

YUGANG

YUGANG INTERNATIONAL LIMITED



A N N U A L R E P O R T 2 0 0 3

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Corporate Information

EXECUTIVE DIRECTORS

Cheung Chung Kiu
(Chairman and Managing Director)
Yuen Wing Shing
Zhang Qing Xin
Lam Hiu Lo
Liang Kang

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Ka Sze, Carmelo
Wong Wai Kwong, David

SECRETARY

Albert T. da Rosa, Jr.

AUDITORS

Ernst & Young

BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Bank of China (Hong Kong) Limited
Standard Chartered Bank

SOLICITORS

Cheung, Tong & Rosa

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

The Bank of Bermuda Limited
6 Front Street
Hamilton HM11
Bermuda

SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG

Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
Church Street
Hamilton HM11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Rooms 3301-3307
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Chairman's Statement & Management Discussion and Analysis

BUSINESS REVIEW

The Group's net profit attributable to shareholders for the year was HK\$107.3 million as compared to a net loss of HK\$151.4 million (as restated) in 2002. The Group's turnover for the year was HK\$205.2 million, a decrease of 15.5% from last year due to the remaining sluggish demand for automobile parts and a decline in average selling price of packaging products.

2003 was a difficult, challenging and exciting year for the Hong Kong economy. Local economy was initially clouded with various uncertainties such as global political and general economic uncertainties during the first half of the year. The outbreak of Severe Acute Respiratory Syndrome ("SARS") in mid-March 2003 further pushed the local economy and market confidence to the bottom. However, the local economy strongly rebounded in an accelerated pace during the second half of the year. Business confidence and market sentiment has gradually been restored after gradual relaxation of a number of policies for the economic development of Hong Kong by the central government of the PRC such as the conclusion of the Closer Economic Partnership Arrangement (CEPA) and the relaxation of travel restriction for individual travelers from the mainland.

Packaging Business carried on by Qualipak International Holdings Ltd ("Qualipak")

The sale of packaging products of Qualipak for the year was HK\$191.9 million, representing a decrease of 12.3% from last year. The performance of packaging business was hindered by the downward pressure on the average selling price even an overall increase of 23% in sales volume in piece and a shift of product mix to the higher end packaging products in the second half of the year. However, the average selling price erosion can be reduced by superior quality and service both before and after sales.

In view of dynamic environment, Qualipak has persistently taken control over the manufacturing costs and proactively managed the cost of raw material by broadening the source of supply. The net profit after tax of Qualipak for the year was HK\$28.9 million, representing an increase of 16.5% from last year.

Property Investment Business carried on by Y.T Realty Group Ltd ("Y.T Realty")

The major investment properties held by Y.T Realty include whole block of commercial buildings of Century Square and Prestige Tower situated in the core of Central District and Tsimshatsui respectively and the 2nd Floor of New Mandarin Plaza situated in Tsimshatsui etc.

The gross rental income of Y.T Realty for the year was HK\$87.8 million, 20.7% decrease from last year as a result of the overall decline in rental value of the properties. The net profit after tax of Y.T Realty was HK\$28.4 million for the year as compared to a net profit of HK\$23.3 million (as restated) in 2002.

Chairman's Statement & Management Discussion and Analysis

BUSINESS REVIEW *(continued)*

Property Investment Business carried on by Y.T Realty Group Ltd ("Y.T Realty") *(continued)*

The performance of the Group's property investment business gradually showed a strong sign of improvement in the third quarter of 2003. Along with an improved market sentiment, a number of leasing deals including some key retail premises were successfully concluded with satisfactory rental upward adjustments. Overall, despite the market was quite volatile during the year, Y.T Realty has still been able to achieve higher occupancy rate of its commercial buildings at around 93%. Nevertheless, favorable locations of the buildings, proactive leasing approach and dedicated management services are, amongst other things, main contributors to such stable leasing results.

Infrastructure Business carried on by Cross-Harbour (Holdings) Ltd ("Cross Harbour")

The Group has an indirect interest in an infrastructure business that is currently carried on by Cross Harbour, a listed company in Hong Kong. Cross Harbour reported a net profit of HK\$87.2 million for the year, representing an increase of 41.3% from last year.

During the year, Cross Harbour has recorded an encouraging performance in the operating result given the outbreak of SARS. It was attributable to the effect of persistently low interest rate environment, bumper bank liquidity and the recent booming of local stock market that alleviated the pressure of provision for impairment loss on certain investment securities for the year.

As the infrastructure business was able to generate a stable stream of income, it definitely continues to make profit contribution to the Group in the near future.

PROSPECT

As US and Europe economies gradually improves, the Group will capture the improved market conditions to further develop a new line of non-luxury gift packaging products. Expanding product range to cover a wider spectrum of customers, maintaining a track record of quality assurance and ensuring services of the highest quality to customers will continue to be, amongst other things, the major determinant for the success of the packaging business.

The property investment business will strive to maintain a high level of occupancy rate and reduce vacancy in buildings in order to ensure a strong recurrent income position and stable returns for the property investment. At the strategic level, our aim is to pursue more diversified investment opportunities with stable growth and yields to supplement our core business in property investment. We are optimistic that under the improved market condition and moderate recovery of economy, we can sustain the business growth and enhance the asset value of the Group.

The above particular three segments of the Group with proven record of stable operating result have definitely been recognized as a solid contribution to the Group's income and asset base. Obviously, this was a result of successful implementation of diversification strategies of the Group that persistently maintained over years. In light of gradual increase in the contribution to the operating profit of the Group for the above three segments, the Group has exercised a restructuring accordingly to cope with the changes.

Chairman's Statement & Management Discussion and Analysis

PROSPECT *(continued)*

Looking ahead, the Group will continue to explore any business opportunities in strategic acquisition of equity interests in Hong Kong or abroad. I am confident that we have a clear focus as well as sound financial and management capabilities to face any future challenges as well as opportunities.

FINANCIAL REVIEW

During the year, the Group recorded a net profit attributable to shareholders of HK\$107.3 million. It was mainly attributable to an exceptional unrealized gain on securities investment of HK\$91.1 million as a result of drastic booming of local stock market from the second half of the year. Excluding the unrealized gain on securities investment, the Group's net profit was about HK\$16.2 million for the year.

The other revenue and gains was increased by HK\$31.1 million to HK\$72 million mainly as a result of a gain of HK\$25.7 million being the recognition of warrant subscription reserve as income upon expiry of warrants during the year.

With successful implementation of cost control, the selling and general & administrative expenses for the year were decreased by 10.5%. Finance cost was further reduced by HK\$6.9 million, about 56.4% lower than last year due to the full redemption of convertible note borrowing of HK\$219.7 million due September 2002.

As at 31 December 2003, the Group's net asset value was HK\$1,799.4 million and had a net asset value per share of HK\$0.21. The Group's total asset and liabilities (excluding minority interest of HK\$158.6 million) were HK\$2,259.9 million and HK\$301.9 million respectively.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's cash and cash equivalent was HK\$523 million and there were sufficient unutilized lines of credit available from financial institutions. The gearing ratio, consistently defined as long-term liabilities to shareholders' fund, was calculated as 0.04%. The Group has a working capital ratio of approximately 4.7. All of these have indicated the working capital is far adequate enough to support the operations of the Group.

As at 31 December 2003, the Group had a bank borrowing of HK\$80 million and an outstanding debt of convertible note of HK\$100 million. The Group had no contingent liabilities.

Whilst sales of the Group mainly denominated in Hong Kong dollars and US dollars, purchases of raw materials are majority in Hong Kong dollars. Most bank deposits are maintained in Hong Kong dollars and US dollars. Hence, the Group's exposure to foreign exchange risk is minimal.

Chairman's Statement & Management Discussion and Analysis

CAPITAL STRUCTURE

The Company also issued a convertible note of principal amount of HK\$100,000,000 with maturity date on 31 July 2004. The convertible note can be converted into ordinary shares at a conversion price of HK\$0.10 per share during the period from 31 July 2001 to 31 July 2002, HK\$0.11 per share for the period from 1 August 2002 to 31 July 2003 and HK\$0.12 per share for the period from 1 August 2003 to 31 July 2004, subject to adjustment. The total number of shares of the convertible note will change with the change of conversion price of the convertible note from year to year. There was no exercise of the convertible note during the year.

