank interest income			2,203
Profit from operations			37,389
<i>(ii) Balance sheet</i>			
ASSETS			
Segment assets	430,791	131,794	562,585
Taxation recoverable			126
Unallocated corporate assets			468
Consolidated total assets			563,179
LIABILITIES			
Segment liabilities	31,462	–	31,462
Taxation payable			3,615
Deferred taxation			783
Unallocated corporate liabilities			1,143
Consolidated total liabilities			37,003
<i>(iii) Other information</i>			
Capital addition	2,675	–	2,675
Depreciation and amortisation	7,753	–	7,753

**NOTES TO THE FINANCIAL STATEMENTS***For the year ended 31 December, 2004***5. BUSINESS AND GEOGRAPHICAL SEGMENTS** (continued)**Geographical segments**

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods:

	<b>Turnover</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
		(Restated)
Hong Kong	<b>117,713</b>	56,932
Europe	<b>81,162</b>	62,002
North and South America	<b>79,884</b>	66,284
Others	<b>15,592</b>	17,009
	<b>294,351</b>	202,227

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 People's Republic of China (the "PRC"), including Hong Kong.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 6. PROFIT FROM OPERATIONS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Profit from operations has been arrived at after charging:		
Directors' remuneration (Note 8)	<b>11,971</b>	5,388
Other staff costs	<b>9,925</b>	8,812
Total staff costs	<b>21,896</b>	14,200
Auditors' remuneration		
– current year	<b>475</b>	525
– overprovision in prior year	<b>–</b>	(25)
Allowance (reversal of allowance) for bad and doubtful debts	<b>9,681</b>	(2,544)
Depreciation and amortisation		
– property, plant and equipment	<b>7,643</b>	7,395
– club membership	<b>207</b>	187
– interest in properties	<b>170</b>	171
	<b>8,020</b>	7,753
Minimum rental payments under operating lease in respect of land and buildings	<b>2,621</b>	2,689
Allowance for obsolete inventories	<b>3,339</b>	–
and after crediting:		
Gain on disposals of property, plant and equipment	<b>150</b>	97
Bank interest income	<b>2,280</b>	2,203

### 7. FINANCE COSTS

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Interest in respect of convertible note payable	<b>–</b>	3,517

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 8. DIRECTORS' REMUNERATION

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Fees:		
Executive directors	–	–
Non-executive directors	–	–
Independent non-executive directors	<b>452</b>	400
Other emoluments (executive directors):		
Salaries and other benefits	<b>5,020</b>	4,790
Performance related incentive payments	<b>6,295</b>	–
Retirement benefit scheme contributions	<b>204</b>	198
<b>Total directors' remuneration</b>	<b>11,971</b>	5,388

During the year, the Group also provided one of its leasehold properties in Hong Kong as a quarter for one of the executive directors of the Company. The estimated monetary value of such accommodation, included in the amount disclosed above, using the rateable value as an approximation, is HK\$600,000 (2003: HK\$500,000).

Emoluments of the directors were within the following bands:

	<b>2004</b>	2003
	<b>Number</b>	Number
	<b>of directors</b>	of directors
Nil to HK\$1,000,000	<b>6</b>	5
HK\$1,000,001 to HK\$1,500,000	<b>2</b>	2
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$9,000,001 to HK\$9,500,000	<b>1</b>	–

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, 2004

### 9. EMPLOYEES' REMUNERATION

The five highest paid individuals in the Group for the year ended 31 December 2004 included three (2003: 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>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>5,982</b>	5,752
Performance related incentive payments	<b>6,380</b>	–
Retirement benefit scheme contributions	<b>248</b>	242
	<b>12,610</b>	5,994

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

	<b>Number of individuals</b>	
	<b>2004</b>	2003
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	–	1
HK\$9,000,001 to HK\$9,500,000	<b>1</b>	–
	<b>5</b>	5

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 10. TAXATION

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong Profits Tax		
– current year	<b>(8,577)</b>	(4,351)
– over(under)provision in prior years	<b>56</b>	(377)
– additional tax assessments for the years of assessment from 1993/94 to 2002/03	<b>(4,694)</b>	–
	<b>(13,215)</b>	(4,728)
Deferred taxation charge (Note 22)	<b>(2,062)</b>	(242)
Taxation for the year	<b>(15,277)</b>	(4,970)

