

## Chairman's Statement



“We believe our increase in stake in the two paper manufacturing associate companies in Zhongshan will yield important benefits to the Group — enabling it to meet increasing demand for corrugated materials from China and inter-company business, as well as improving operational efficiency.”

Mr. Yam Cheong Hung  
Chairman

### TO OUR SHAREHOLDERS:

The fiscal year 2004/05 saw the Group increase its turnover by 15%, compared with a rise of 8% over the first half. This was led by gains in the China domestic market and overseas export markets, particularly Europe and Australia, as well as the consolidation of the sales of the two paper manufacturing companies in Zhongshan following an increase in the Group's stake in them.

The first quarter saw increased customer confidence levels compared to the previous year, with steady increase in order inflow. The second and third quarters of the year were marked by adjustments in the prices of oil and other raw materials, leading to a slowdown in orders. During the fourth quarter, there was a slight recovery in customer confidence and order inflow.

Highlights for the year include the completion of our increase in stake in the two paper manufacturing associate companies in Zhongshan from 35% to 59%, in December 2004. The acquisition is expected to yield important benefits to the Group — enabling it to meet increasing demand for corrugated materials from China and inter-company business, as well as improving operational efficiency. Following the increase in stake, the performance of the two paper manufacturing companies has already improved in response to robust demand in China.

As a result of the increased stake, the Group consolidated the sales of these two companies as from January 2005, which accounted for 52% of the increase in the Group's turnover. However, there was also a one-time bad debt write-off of HK\$10.6 million in the accounts of the two companies, which impacted the Group's share of profits and losses from them before the acquisition.

Our Shenzhen printing facility achieved the number one ranking in the Top 100 of the Printing Industry of Guangdong Province. The plant also achieved ICTI COBP (International Council of Toy Industries, Code of Business Practice) certification, a key standard required by toy manufacturers, in addition to its ISO 9002 and 14000 certifications. The plant also saw a steady increase in business in the fourth quarter that led to it achieving full capacity.

The Group acquired a 3.5 million sq.ft. piece of land in Heshan to build a new plant to supplement its Shenzhen facility. Construction at the facility has already commenced in June 2005, with Phase 1 expected to become operational by the end of the year.

Apart from the impact of the consolidated sales of the two Zhongshan paper manufacturing companies, the Group's increase in turnover for the year was primarily due to increased sales in China, Europe and Australia. Increased material costs and price pressure from competition led to a decline in operating profit of 7% to HK\$315 million. Net profit attributable to shareholders decreased 9% to HK\$240 million. Earnings per share decreased 10% to HK41.9 cents.

Despite the general economic upswing, a number of macro-economic factors emerged to affect the profit performance of the Group. From the second quarter, worldwide adjustments in the prices of oil, paper and raw materials, as well as interruptions to the water and power supply in Shenzhen contributed to an increase in the Group's operating expenses. Demand for workers in Shenzhen exerted upward pressure on wages, which, combined with an increase in government-regulated social costs, affected the Group's labour costs.

The Board of Directors is proposing a final dividend of HK20 cents per share, bringing total dividends for the year to HK29.5 cents per share. Subject to shareholders' approval, the final dividend will be paid on 29 September 2005 to shareholders whose names appear on the Register of Members of the Company on 29 August 2005.

The final dividend will be payable in cash with a scrip alternative at the option of shareholders. A circular containing the scrip dividend scheme together with the form of election will be sent to shareholders in due course.

## **OUTLOOK**

For the coming fiscal year the Group anticipates a steadier environment in terms of business volume, with the possible continuation of adjustments in oil, paper and raw material prices. The Chinese government's proposed increase of the minimum wage will affect labour costs. However, the Group is well positioned to deal with these circumstances by emphasizing operational efficiencies. The Group has also made arrangements for managing any anticipated water or power shortfalls during the summer months.

For the longer term, the Group will strategically focus on higher-margin businesses.

# Chairman's Statement

In Shenzhen, the water and power supply issues began to improve from the fourth quarter of 2004/05. Nonetheless, the Group took measures to diversify its production base when it began to invest in a new and modern facility in Heshan at the end of 2004. This facility is expected to provide more affordable labour costs, as well as more room for capacity expansion in the next three to five years.

The Group will continue with its strategy of geographic diversification of its customer base, with an emphasis on acquiring increased business from European customers and customers in mainland China.

The Group is cautiously confident that it has taken appropriate action to counter the macro-economic factors that affected its performance during 2004/05, and has the appropriate strategies in place to continue to achieve steady growth in the future. With our emphasis on higher-margin businesses and the prudent management strategies that have long been the hallmark of the Group, we will continue to foster business growth in new and existing markets.

We will also continue to make sound investments and increase staff as necessary. New facilities such as the one in Heshan leave us well poised for growth. We look forward with cautious optimism to continued business growth.

I would like to thank each of our dedicated staff whose hard work and commitment has helped the Group achieve its goals.

**Yam Cheong Hung**

Chairman

Hong Kong, 5 July 2005