On 18 July 2001, the Company issued 1,312,586,000 warrants through a private placement at an issue price of HK\$0.02 per warrant. The net proceeds from the placing of warrants were approximately HK\$25.7 million. No subscription right was exercised by the warrant holders up to the expiry date of the warrants on 18 July 2003, and accordingly the subscription rights attaching to these warrants lapsed and the warrants ceased to be valid thereafter.

All of the above proceeds were mainly used as working capital for the Group and to further diversify the Company's business.

PLEDGE OF ASSETS

As at 31 December 2003, the Group pledged its leasehold properties and investment property with an aggregate carrying value of approximately HK\$77,770,000 and time deposits of approximately HK\$8,060,000 as security for general banking facilities granted to the Group.

EMPLOYEES

As at 31 December 2003, the Group employed approximately a total of 88 employees in Hong Kong and a workforce of 3,447 in the PRC.

Staff remuneration is reviewed by the Group from time to time and increases are granted normally annually or by special adjustment depending on length of service and performance where warranted. In addition to salaries, the Group provides staff benefits including medical insurance, contributions to staff's provident fund and discretionary training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

SIGNIFICANT INVESTMENTS

On 18 June 2003, the Company's investment in convertible note of Qualipak International Holdings Ltd ("Qualipak"), a subsidiary of the Company whose shares are listed on the main board of stock exchange in Hong Kong, with a principal amount of HK\$150,000,000 was due for redemption. The Company then exercised the conversion rights entitled to subscribe for 1,562,500,000 shares in Qualipak. The shareholding interest in Qualipak was subsequently increased to 69.87%.

Chairman's Statement & Management Discussion and Analysis

SIGNIFICANT INVESTMENTS *(continued)*

As at 31 December 2003, the Group maintained its investment in equity interest of an associate company, Y.T Realty Group Ltd ("Y.T Realty"), a company listed in Hong Kong Stock Exchange with a carrying value of HK\$623.5 million. The net profit attributable to shareholders of Y.T Realty for the year was HK\$28.4 million.

FINAL DIVIDEND

The Board of Directors has resolved to recommend the payment of a final dividend of HK\$0.002 per share for the year ended 31 December 2003. Subject to the approval of shareholders at the forthcoming annual general meeting to be held on 6 May 2004, it is expected that the final dividend will be paid on 13 May 2004 to shareholders registered on 6 May 2004. No interim dividend was paid during the year. In respect of the preceding year, no interim and final dividend was declared.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Tuesday, 4 May 2004 to Thursday, 6 May 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's branch registrar, Tengis Limited at Ground Floor, Bank of East Asia, Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 3 May 2004.

PURCHASE, SALE & REDEMPTION OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

APPRECIATION

On behalf of the Board of Directors, I would like to extend our gratitude and sincere appreciation to all management and staff members for their hard work and dedication throughout the year.

By order of the Board

Cheung Chung Kiu

Chairman

Hong Kong, 26 March 2004

Report of the Directors

The directors present their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2003.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries, jointly-controlled entity and principal associates are set out in notes 18, 19 and 20 to the financial statements, respectively.

There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2003 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 67.

The directors recommend the payment of a final dividend of HK\$0.002 per ordinary share in respect of the year, to shareholders on the register of members on 6 May 2004. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the capital and reserves section of the balance sheet.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activity and turnover by geographical area of operations for the year ended 31 December 2003 is set out in note 4 to the financial statements.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 68. This summary does not form part of the audited financial statements.

FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Group are set out in notes 15 and 16 to the financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's principal subsidiaries are set out in note 18 to the financial statements.

Report of the Directors

JOINTLY-CONTROLLED ENTITY AND ASSOCIATES

Particulars of the Group's interests in its jointly-controlled entity and principal associates are set out in notes 19 and 20 to the financial statements, respectively.

CONVERTIBLE NOTES

Details of the Company's convertible notes are set out in note 28 to the financial statements.

SHARE CAPITAL, SHARE OPTIONS AND WARRANTS

Details of the Company's share capital and share options and the movements in the Company's warrants during the year are set out in note 30 to the financial statements.

There are no provisions for pre-emptive rights under the laws of Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 31 to the financial statements and in the consolidated statement of changes in equity, respectively.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$50,000.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors:

Cheung Chung Kiu

Yuen Wing Shing

Zhang Qing Xin

Lam Hiu Lo

Liang Kang

Chu Chow Wai (alternative director to Cheung Chung Kiu)

Report of the Directors

DIRECTORS *(continued)*

Independent non-executive directors:

Wong Wai Kwong, David

Lee Ka Sze, Carmelo

In accordance with bye-law 87 of the bye-laws of the Company, Yuen Wing Shing and Liang Kang will retire by rotation and, being eligible, will offer themselves for re-election as executive directors of the Company at the forthcoming annual general meeting.

Wong Wai Kwong, David and Lee Ka Sze, Carmelo, being re-elected as independent non-executive directors on 26 May 2003, hold such office only until the forthcoming annual general meeting and, being eligible, will offer themselves for re-election as independent non-executive directors.

EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Details of the directors' emoluments and those of the five highest paid individuals in the Group are set out in notes 9 to 10 to the financial statements, respectively.

DIRECTORS' SERVICE CONTRACTS

On 19 October 1993, Cheung Chung Kiu entered into a service contract with the Company for an initial term of three years commencing on 1 June 1993, which has continued thereafter until terminated by either party giving to the other not less than three months' notice in writing.

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation other than statutory compensation.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As at 31 December 2003, the interests and short positions of the directors and chief executives and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in the Company's ordinary shares:

Name of director	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Cheung Chung Kiu	Corporate (note 1)	3,194,434,684	37.79%
	Personal	53,320,000	0.63%
Zhang Qing Xin	Personal	13,600,000	0.16%
Lam Hiu Lo	Personal	41,800,000	0.49%
Liang Kang	Personal	<u>34,664,000</u>	0.41%

(ii) Long position in the Company's convertible note:

Name of director	Convertible note held HK\$	Number of underlying shares held	Capacity and nature of interest	Percentage of issued share capital
Cheung Chung Kiu	<u>100,000,000</u>	<u>833,333,333</u>	Corporate (note 2)	9.86%

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

(iii) Long positions in shares and underlying shares of associated corporations:

Name of director	Name of associated corporation	Relationship with the Company	Shares/ equity derivatives	Number of shares held	Capacity and nature of interest	Percentage of associated corporation's issued share capital
Cheung Chung Kiu	Qualipak International Holdings Limited	Company's subsidiary	Ordinary shares	2,752,396,360	Corporate <i>(note 3)</i>	69.87%
	Y.T. Realty Group Limited	Company's associate	Ordinary shares	273,000,000	Corporate <i>(note 4)</i>	34.25%
Lee Ka Sze, Carmelo	Qualipak International Holdings Limited	Company's subsidiary	Ordinary shares	1,000,000	Family	0.03%

Notes:

- (1) The voting rights of these shares are exercisable by Chongqing Industrial Limited. Mr. Cheung Chung Kiu, Peking Palace Limited, Miraculous Services Limited and Prize Winner Limited have a 35%, 30%, 5% and 30% equity interest in Chongqing Industrial Limited, respectively.

Peking Palace Limited and Miraculous Services Limited are beneficially owned by Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Prize Winner Limited is beneficially owned by Mr. Cheung Chung Kiu and his associates.

- (2) The convertible note was held by Timmex Investment Ltd., in which Mr. Cheung Chung Kiu has a beneficial interest of 100%. Pursuant to the terms of the convertible notes, the number of underlying shares that might be converted under the convertible note was 833,333,333. The aggregate percentage of interests in ordinary shares and underlying shares of Mr. Cheung Chung Kiu is 48.28%.

- (3) The 2,752,396,360 shares were held by Regulator Holdings Limited ("Regulator") as to 2,626,108,360 shares and Bookman Properties Limited ("Bookman") as to 126,288,000 shares. Regulator and Bookman are indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Report of the Directors

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITION IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS *(continued)*

Notes: *(continued)*

- (4) The 273,000,000 shares were held by Funrise Limited ("Funrise") and Funrise is indirectly controlled by Palin Holdings Limited as trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

In addition to the above, certain directors have non-beneficial personal interests in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

The interests of the directors in the share options of the Company are separately disclosed in note 30 to the financial statements.