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

In prior years, certain subsidiaries 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 compromised 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 Holdings International Limited (“CUIHL”) (formerly known as China United Holdings Limited) and the Company as set out in the paragraph headed “Other Information” in Appendix 5 to the prospectus dated 15 April 1999 issued by the Company, CHL and CUIHL agreed with the Company and its subsidiaries (together the “Companies”) that CHL and CUIHL would jointly and severally indemnify each of the Companies against taxation falling on any of the Companies resulting from profits or gains earned or accrued on or before 27 April 1999.

Thereafter the composition of the management of CHL and CUIHL had been changed. The directors of the Company 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 Group in consideration of the time and expenditure required. Hence, the Company has no intention to pursue recovery of the tax indemnity.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 10. TAXATION (continued)

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

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Profit before taxation	<b>57,389</b>	33,872
Tax at the domestic income tax rate of 17.5% (2003: 17.5%)	<b>(10,043)</b>	(5,928)
Tax effect of income not taxable for tax purpose	<b>504</b>	1,053
Tax effect of expenses not deductible for tax purpose	<b>(1,300)</b>	(1,255)
Tax effect of profits of subsidiaries not subject to income tax	<b>863</b>	1,736
Additional tax assessments for the years of assessment from 1993/94 to 2002/03	<b>(4,694)</b>	–
Over(under)provision in prior years	<b>56</b>	(377)
Others	<b>(663)</b>	(199)
Taxation for the year	<b>(15,277)</b>	(4,970)

### 11. DIVIDENDS

	<b>2004</b> <b>HK\$'000</b>	2003 HK\$'000
Proposed final dividend of HK\$0.0040 (2003: HK\$0.0035) per share	<b>15,758</b>	13,788

The final dividend of HK\$0.0040 (2003: HK\$0.0035) 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, 2004

### 12. EARNINGS PER SHARE

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Net profit for the year	<b>42,112</b>	28,902
Effect of dilutive potential shares for interest saving on convertible note payable	–	3,517
<u>Earnings for the purpose of diluted earnings per share</u>	<u><b>42,112</b></u>	<u>32,419</u>
	<b>Number</b>	Number
	<b>of shares</b>	of shares
Weighted average number of shares for the purposes of basic earnings per share	<b>3,939,536,870</b>	3,216,077,966
Effect of dilutive potential shares:		
Convertible note payable	–	723,458,904
<u>Weighted average number of shares for the purposes of diluted earnings per share</u>	<u><b>3,939,536,870</b></u>	<u>3,939,536,870</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

## 13. 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 2004	100,728	3,856	22,805	2,729	14,338	7,707	2,652	154,815
Additions	700	378	1,922	-	944	1,322	618	5,884
Disposals	-	-	-	-	-	-	(474)	(474)
<b>At 31 December 2004</b>	<b>101,428</b>	<b>4,234</b>	<b>24,727</b>	<b>2,729</b>	<b>15,282</b>	<b>9,029</b>	<b>2,796</b>	<b>160,225</b>
<b>DEPRECIATION AND AMORTISATION</b>								
At 1 January 2004	4,345	2,717	15,141	657	7,000	4,261	1,943	36,064
Provided for the year	2,189	372	1,939	273	1,327	1,001	542	7,643
Eliminated on disposals	-	-	-	-	-	-	(474)	(474)
<b>At 31 December 2004</b>	<b>6,534</b>	<b>3,089</b>	<b>17,080</b>	<b>930</b>	<b>8,327</b>	<b>5,262</b>	<b>2,011</b>	<b>43,233</b>
NET BOOK VALUES								
<b>At 31 December 2004</b>	<b>94,894</b>	<b>1,145</b>	<b>7,647</b>	<b>1,799</b>	<b>6,955</b>	<b>3,767</b>	<b>785</b>	<b>116,992</b>
At 31 December 2003	96,383	1,139	7,664	2,072	7,338	3,446	709	118,751

The net book value of leasehold properties shown above comprises:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Properties held on long lease in Hong Kong	<b>698</b>	-
Properties held on medium term lease in Hong Kong	<b>24,160</b>	24,689
	<b>24,858</b>	24,689
Properties held on medium term lease in the PRC	<b>70,036</b>	71,694
	<b>94,894</b>	96,383

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 14. INTEREST IN PROPERTIES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Expenditure incurred, at cost	<b>10,701</b>	10,701
Accumulated amortisation	<b>(1,906)</b>	(1,736)
	<b>8,795</b>	8,965
Less: Impairment loss recognised	<b>(2,347)</b>	(2,347)
	<b>6,448</b>	6,618

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.

