

## 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.

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### 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.

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### 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.

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### 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%.

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### 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