Save as disclosed above, none of the directors and chief executive or their associates had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations" above, and in the share option scheme disclosures in note 30 to the financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Apart from the transactions set out in note 37 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance in relation to the business of the Company and its subsidiaries to which the Company or any of its subsidiaries was a party during the year.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at the balance sheet date, the following interests of 5% or more of the issued share capital and the underlying shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares/ underlying shares held	Percentage of the Company's issued share capital
Timmex Investment Limited	1	Corporate	833,333,333	9.86%
Chongqing Industrial Limited	2	Corporate	3,194,434,684	37.79%
Palin Holdings Limited	3	Trustee of a Family Trust	<u>3,194,434,684</u>	37.79%

Notes:

- (1) The interest represents the shares issuable upon the exercise of the conversion right attaching to the convertible note of HK\$100,000,000 that is held by Timmex Investment Limited, in which Mr. Cheung Chung Kiu has a beneficial interest of 100%.
- (2) The voting rights of these shares are exercisable by Chongqing Industrial Limited which is controlled by Mr. Cheung Chung Kiu.
- (3) Palin Holdings Limited is a trustee for the Palin Discretionary Trust, a family discretionary trust, the objects of which include Mr. Cheung Chung Kiu and his family.

Save as disclosed above, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' and chief executive's interests and short position in the shares, underlying shares and debentures of the Company and its associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

DISTRIBUTABLE RESERVES

As at 31 December 2003, the Company's reserves available for cash distribution and/or distribution in specie amounted to HK\$860,237,000, of which HK\$16,907,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account in the amount of HK\$840,629,000 may be distributed in the form of fully paid bonus shares.

Report of the Directors

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 30% of the total sales for the year and sales to the largest customer included therein amounted to 7%.

Purchases from the Group's five largest suppliers accounted for 28% of the total purchases for the year and purchases from the largest supplier included therein amounted to 11%.

As far as the directors are aware, neither the directors of the Company, their associates, nor any shareholders which, to the knowledge of the directors, own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers.

LIQUIDITY AND CAPITAL RESOURCES

As at the balance sheet date, the Group's net current assets amounted to approximately HK\$1,101 million with a current ratio of 4.7. The cash and cash equivalents of the Group decreased from approximately HK\$595 million to HK\$523 million during the year.

The Group had short term banking facilities of approximately HK\$238 million as at 31 December 2003. The Group has an outstanding bank loans of HK\$80 million as at the balance sheet date.

CONNECTED TRANSACTIONS

On 9 May 2000, Faircom Limited ("Faircom"), a wholly-owned subsidiary of the Company, entered into a convertible note subscription agreement with Qualipak International Holdings Limited ("Qualipak"), a subsidiary of the Company listed on the Stock Exchange, in relation to the subscription by Faircom for a convertible note of Qualipak amounting to HK\$150,000,000. The convertible note is repayable on 21 June 2003 (the "Maturity Date") and bears interest at 5% per annum. The reason for the above subscription is to provide funds for the general working capital purposes and further investments by Qualipak. During the year, Faircom received interest on the convertible note of approximately HK\$3,496,149 (2002: HK\$7,594,000). The conversion rights attaching to the note were exercised to convert them in full into 1,562,500,000 shares of Qualipak at a price of HK\$0.096 per share in June 2003. Accordingly, the Group's aggregate equity holding percentage in Qualipak increased from 50.06% to 69.87%. Subsequent to the balance sheet date, on 12 January and 18 February 2004, the Group disposed in aggregate of 400,000,000 shares in Qualipak to independent third parties at a price of HK\$0.17 each. Immediately after these transactions, the shareholding of the Company in Qualipak dropped from 69.87% to 59.71%.

The Group has entered into a sub-tenancy agreement for the premises situated at Rooms 3301-3307, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, with Chongqing Industrial Limited ("CQ"), being a substantial shareholder of the Company for the year. The monthly rental and other charges for the sub-tenancy is HK\$77,869 and a security deposit of HK\$155,738 was paid to CQ. Total rent and other charges paid for the year was approximately HK\$934,428.

Report of the Directors

CONNECTED TRANSACTIONS *(continued)*

On 18 June 2001, the Company entered into an agreement with Timmex Investment Ltd. ("Timmex") in relation to the subscription by Timmex for an interest-bearing convertible note amounting to HK\$100,000,000 (the "Note"). Timmex is 100% beneficially owned by 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 the date of its issue for a period of three years, at a conversion price of HK\$0.10 per share in the first year, HK\$0.11 per share in the second year and HK\$0.12 per share in the third year, subject to adjustment. The Note will mature for principal repayment on 31 July 2004. Interest on the Note is accrued from the date of issue on a day-to-day basis at 5% per annum on the principal amount of the Note and is payable annually in arrears. During the year, interest expense paid to Timmex amounted to HK\$5,000,000 (2002: HK\$5,000,000).

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not or was not in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules of the Stock Exchange for any part of the year covered by the annual report.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

AUDITORS

Ernst & Young retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf of The Board

Cheung Chung Kiu

Chairman

Hong Kong

26 March 2004

Profiles of Directors and Senior Management

EXECUTIVE DIRECTORS

Cheung Chung Kiu, aged 39, was appointed Chairman and Managing Director of the Company in 1993. Mr. Cheung was born and educated in Chongqing, the PRC. He set up Chongqing Industrial Limited in 1985, a company mainly engaged in the trading business in the PRC. He is the founder of the Group, the chairman of Y. T. Realty Group Limited ("Y. T.") and The Cross-Harbour (Holdings) Limited ("Cross-Harbour"), and executive director of Qualipak International Holdings Limited ("Qualipak") and Silver Grant International Industries Limited ("Silver Grant"). All of the above companies are publicly listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He is also director of such other companies disclosed in the section headed "Substantial Shareholders" in the Report of the Directors. Mr. Cheung is the son of Mr. Zhang Qing Xin, another Director of the Company.

Yuen Wing Shing, aged 57, was appointed Executive Director of the Company in June 1993 and is responsible for the Group's administration and business operations. Mr. Yuen holds a diploma in management studies from The Hong Kong Polytechnic University. Prior to joining the Company, he had held senior management positions with a major bank in Hong Kong for over 20 years. He is also executive director of Y. T., Cross-Harbour and Silver Grant.

Zhang Qing Xin, aged 67, was appointed Executive Director of the Company in 1995 and is the economist of the Group. Mr. Zhang has over 20 years of experience in import and export trade. Prior to joining the Company, he had been Deputy General Manager of a foreign trade enterprise for more than 10 years. Mr. Zhang is the father of Mr. Cheung Chung Kiu, the Chairman of the Company.

Lam Hiu Lo, aged 42, was appointed Executive Director of the Company in 1993 and is responsible mainly for the sales and marketing of the Group's automobile parts and raw material. Prior to joining the Company, he had over 15 years of experience in trading with PRC parties. He is also executive director of Qualipak.

Liang Kang, aged 61, was appointed Executive Director of the Company in 1995 and is responsible mainly for the sales and marketing of the Group's raw material and agricultural products. Mr. Liang holds a Master of Business Administration degree from European University of Ireland. Prior to joining the Company, he had been engaged in the trading business in the PRC for 15 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Lee Ka Sze, Carmelo, aged 43, was appointed Independent Non-executive Director of the Company in 1993. Mr. Lee graduated from The University of Hong Kong with a Bachelor of Laws degree. He has been a practising solicitor in Hong Kong since 1985 and a partner of Messrs. Woo, Kwan, Lee & Lo since 1989. He was member of the listing committee of the main board of the Stock Exchange from 2000 to 2003 and is non-executive director of 10 other companies listed on the Stock Exchange including Y. T. and Cross-Harbour.

Profiles of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS *(continued)*

Wong Wai Kwong, David, aged 46, was appointed Independent Non-executive Director of the Company in 1993. Mr. Wong is a fellow of The Association of Chartered Certified Accountants, and an associate of the Hong Kong Society of Accountants. He has over 20 years of experience in finance, accounting, corporate and taxation affairs. He is non-executive director of 7 other companies listed on the Stock Exchange, including Y. T. and Cross-Harbour, and director of International Taxation Advisory Services Limited.