### 15. OTHER INVESTMENTS

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Equity securities:		
Listed shares	<b>76,203</b>	—
Debt security:		
Listed	<b>8,023</b>	—
Total:		
Listed in Hong Kong	<b>65,731</b>	—
Listed in overseas	<b>18,495</b>	—
	<b>84,226</b>	—
Market value of listed securities	<b>84,226</b>	—

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 16. CONVERTIBLE NOTE RECEIVABLES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Unlisted debt securities, at cost	<b>16,000</b>	42,500
Analysed as:		
Current	–	10,500
Non-current	<b>16,000</b>	32,000
	<b>16,000</b>	42,500

During the year ended 31 December 2004, a convertible note receivable of HK\$10,500,000 was redeemed and a convertible note receivable of HK\$32,000,000 was converted into 26.67 million shares of a company listed on the Stock Exchange at a conversion price of HK\$1.20 per share.

At 31 December 2004, the Group held another convertible note of HK\$16,000,000 which was issued by a company with its shares listed on the Stock Exchange. The convertible note bears interest rate at 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 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.

In the opinion of the directors, the above convertible note is worth at least its carrying value.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 17. CLUB MEMBERSHIP

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
<b>COST</b>		
At 1 January	<b>780</b>	620
Addition	<b>–</b>	160
At 31 December	<b>780</b>	780
<b>AMORTISATION</b>		
At 1 January	<b>(538)</b>	(351)
Provided for the year	<b>(207)</b>	(187)
At 31 December	<b>(745)</b>	(538)
<b>NET BOOK VALUE</b>		
At 31 December	<b>35</b>	242

### 18. INVESTMENT IN SUBSIDIARIES

	<b>THE COMPANY</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	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.

Amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the Company's subsidiaries are set out in note 31.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 19. INVENTORIES

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

All inventories were carried at cost at the balance sheet date.

### 20. TRADE AND OTHER RECEIVABLES

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	<i>HK\$'000</i>
Trade receivables	<b>28,501</b>	34,283
Loan receivable	<b>1,000</b>	77,900
Other receivables	<b>4,870</b>	39,921
	<b>34,371</b>	152,104

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, 2004

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

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>13,987</b>	15,682
31 to 60 days	<b>10,453</b>	9,049
Over 60 days	<b>4,061</b>	9,552
	<b>28,501</b>	34,283
Loan receivables comprised:		
– interest bearing at 2% per annum over and above the prime lending rate per annum	<b>1,000</b>	–
– interest bearing at 4% per annum	–	77,900
	<b>1,000</b>	77,900

The loan receivables at the balance sheet date are unsecured but are guaranteed by directors of the borrowers and repayable at a lump sum together with accrued interest within one year.

### 21. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$23,157,000 (2003: HK\$17,207,000). The ageing analysis of trade payables at the balance sheet date is as follows:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
0 to 30 days	<b>9,456</b>	8,198
31 to 60 days	<b>7,183</b>	5,121
Over 60 days	<b>6,518</b>	3,888
	<b>23,157</b>	17,207

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 22. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the current and prior reporting periods:

	<b>Accelerated tax depreciation</b>	<b>Prepaid expenses</b>	<b>Tax losses</b>	<b>Total</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2003	480	61	–	541
Charge (credit) for the year	303	(61)	–	242
At 31 December 2003 and 1 January 2004	783	–	–	783
Charge (credit) for the year	2,226	–	(164)	2,062
<b>At 31 December 2004</b>	<b>3,009</b>	<b>–</b>	<b>(164)</b>	<b>2,845</b>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with SSAP 12 (Revised).