SENIOR MANAGEMENT

Hong Kong Office

Leung Wai Fai, aged 42, joined the Company in 1993 and is the Group Financial Controller. Mr. Leung graduated from University of Wisconsin - Madison, USA, with a Bachelor of Business Administration degree. He is a fellow of both The Association of Chartered Certified Accountants and the Hong Kong Society of Accountants. He is executive director of Qualipak and Cross-Harbour.

Wong Ka Tai, aged 37, joined the Company in 2000 and is Senior Finance and Accounting Manager. Mr. Wong graduated from Hong Kong Baptist University with a Bachelor of Business Administration degree in finance and holds a Master of Corporate Finance degree from The Hong Kong Polytechnic University. He is a fellow of The Association of Chartered Certified Accountants and an associate of the Hong Kong Society of Accountants. Prior to joining the Company, he had worked with a sizeable publicly listed company as chief accountant and an international accounting firm for over 7 years.

PRC Offices

Tsang Kuk, aged 33, joined the Company in 1993 is the head of the Company's sales office in Shenzhen. Mr. Tsang has over 10 years experience in China trading. He permanently stays in China and is responsible mainly for the Group's business planning and development in the coastal area of Mainland China.

Wong Sze Chak, aged 41, joined the Company in 1993 is the head of the Company's sales office in Chengdu. Mr. Wong has over 10 years experience in China trading. He permanently stays in China and is responsible for the Group's business planning and development in the interior region of Mainland China.

Report of the Auditors



To the members

Yugang International Limited

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 20 to 67 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2004

Consolidated Profit and Loss Account

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
TURNOVER	5	205,166	242,836
Cost of sales		<u>(154,741)</u>	<u>(182,427)</u>
Gross profit		50,425	60,409
Other revenue and gains	5	71,997	40,906
Selling and distribution costs		(7,039)	(6,354)
Administrative expenses		(73,005)	(83,059)
Other operating income/(expenses), net	6	<u>65,567</u>	<u>(133,524)</u>
PROFIT/(LOSS) FROM OPERATING ACTIVITIES	7	107,945	(121,622)
Finance costs	8	(5,313)	(12,199)
Share of profits and losses of:			
A jointly-controlled entity		1,215	(5,325)
Associates		<u>22,934</u>	<u>6,751</u>
PROFIT/(LOSS) BEFORE TAX		126,781	(132,395)
Tax	11	<u>(9,323)</u>	<u>(5,668)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS		117,458	(138,063)
Minority interests		<u>(10,191)</u>	<u>(13,305)</u>
NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	12	<u><u>107,267</u></u>	<u><u>(151,368)</u></u>
DIVIDEND	13	<u><u>16,907</u></u>	<u><u>—</u></u>
EARNINGS/(LOSS) PER SHARE	14		
Basic		<u><u>HK1.27 cents</u></u>	<u><u>HK(1.79) cents</u></u>
Diluted		<u><u>HK1.19 cents</u></u>	<u><u>N/A</u></u>

Consolidated Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT ASSETS			
Fixed assets	15	218,336	234,656
Investment properties	16	6,600	5,500
Negative goodwill	17	(60,233)	(42,918)
Interest in a jointly-controlled entity	19	5,304	4,660
Interests in associates	20	623,518	608,848
Unlisted investments		8,265	8,110
Convertible debentures and notes	21	52,000	25,000
Loans receivable	23	4,000	—
Other investments	22	—	45,874
		857,790	889,730
CURRENT ASSETS			
Other investments	22	371,852	212,749
Convertible debentures and notes	21	10,500	53,000
Stocks	24	42,245	44,099
Tax recoverable		126	158
Loans receivable	23	364,962	212,520
Trade debtors	25	27,737	23,579
Other debtors, deposits and prepayments		52,557	67,388
Bills receivable		9,168	12,271
Pledged time deposits		8,060	8,044
Time deposits		402,176	539,048
Cash and bank balances		112,743	47,727
		1,402,126	1,220,583
CURRENT LIABILITIES			
Bills payable and trust receipt loans, secured		2,794	—
Trade creditors	26	17,720	15,016
Tax payable		69,167	66,886
Other payables		6,348	5,171
Accrued expenses		17,422	18,099
Customers' deposits received		7,711	8,845
Current portion of obligations under hire purchase contracts	27	—	9
Bank loan, unsecured		80,000	—
Convertible notes	28	100,000	—
		301,162	114,026
NET CURRENT ASSETS		1,100,964	1,106,557
TOTAL ASSETS LESS CURRENT LIABILITIES		1,958,754	1,996,287

Consolidated Balance Sheet (Continued)

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000 (Restated)
NON-CURRENT LIABILITIES			
Long term portion of obligations under hire purchase contracts	27	—	13
Convertible notes	28	—	100,000
Deferred tax	29	783	1,455
		<u>783</u>	<u>101,468</u>
MINORITY INTERESTS			
		<u>158,569</u>	<u>177,010</u>
		<u>1,799,402</u>	<u>1,717,809</u>
CAPITAL AND RESERVES			
Issued capital	30	84,533	84,533
Reserves	31	1,697,962	1,633,276
Proposed final dividend	13	16,907	—
		<u>1,799,402</u>	<u>1,717,809</u>

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2003

		Issued share capital	Share premium account	Contributed surplus	Warrant subscription reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2002:									
As previously reported		84,533	840,629	760,799	25,674	(419)	159,109	—	1,870,325
Prior year adjustment:									
SSAP 12 — restatement of deferred tax	20	—	—	—	—	—	(1,148)	—	(1,148)
As restated		84,533	840,629	760,799	25,674	(419)	157,961	—	1,869,177
Net loss for the year		—	—	—	—	—	(151,368)	—	(151,368)
At 31 December 2002		<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>25,674</u>	<u>(419)</u>	<u>6,593</u>	<u>—</u>	<u>1,717,809</u>
At 1 January 2003:									
As previously reported		84,533	840,629	760,799	25,674	(419)	7,689	—	1,718,905
Prior year adjustment:									
SSAP 12 — restatement of deferred tax	20	—	—	—	—	—	(1,096)	—	(1,096)
As restated		84,533	840,629	760,799	25,674	(419)	6,593	—	1,717,809
Expiry of warrants		—	—	—	(25,674)	—	—	—	(25,674)
Net profit for the year		—	—	—	—	—	107,267	—	107,267
Proposed final dividend	13	—	—	—	—	—	(16,907)	16,907	—
At 31 December 2003		<u>84,533</u>	<u>840,629*</u>	<u>760,799*</u>	<u>—*</u>	<u>(419)*</u>	<u>96,953*</u>	<u>16,907</u>	<u>1,799,402</u>
Retained by:									
Company and subsidiaries		84,533	840,629	760,799	—	—	65,430	16,907	1,768,298
Associates		—	—	—	—	(419)	36,087	—	35,668
A jointly-controlled entity		—	—	—	—	—	(4,564)	—	(4,564)
At 31 December 2003		<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>—</u>	<u>(419)</u>	<u>96,953</u>	<u>16,907</u>	<u>1,799,402</u>
Company and subsidiaries		84,533	840,629	760,799	25,674	—	(6,048)	—	1,705,587
Associates (Restated)		—	—	—	—	(419)	17,848	—	17,429
A jointly-controlled entity		—	—	—	—	—	(5,207)	—	(5,207)
At 31 December 2002									
(Restated)		<u>84,533</u>	<u>840,629</u>	<u>760,799</u>	<u>25,674</u>	<u>(419)</u>	<u>6,593</u>	<u>—</u>	<u>1,717,809</u>

* These reserve accounts comprise the consolidated reserves of HK\$1,697,962,000 (2002: HK\$1,633,276,000 (as restated)) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	32(a)	(19,995)	(24,180)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of fixed assets		(3,328)	(53,812)
Proceeds from disposal of fixed assets		189	21
Purchases of unlisted investments		(155)	—
Purchases of other investments		(185,214)	(45,398)
Proceeds from sale of other investments		145,887	28,931
Disposal of subsidiaries	32(b)	20,000	130,000
Granting of loans		(685,989)	(778,920)
Repayment of loans granted		529,547	866,350
Interest received		29,179	44,648
Dividend received from listed investments		1,002	1,399
Dividend received from an associate		4,094	5,460
Purchases of convertible debentures and notes		(55,000)	—
Proceeds from disposal of convertible debentures and notes		21,500	—
Proceeds from maturity of convertible note receivable		55,340	—
Net cash inflow/(outflow) from investing activities		(122,948)	198,679
CASH FLOWS FROM FINANCING ACTIVITIES			
Additions of bank loans		305,000	—
Repayment of bank loans		(225,000)	—
Proceeds from issue of shares by a subsidiary to its minority shareholders		—	11,026
Capital element of hire purchase rental payments		(22)	(12)
Interest paid		(5,306)	(15,771)
Interest element on hire purchase rental payments		(7)	(5)
Dividends paid to minority shareholders		(3,562)	(3,320)
Repayment of convertible notes		—	(219,700)
Net cash inflow/(outflow) from financing activities		71,103	(227,782)

Consolidated Cash Flow Statement *(Continued)*

Year ended 31 December 2003

	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(71,840)	(53,283)
Cash and cash equivalents at beginning of year	<u>594,819</u>	<u>648,102</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>522,979</u>	<u>594,819</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	112,743	47,727
Non-pledged time deposits with original maturity of less than three months when acquired	402,176	539,048
Time deposits with original maturity of less than three months when acquired, pledged as security for banking facilities	<u>8,060</u>	<u>8,044</u>
	<u>522,979</u>	<u>594,819</u>

Balance Sheet

31 December 2003

	Notes	2003 HK\$'000	2002 HK\$'000
NON-CURRENT ASSETS			
Interests in subsidiaries	18	<u>1,885,422</u>	<u>1,879,413</u>
CURRENT ASSETS			
Prepayments		<u>1,344</u>	<u>130</u>
Cash and bank balances		<u>1,939</u>	<u>2,454</u>
		<u>3,283</u>	<u>2,584</u>
CURRENT LIABILITIES			
Tax payable		<u>567</u>	<u>567</u>
Accrued expenses		<u>2,739</u>	<u>2,190</u>
Convertible notes	28	<u>100,000</u>	<u>—</u>
		<u>103,306</u>	<u>2,757</u>
NET CURRENT LIABILITIES		<u>(100,023)</u>	<u>(173)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,785,399</u>	<u>1,879,240</u>
NON-CURRENT LIABILITIES			
Convertible notes	28	<u>—</u>	<u>100,000</u>
		<u>1,785,399</u>	<u>1,779,240</u>
CAPITAL AND RESERVES			
Issued capital	30	<u>84,533</u>	<u>84,533</u>
Reserves	31	<u>1,683,959</u>	<u>1,694,707</u>
Proposed final dividend	13	<u>16,907</u>	<u>—</u>
		<u>1,785,399</u>	<u>1,779,240</u>

Cheung Chung Kiu
Director

Yuen Wing Shing
Director

Notes to Financial Statements

31 December 2003

1. CORPORATE INFORMATION

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

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

- (i) trading in automobile parts;
- (ii) property and other investments; and
- (iii) manufacture and sale of gift boxes, watch boxes and spectacles cases.

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

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

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

Measurement and recognition:

- deferred tax assets and liabilities relating to the differences between capital allowances for tax purposes and depreciation for financial reporting purposes and other taxable and deductible temporary differences are generally fully provided for, whereas previously the deferred tax was recognised for timing differences only to the extent that it was probable that the deferred tax asset or liability would crystallise in the foreseeable future; and
- a deferred tax asset has been recognised for tax losses arising in the current/prior periods to the extent that it is probable that there will be sufficient future taxable profits against which such losses can be utilised.

Disclosures:

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

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

Notes to Financial Statements

31 December 2003

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2003. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

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

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

Notes to Financial Statements

31 December 2003

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

Joint venture companies *(continued)*

A joint venture company is treated as:

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

Jointly-controlled entities

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

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

Associates

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

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

Notes to Financial Statements

31 December 2003

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

Negative goodwill

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

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

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

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

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

Related parties

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

Impairment of assets

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

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

Notes to Financial Statements

31 December 2003

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

Impairment of assets *(continued)*

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

Fixed assets and depreciation

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

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

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

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

Notes to Financial Statements

31 December 2003

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

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential, any rental income being negotiated at arm's length. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year, except where the unexpired term of the lease is 20 years or less, in which case depreciation is provided on the then carrying amount over the remaining term of the lease.

Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Assets under hire purchase contracts

Hire purchase contracts that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a hire purchase contract, the cost of the asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Such assets are included in fixed assets and are depreciated over the estimated useful lives of the assets. The finance costs of assets held under hire purchase contracts are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Unlisted investments

Unlisted investments represent club debentures, which are intended to be held for long term purposes and are stated at cost less any impairment losses.

Convertible debentures and notes

Convertible debentures and notes, which are intended to be held for long term purposes, are stated at cost less any impairment losses.

Notes to Financial Statements

31 December 2003

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

Other investments

Investments in listed securities which are held for the purpose of capital gain are classified as other investments. They may be held for long term or trading purposes.

Other investments are stated at fair values on the basis of their quoted market prices at the balance sheet date on an individual investment basis. The gains or losses arising from changes in the fair values of such investments are credited or charged to the profit and loss account for the period in which they arise.

Stocks

Stocks are stated at the lower of cost and net realisable value after making due allowance for any obsolete or slow-moving items. Cost is determined on the weighted average method and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and in selling and distribution.

Income tax

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

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

Deferred tax liabilities are recognised for all taxable temporary differences:

- except where the deferred tax liability arises from the initial recognition of an asset or liability and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Notes to Financial Statements

31 December 2003

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

Income tax *(continued)*

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

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

Foreign currencies

The Group's financial records are maintained and the financial statements are stated in Hong Kong dollars. Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the consolidated profit and loss account.

On consolidation, the financial statements of overseas subsidiaries, jointly-controlled entity and associates are translated into Hong Kong dollars using the net investment method. The profit and loss accounts of overseas subsidiaries, jointly-controlled entity and associates are translated to Hong Kong dollars at the weighted average exchange rates for the year, and their balance sheets are translated to Hong Kong dollars at the exchange rates ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated to Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated to Hong Kong dollars at the weighted average exchange rates for the year.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand, demand deposits and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and bank balances and time deposits represent assets which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) rental income from properties, in the period in which the properties are let and on the straight-line basis over the lease terms;

Notes to Financial Statements

31 December 2003

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

Revenue recognition *(continued)*

- (c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (d) dividend income, when the shareholders' right to receive payment has been established; and
- (e) from the sale of listed securities, on the trade date.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Employee benefits

Retirement benefits scheme

The Group, other than Qualipak International Holdings Limited ("Qualipak") and its subsidiaries (details of whose retirement benefits scheme are included below), operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Qualipak, a subsidiary of the Company, together with its subsidiaries (collectively, the "Qualipak Group"), operates a defined contribution retirement benefits scheme for those employees who are eligible and who have elected to participate in the scheme. The assets of the scheme are held separately from those of the Qualipak Group in an independently administered fund. Contributions are made at specified rates and are charged to the profit and loss account as they become payable in accordance with the rules of the scheme. When an employee leaves the scheme prior to his/her interest in the Qualipak Group's employer contributions vesting fully, the ongoing contributions payable by the Qualipak Group may be reduced by the relevant amount of forfeited contributions.

Following the introduction of the MPF Scheme, the Qualipak Group has restructured its retirement arrangements to comply with the Mandatory Provident Fund Schemes Ordinance. The Qualipak Group has secured Mandatory Provident Fund exemption status for its retirement benefits scheme and, in addition, has participated in an approved MPF Scheme with effect from 1 December 2000 to provide a choice of schemes to its existing employees. All of its new employees are required to participate in the MPF Scheme.

Notes to Financial Statements

31 December 2003

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

Employee benefits *(continued)*

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the profit and loss account or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which has been earned by the employees from their service to the Group to the balance sheet date.

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts on a calendar year basis. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the trading of automobile parts segment is a dealer of automobile parts mainly for use in the manufacture of automobiles;
- (b) the manufacture and sale of packaging products segment produces watch boxes, gift boxes, spectacles cases and stationery for resale; and
- (c) the property and other investments segment comprises rental income from investment properties, interest income from loan receivables and gain or loss on securities investment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Notes to Financial Statements

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4. SEGMENT INFORMATION (continued)

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2003.