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

### 23. SHARE CAPITAL

	<b>Number of shares</b>	<b>Amount</b>
	<i>'000</i>	<i>HK\$'000</i>
Shares of HK\$0.01 each		
<b>Authorised share capital:</b>		
At 1 January 2003, 31 December 2003 and 31 December 2004	10,000,000	100,000
<b>Issued and fully paid:</b>		
At 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
At 31 December 2003 and 31 December 2004	3,939,537	39,395

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 31 December, 2004*

### 23. SHARE CAPITAL (continued)

Shares of HK\$0.01 each were allotted and issued at a price of HK\$0.096 per share as a result of 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.

### 24. SHARE OPTION SCHEME

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 2004 and 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 24. SHARE OPTION SCHEME (continued)

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.

### 25. RESERVES

#### THE GROUP

The surplus account represents the aggregate of reserves other than accumulated profits of the subsidiaries 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 HK\$'000	Contributed surplus HK\$'000	Accumulated profits HK\$'000	Dividend reserve HK\$'000	Total HK\$'000
<b>THE COMPANY</b>					
At 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	-
At 31 December 2003 and 1 January 2004	199,901	158,331	63,892	13,788	435,912
Net profit for the year	-	-	35,310	-	35,310
Dividend paid	-	-	-	(13,788)	(13,788)
Declaration of 2004 final dividend	-	-	(15,758)	15,758	-
<b>At 31 December 2004</b>	<b>199,901</b>	<b>158,331</b>	<b>83,444</b>	<b>15,758</b>	<b>457,434</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 25. RESERVES (continued)

#### THE GROUP (continued)

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

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

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

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

	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Accumulated profits	<b>83,444</b>	63,892
Dividend reserve	<b>15,758</b>	13,788
Contributed surplus	<b>158,331</b>	158,331
	<b>257,533</b>	236,011

### 26. PLEDGE OF ASSETS

At 31 December 2004, the Group pledged its leasehold properties with an aggregate carrying value of approximately HK\$6,537,000 (2003: HK\$6,695,000) as securities for general banking facilities granted to the Group.

The Company had not pledged any of its assets at 31 December 2004 and 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 27. OPERATING LEASE COMMITMENTS

#### The Group as leasee

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:

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Within one year	<b>322</b>	417

Operating lease payments represent rental payable by the Group for certain of its manufacturing 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 2004 and 2003.

### 28. MAJOR NON-CASH TRANSACTIONS

During the year, the Group's convertible note receivable of HK\$32,000,000 was converted into 26.67 million shares of a company listed on the Stock Exchange at a conversion price of HK\$1.20 per share.

### 29. CONTINGENT LIABILITIES

#### THE COMPANY

At 31 December 2004, the Company executed guarantees amounting to HK\$20,000,000 (2003: HK\$20,000,000) to banks as securities for banking facilities granted to its subsidiaries. The banking facilities were not utilised at 31 December 2004 and 2003.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

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

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

	<b>THE GROUP</b>	
	<b>2004</b>	2003
	<b>HK\$'000</b>	HK\$'000
Gross retirement benefit scheme contributions	<b>719</b>	697
<i>Less:</i> Forfeited contributions utilised to offset contributions	<b>(17)</b>	(30)
Net retirement benefit scheme contributions	<b>702</b>	667

At 31 December 2004 and 2003, there were no forfeited contributions outstanding in the forfeiture accounts which were available to offset future employers' contributions to the scheme.

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 31. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at 31 December 2004 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
Ensure Success Holdings 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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December, 2004

### 31. 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 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
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	Inactive
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/ Hong Kong	Ordinary US\$50,000	Investment holding

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

Notes:

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

None of the subsidiaries had issued any debt securities at 31 December 2004 or at any time during the year.

### 32. POST BALANCE SHEET EVENT

Subsequent to 31 December 2004, the Group conditionally agreed to purchase 60% issued share capital of Hoi Tin Universal Limited ("Hoi Tin") at a consideration of HK\$36,000,000. Hoi Tin and its subsidiaries are engaged in the business of the design, manufacture and sales of soft luggage, travel bags, back packs and brief cases. Details of the above are set out in the announcement dated 30 March 2005 issued by the Company.