Group

2003

	Trading of automobile parts HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	12,722	191,898	546	—	205,166
Segment results	(19,866)	33,035	55,250	—	68,419
Unallocated income, net					8,922
Interest and dividend income					30,604
Finance costs					(5,313)
Share of profits and losses of:					
A jointly-controlled entity	—	—	1,215	—	1,215
Associates	—	—	22,934	—	22,934
Profit before tax					126,781
Tax					(9,323)
Minority interests					(10,191)
Net profit from ordinary activities attributable to shareholders					107,267
Segment assets	34,762	349,148	1,103,435	—	1,487,345
Interest in a jointly-controlled entity	—	—	5,304	—	5,304
Interests in associates	—	—	623,518	—	623,518
Unallocated assets					143,749
Total assets					2,259,916
Segment liabilities	5,560	32,605	—	—	38,165
Unallocated liabilities					263,780
Total liabilities					301,945
Other segment information:					
Capital expenditure	—	(2,675)	—	(653)	(3,328)
Recognition of negative goodwill	—	7,755	526	—	8,281
Depreciation	—	(7,493)	—	(4,633)	(12,126)
Deficit arising from revaluation of investment properties	—	—	(6,332)	—	(6,332)
Write back of provision/(provision) for doubtful debts, net	(6,887)	2,544	—	—	(4,343)
Unrealised holding gains on other investments	—	—	91,116	—	91,116
Loss on disposal of other investments	—	—	(17,214)	—	(17,214)

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments in 2002.

Group

2002 (Restated)

	Trading of automobile parts HK\$'000	Manufacture and sale of packaging products HK\$'000	Property and other investments HK\$'000	Unallocated HK\$'000	Consolidated HK\$'000
Segment revenue:					
Sales to external customers	23,528	218,895	413	—	242,836
Segment results	(49,074)	34,886	(124,337)	—	(138,525)
Unallocated expenses, net					(14,727)
Interest and dividend income					31,630
Finance costs					(12,199)
Share of profits and losses of:					
A jointly-controlled entity	—	—	(5,325)	—	(5,325)
Associates	—	—	6,751	—	6,751
Loss before tax					(132,395)
Tax					(5,668)
Minority interests					(13,305)
Net loss from ordinary activities attributable to shareholders					(151,368)
Segment assets	120,566	258,811	815,514	—	1,194,891
Interest in a jointly-controlled entity	—	—	4,660	—	4,660
Interests in associates	—	—	608,848	—	608,848
Unallocated assets					301,914
Total assets					2,110,313
Segment liabilities	4,656	32,808	—	—	37,464
Unallocated liabilities					178,030
Total liabilities					215,494
Other segment information:					
Capital expenditure	—	(25,371)	—	(28,441)	(53,812)
Recognition of negative goodwill	—	6,245	526	—	6,771
Depreciation	—	(6,727)	—	(5,425)	(12,152)
Deficit arising from revaluation of investment properties	—	—	(500)	—	(500)
Write back of provision/(provision) for doubtful debts, net	(15,636)	1,500	(57,359)	—	(71,495)
Provision against stocks	—	(6,957)	—	—	(6,957)
Unrealised holding losses on other investments	—	—	(58,797)	—	(58,797)
Gain on disposal of other investments	—	—	951	—	951

Notes to Financial Statements

31 December 2003

4. SEGMENT INFORMATION (continued)

(b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

Group

2003

	Hong Kong	Elsewhere	North	European	Others	Consolidated
	HK\$'000	in the PRC	and South	Union	HK\$'000	HK\$'000
		HK\$'000	Americas	HK\$'000		
			HK\$'000			
Segment revenue:						
Sales to external customers	<u>47,149</u>	<u>10,100</u>	<u>66,284</u>	<u>64,624</u>	<u>17,009</u>	<u>205,166</u>
Other segment information:						
Segment assets	<u>2,140,438</u>	<u>119,478</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,259,916</u>
Capital expenditure	<u>3,328</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>3,328</u>
2002 (Restated)						
Segment revenue:						
Sales to external customers	<u>50,172</u>	<u>23,528</u>	<u>89,764</u>	<u>58,063</u>	<u>21,309</u>	<u>242,836</u>
Other segment information:						
Segment assets	<u>1,940,260</u>	<u>170,053</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>2,110,313</u>
Capital expenditure	<u>48,927</u>	<u>4,885</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>53,812</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, and gross rental income received and receivable from investment properties during the year.

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

	2003	2002
	HK\$'000	HK\$'000
Turnover		
Sale of goods	<u>204,620</u>	<u>242,423</u>
Rental income	<u>546</u>	<u>413</u>
	<u>205,166</u>	<u>242,836</u>

Notes to Financial Statements

31 December 2003

5. TURNOVER, REVENUE AND GAINS (continued)

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

6. OTHER OPERATING INCOME/(EXPENSES), NET

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

Notes to Financial Statements

31 December 2003

7. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

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

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

8. FINANCE COSTS

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

Notes to Financial Statements

31 December 2003

9. DIRECTORS' REMUNERATION

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

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

Fees include HK\$1,500,000 (2002: HK\$1,300,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2002: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

The number of the directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2003	2002
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	2	2
HK\$1,500,001 to HK\$2,000,000	1	1
HK\$2,000,001 to HK\$2,500,000	—	2
HK\$2,500,001 to HK\$3,000,000	2	—
	<u>7</u>	<u>7</u>

Notes to Financial Statements

31 December 2003

10. FIVE HIGHEST PAID EMPLOYEES

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

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

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

	Number of employees	
	2003	2002
	HK\$'000	HK\$'000
HK\$1,500,001 to HK\$2,000,000	1	—
HK\$2,500,001 to HK\$3,000,000	1	—
HK\$4,000,001 to HK\$4,500,000	—	1
	<u>2</u>	<u>1</u>

Notes to Financial Statements

31 December 2003

11. TAX

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

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

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

Group

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

Notes to Financial Statements

31 December 2003

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

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

13. DIVIDEND

	2003 HK\$'000	2002 HK\$'000
Proposed final — HK\$0.002 (2002: nil) per ordinary share	<u>16,907</u>	<u>—</u>

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

14. EARNINGS/(LOSS) PER SHARE

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

The calculation of diluted earnings per share for the year ended 31 December 2003 is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$111,392,000 as adjusted for the interest saving on the conversion of the convertible note into ordinary shares of the Company. The weighted average number of ordinary shares used in the calculation is the sum of the number of ordinary shares in issue during the year used in the basic earnings per share calculation of 8,453,321,700, and the weighted average of 909,090,909 ordinary shares assumed to have been issued at no consideration on the deemed conversion of all convertible notes into ordinary shares of the Company during the year. The share options and warrants outstanding during the year had no dilutive effect on the basic earnings per share for the year.

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

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15. FIXED ASSETS

Group

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

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

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

Notes to Financial Statements

31 December 2003

15. FIXED ASSETS *(continued)*

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

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

16. INVESTMENT PROPERTIES

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

The Group's investment properties at 31 December 2003 are situated in Hong Kong and are held under long term leases.

The revaluation of the above investment properties was carried out by FPD Savills (Hong Kong) Limited, an independent firm of professionally qualified valuers, on an open market, existing use basis as at 31 December 2003.

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

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17. NEGATIVE GOODWILL

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

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

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

18. INTERESTS IN SUBSIDIARIES

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

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

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES (continued)

Details of the principal subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Big Brother Resources Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Bookman Properties Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Investment in listed securities
Chase Create Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Dynamic Award International Limited	British Virgin Islands	US\$1	100	100	Investment holding
Faircom Limited	British Virgin Islands	US\$1	100	100	Investment holding
Ferrex Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Funrise Limited	British Virgin Islands	US\$1	100	100	Investment holding
First River Investments Limited	British Virgin Islands	US\$1	100	100	Investment holding
Grand Island Development Limited	British Virgin Islands	US\$1	100	100	Investment holding
Honfame Trading Limited	Hong Kong	HK\$2	100	100	Office management
Joywell Holdings Limited	British Virgin Islands	US\$1	100	—	Investment holding

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Kent Smart Investments Limited	Hong Kong	HK\$2	100	100	Property holding
Maxking Industries Limited	Hong Kong	HK\$2	100	100	Investment holding
Maxlord Enterprises Limited	Hong Kong	HK\$2	100	100	Money lending
Megaspace Asia Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
New Wealth Limited	Hong Kong	HK\$2	100	—	Property holding
Regulator Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Senico Investments Limited	British Virgin Islands	US\$1	100	100	General trading
Time Lander Limited	British Virgin Islands/ Hong Kong	US\$1	100	100	Property holding
Top Eagle Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
Vigorous Assets Limited	British Virgin Islands	US\$1	100	100	Investment holding
Yugang Enterprises Limited	Hong Kong	HK\$2	100	100	Investment holding
Yugang Finance Limited	Hong Kong	HK\$2	100	—	Finance vehicle
Yugang International (B.V.I.) Limited	British Virgin Islands	US\$5	100	100	Investment holding
Yugang Management Limited	Hong Kong	HK\$2	100	—	Office management

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
iChoice Limited	British Virgin Islands	US\$10	60	60	Investment holding
iFortune Limited	British Virgin Islands	US\$1	60	60	Investment holding
Ablelink Investments Limited*	British Virgin Islands	US\$100	69.87	—	Securities investment
Global Palace Investments Limited*	British Virgin Islands/ Hong Kong	US\$1,000	69.87	50.06	Property holding
Qualipak Development Limited*	British Virgin Islands	US\$10,000	69.87	50.06	Investment holding
Qualipak Fortune Inc.*	British Virgin Islands/PRC	US\$10,000	69.87	50.06	Manufacture of watch boxes, gift boxes, spectacles cases and bags and pouches
Qualipak Manufacturing (China) Limited*	British Virgin Islands	US\$1	69.87	50.06	Investment holding
Qualipak Manufacturing Limited*	Hong Kong	Ordinary HK\$100 non-voting deferred HK\$22,303,857	69.87	50.06	Trading of watch boxes, gift boxes, spectacles cases, bags and pouches and display units
Qualipak Nominees Limited*	British Virgin Islands	US\$1	69.87	50.06	Provision of nominee services
Qualipak Production Inc.*	British Virgin Islands/PRC	US\$10,000	69.87	50.06	Manufacture of watch boxes, gift boxes and display units

Notes to Financial Statements

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18. INTERESTS IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up/ registered capital	Percentage of equity attributable to the Company		Principal activities
			2003	2002	
Winning Hand Management Limited*	British Virgin Islands/PRC	US\$1	69.87	50.06	Property holding
Wisdom Way Limited*	Hong Kong	HK\$2	69.87	50.06	Property holding
Worthwell Investments Limited*	British Virgin Islands	US\$50,000	69.87	50.06	Investment holding

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

* These subsidiaries were not audited by Ernst & Young.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	Group	
	2003 HK\$'000	2002 HK\$'000
Share of net assets	<u>5,304</u>	<u>4,660</u>

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.

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20. INTERESTS IN ASSOCIATES

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

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

	Group
	HK\$'000
Cost:	
At beginning and end of year:	
As previously reported	9,275
Prior year adjustment (a)	<u>(2,462)</u>
As restated	<u>6,813</u>
Accumulated recognition as income:	
At beginning of year:	
As previously reported	1,738
Prior year adjustment (a)	<u>(492)</u>
As restated	<u>1,246</u>
Recognised as income during the year	<u>526</u>
At 31 December 2003	<u>1,772</u>
Net book value:	
At 31 December 2003	<u>5,041</u>
At 31 December 2002 (restated)	<u>5,567</u>

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

Notes to Financial Statements

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20. INTERESTS IN ASSOCIATES *(continued)*

Note:

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

Particulars of the principal associates are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of equity attributable to the Group		Principal activities
			2003	2002	
Y.T. Realty Group Limited	Corporate	Bermuda	34.25	34.25	Investment holding
Achiever Assets Limited	Corporate	Hong Kong	34.25	34.25	Property development
Asset Class Developments Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	34.25	Property trading
Benefit Plus Company Limited	Corporate	Hong Kong	34.25	34.25	Property investment
Best View Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	34.25	Property holding
E-Tech Services Limited	Corporate	Hong Kong	34.25	34.25	Property management
Gold Region Developments Limited	Corporate	British Virgin Islands/PRC	34.25	34.25	Property trading
Harson Investment Limited	Corporate	Hong Kong	34.25	34.25	Property investment
Honway Limited	Corporate	British Virgin Islands/ Hong Kong	34.25	34.25	Investment holding

Notes to Financial Statements

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20. INTERESTS IN ASSOCIATES (continued)

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

The above table lists the associates of the Group which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

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

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

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20. INTERESTS IN ASSOCIATES *(continued)*

In 1997, a 34.25%-owned associate of the Group claimed against the contractor of a property development project, and deducted approximately HK\$11 million from payments to the contractor for the delay in completion and defects of the construction works. In addition, there is a dispute over approximately HK\$1.7 million regarding the final contract amount. The contractor has denied the claim and is counter-claiming against the associate for HK\$22.3 million, including liquidated damages, the above-mentioned disputed contract sum and loss expenses. The case is currently pending arbitration. The directors of this associate, based on the advice from its legal counsel, believe that the associate has a valid defence to the litigation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs. As at 31 December 2003, provisions of HK\$7.1 million (2002: HK\$7.4 million) have been made by this associate for the expected legal costs on this dispute, which the directors consider to be adequate, taking into account expert professional advice received.

21. CONVERTIBLE DEBENTURES AND NOTES

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

In December 1999, a wholly-owned subsidiary of the Company entered into a convertible debenture and warrant purchase agreement with Tengtu International Corp. ("TIC"), a company whose shares are traded on the National Association of Securities Dealers Over-the-Counter Bulletin Board Market of the United States of America. Pursuant to the agreement, TIC issued to the Group, at par value, a debenture of US\$1,500,000, repayable on 15 December 2003 (the "Maturity Date"), together with 1,500,000 warrants issued to the Group at nil consideration exchangeable for shares in TIC at prices ranging from US\$1 to US\$4 per share depending on the time of exercise from 15 December 1999 up to the third anniversary thereof. The convertible debenture bore interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2%. On the Maturity Date, TIC repaid a sum of US\$300,000 to the Group and issued to the Group a new floating convertible debenture amounting to US\$1,200,000 on 15 December 2003 under a new agreement, of which US\$200,000 will be repayable on 1 June 2004 and the remaining of US\$1,000,000 will be repayable on 15 December 2004. The floating convertible debenture bears interest at an annual rate equal to the best lending rate of The Hong Kong and Shanghai Banking Corporation plus 2% and confers right to the Group to convert the whole or part of the outstanding amount into shares of TIC at pre-determined conversion prices ranging from US\$0.5 to US\$1.5 each.

In addition, certain subsidiaries of the Company acquired unlisted convertible notes issued by companies with shares listed on the Stock Exchange. The convertible notes bear interest at rates ranging from 5% to 7% per annum and confer rights to the bearers to convert the whole or part of the outstanding principal amount into shares of those listed companies at pre-determined conversion prices ranging from HK\$0.028 to HK\$1.2 each.

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

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22. OTHER INVESTMENTS

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

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

23. LOANS RECEIVABLE

	Group	
	2003	2002
	HK\$'000	HK\$'000
Unsecured:		
Non-current	4,000	—
Current	<u>364,962</u>	<u>212,520</u>
	<u>368,962</u>	<u>212,520</u>

24. STOCKS

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

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

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25. TRADE DEBTORS

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

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

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

26. TRADE CREDITORS

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

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

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27. HIRE PURCHASE CONTRACT PAYABLES

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

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

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

28. CONVERTIBLE NOTES

On 31 July 2001, the Company issued a convertible note of HK\$100,000,000 to Timmex Investment Ltd., a company in which Cheung Chung Kiu, a director of the Company, has beneficial interest of 100%. The maturity date of the note is 31 July 2004 and the note bears interest at the rate of 5% per annum. The note is convertible into new ordinary shares of the Company at a conversion price of HK\$0.10 per share during the period from 31 July 2001 to 31 July 2002, HK\$0.11 per share during the period from 1 August 2002 to 31 July 2003 and HK\$0.12 per share during the period from 1 August 2003 to 31 July 2004 (subject to adjustment).

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29. DEFERRED TAX

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

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

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

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

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

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

30. SHARE CAPITAL

Shares

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

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30. SHARE CAPITAL (continued)

Share options

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

Name or category of participants	At beginning of year	Expired during the year	At end of year	Date of grant of share options	Vesting period of share options	Exercise period of share options	Exercise price of share options HK\$**
Directors							
Cheung Chung Kiu	10,000,000	(10,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Yuen Wing Shing	8,000,000	(8,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Lam Hiu Lo	10,000,000	(10,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Liang Kang	6,000,000	(6,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
Other employees*							
In aggregate	199,000,000	(199,000,000)	—	24/3/2000	24/3/2000 to 23/9/2000	24/9/2000 to 18/10/2003	0.144
	<u>233,000,000</u>	<u>(233,000,000)</u>	<u>—</u>				

* Employees working under employment contracts that were regarded as "Continuous Contracts" for the purpose of the Hong Kong Employment Ordinance.

** The exercise price of the share options is subject to adjustment in case of rights or bonus issues, or other similar changes in the Company's share capital.

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

Warrants

On 18 July 2001, the Company issued 1,312,586,000 warrants at a price of HK\$0.02 each. These warrants entitled the holders to subscribe, during the period from 18 July 2001 to 18 July 2003, up to HK\$118,132,740 for new shares in the Company at HK\$0.09 per share (subject to adjustment). No subscription right was exercised by the warrant holders up to the expiry date of the warrants on 18 July 2003, and accordingly the subscription rights attaching to these warrants lapsed and the warrants ceased to be valid thereafter.

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31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 23 of the financial statements.

Company

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

The contributed surplus of the Company originally represented the excess of the net asset values of the subsidiaries acquired over the nominal value of the Company's shares issued for their acquisition at the time of the reorganisation in preparation for the listing of the Company's shares in 1993. Under the Companies Act (1981) of Bermuda (as amended), the contributed surplus may be distributed to shareholders under certain circumstances.

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32. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

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

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

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

(c) **Restricted cash and cash equivalent balances**

Certain of the Group's time deposits are pledged to a bank to secure the bank facility granted to the Group, as further explained in note 35 to the financial statements.

33. OPERATING LEASE ARRANGEMENTS

(a) **As lessor**

The Group leases its investment properties (note 16 to the financial statements) under operating lease arrangements, with leases negotiated for terms of approximately one year. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

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

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	403	546
In the second to fifth years, inclusive	—	403
	403	949

(b) **As lessee**

The Group leases certain of its manufacturing plants, office properties and quarters under operating lease arrangements. The leases for the manufacturing plants, office properties and quarters are negotiated for terms of approximately one year.

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

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

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34. COMMITMENTS

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

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

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

35. BANKING FACILITIES

At the balance sheet date, the Group's banking facilities were secured by:

- (a) a pledge of the Group's time deposits of HK\$8,060,000 (2002: HK\$8,044,000);
- (b) the Group's investment properties and certain fixed assets to the extent of HK\$77,770,000 (2002: HK\$79,948,000); and
- (c) corporate guarantees issued by the Company and its subsidiary, Qualipak.

36. CONTINGENT LIABILITIES

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

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

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

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36. CONTINGENT LIABILITIES *(continued)*

- (b) Certain subsidiaries of Qualipak, a subsidiary of the Company, are in discussion with the Hong Kong Inland Revenue Department (the “IRD”) regarding their prior year tax computations. The IRD is presently requesting further information and explanations from these subsidiaries. In the opinion of the directors of Qualipak, these subsidiaries have prepared their prior year tax computations on a proper basis.

Pursuant to the Deed of Indemnity dated 14 April 1999 made between Chuang Hing Limited (“CHL”), China United International Holdings Limited (“CUIHL”) and Qualipak (as set out in the paragraph headed “Other Information” in Appendix 5 of Qualipak’s prospectus dated 15 April 1999), CHL and CUIHL agreed with Qualipak and its subsidiaries (the “Qualipak Group”) that CHL and CUIHL will jointly and severally indemnify each of the companies in the Qualipak Group against tax falling due by any of the companies in the Qualipak Group resulting from profits or gains earned or accrued on or before 27 April 1999.

After taking into consideration the foregoing, no provision for any additional tax liabilities is considered necessary by the directors of Qualipak.

37. RELATED PARTY TRANSACTIONS

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

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

Notes:

- (i) The rental expenses were charged at cost, based on the floor area occupied by the Group in respect of the office premises rented by Chongqing Industrial Limited from an independent third party. Mr. Cheung Chung Kiu, a director of the Company, has beneficial interests in Chongqing Industrial Limited, which is a substantial shareholder of the Company. This transaction also constituted a connected transaction for the Company under the Listing Rules.
- (ii) The rental income was charged at cost, based on the floor area occupied by the associate in respect of the office premises rented from Chongqing Industrial Limited.
- (iii) The interest expense paid to a related company was in respect of the convertible note issued in 2001 to Timmex Investment Ltd., a company in which Mr. Cheung Chung Kiu, a director of the Company, has a beneficial interest of 100%. The above transactions constituted connected transactions for the Company under the Listing Rules.

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38. POST BALANCE SHEET EVENTS

- (i) On 12 January and 18 February 2004, the Group disposed in aggregate of 400,000,000 shares in Qualipak, a subsidiary of the Company listed on the Stock Exchange, on the market to independent third parties at a price of HK\$0.17 each. Immediately after these transactions, the shareholding of the Company in Qualipak dropped from 69.87% to 59.71%. The gain on the above disposals amounted to approximately HK\$22 million.
- (ii) On 3 March 2004, Joystar Limited, a wholly-owned subsidiary of the Company, subscribed for and was allotted a total of 80,000,000 shares of US\$0.1 each of Hennabun Management Inc. ("HMI"), for a cash consideration of HK\$100,000,000. HMI is a non-wholly owned subsidiary of a company listed on the Stock Exchange. As a result of this transaction, the Group has an equity interest of 20.56% in HMI.

39. COMPARATIVE AMOUNTS

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

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

Five Year Financial Summary

A summary of the results and of the assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below.

Certain amounts in the five year financial summary have been adjusted for the effects of the retrospective changes in accounting policy affecting deferred tax, as detailed in note 2 to the financial statements.

	2003 HK\$'000	2002 HK\$'000 (Restated)	2001 HK\$'000 (Restated)	2000 HK\$'000 (Restated)	1999 HK\$'000
RESULTS					
Turnover	205,166	242,836	365,364	771,827	507,947
Operating profit/(loss)	102,632	(133,821)	78,661	(41,358)	85,913
Share of profit/(loss) of a jointly-controlled entity	1,215	(5,325)	142	—	—
Share of profits of associates	22,934	6,751	12,179	5,651	1,236
Profit/(loss) before tax	126,781	(132,395)	90,982	(35,707)	87,149
Tax	(9,323)	(5,668)	(5,728)	(4,579)	(1,116)
Net profit/(loss) before minority interests	117,458	(138,063)	85,254	(40,286)	86,033
Minority interests	(10,191)	(13,305)	(11,689)	(23,581)	—
Net profit/(loss) attributable to shareholders	107,267	(151,368)	73,565	(63,867)	86,033
Fixed assets	218,336	234,656	193,201	183,212	173,921
Investment properties	6,600	5,500	6,000	237,798	7,200
Negative goodwill	(60,233)	(42,918)	(48,024)	(54,131)	(61,529)
Interest in a jointly-controlled entity	5,304	4,660	9,985	9,867	—
Interests in associates	623,518	608,848	610,149	606,443	—
Unlisted investments	8,265	8,110	8,110	6,940	6,320
Deposit paid for the purchase of a property	—	—	—	—	230,398
Convertible debentures and notes	52,000	25,000	78,000	—	11,700
Loans receivable	4,000	—	—	—	—
Other investments	—	45,874	62,301	24,640	129,939
Current assets	1,402,126	1,220,583	1,550,437	1,273,416	941,693
Current liabilities	(301,162)	(114,026)	(346,052)	(144,366)	(119,836)
Net current assets	1,100,964	1,106,557	1,204,385	1,129,050	821,857
Non-current liabilities	(783)	(101,468)	(101,477)	(221,190)	(1,464)
Minority interests	(158,569)	(177,010)	(153,455)	(143,853)	(110,738)
Capital and reserves	1,799,402	1,717,809	1,869,175	1,778,776	1,207,604