

*On behalf of the Board of Directors, I am pleased to present the Annual Report of the Company and its subsidiaries (the "Group") for the year ended 31 March 2004.*

## RESULTS

The Group reported a total turnover of approximately HK\$439.2 million and a profit attributable to shareholders of approximately HK\$39.1 million for the year ended 31 March 2004. Basic earnings per share was HK8.82 cents, based on the weighted average of 443,289,965 ordinary shares in issue during the year.

## DIVIDENDS

The Board of Directors recommend the payment of a final dividend of HK2 cents per share for the year ended 31 March 2004. In view of the profit for the year, the Board of Directors have also recommended a special dividend of HK1 cent per share for the year ended 31 March 2004 to all shareholders whose names appear on the register of members of the Company on 3 September 2004. This, together with the interim dividend of HK1 cent per share already paid on 11 February 2004, will bring the total dividend for the year to HK4 cents per share.

## BUSINESS REVIEW

For the year under review, the Group reported a total turnover of approximately HK\$439.2 million, which represented an increase of approximately 18.4% to the total turnover of approximately HK\$371.0 million of the corresponding year ended 31 March 2003. Net profit attributable to shareholders for the year ended 31 March 2004 amounted to approximately HK\$39.1 million as compared to the net loss attributable to shareholders of HK\$5.2 million (restated) for the corresponding year ended 31 March 2003.

Printing and manufacture of packaging boxes, including accompanying brochures, manuals and catalogues, together with the manufacture of children novelty books continued to be the Group's major business. Orders from customers in this business category have once been affected and slowed down during the outbreak of severe acute respiratory syndrome ("SARS") in the early beginning of the year under review. However, through the adoption of more proactive and flexible marketing strategy, together with its endeavour to enhance its production flexibility and operational





efficiency, the Group has been able to cope with the rush orders which soon then rebounded since June when the SARS became under control and the increased orders following the improving global economic conditions and market sentiment in the second half of the year. For the year ended 31 March 2004, the Group recorded a turnover of approximately HK\$346.8 million for this business category, which was about 78.9% of the Group's total turnover for the year under review and represented a growth of about 18.9% over that of last year.



The Group is also engaged in the manufacture of hangtags, labels, shirt paper boards and plastic bags as well as commercial printing. Like its major business in the manufacture of packaging boxes, the Group has also been able to achieve a satisfactory growth in turnover for the manufacture of hangtags, labels, shirt paper boards and plastic bags for the year under review. However, the Group's commercial printing has been hard hit by the SARS outbreak and the operating environment and business recovery have been comparatively more difficult. For the year ended 31

March 2004, the turnover for the manufacture of hangtags, labels, shirt paper boards and plastic bags was approximately HK\$36.4 million, a strong growth of about 63.0% over that of last year and represented about 8.3% of the Group's total turnover for the year under review. The turnover of the Group's commercial printing has dropped by 1.7% to approximately HK\$56 million for the year ended 31 March 2004 and accounted for about 12.8% of the Group's total turnover. Last year, the turnover of the Group's commercial printing was approximately HK\$57 million.

Intensive price competition continued to impose downward pressure on the Group's profits margin. For the year under review, the gross profit margin of the Group was 25.0%, dropped by 0.3% as compared to its gross profit margin of 25.3% for the year ended 31 March 2003. Stringent cost control measures continued to help manage the operating expenses of the Group effectively. For the year under review, the administrative expenses of the Group was approximately HK\$64.5 million, which was about 14.7% of the Group's total turnover. Last year, the administrative expenses of the Group was HK\$62.8 million, which was about 16.9% of the Group's total turnover. Selling and distribution costs for the year ended 31 March 2004 increased by about HK\$6.9 million from that of last year and were in line with the increase of approximately HK\$68.2 million in the Group's turnover. For the year under review, the selling and distribution costs were HK\$19.2 million, representing about 4.4% of the Group's total turnover. Last year, the selling and distribution costs were about HK\$12.3 million, representing about 3.3% of the Group's total turnover.

The Group's printing business continued to provide positive and steady contributions both in terms of operating profit and cashflow. For the year ended 31 March 2004, the Group has reported a net profit from ordinary activities attributable to shareholders of about HK\$39.1 million after finance costs and taxation charges, and out of which, about HK\$6.0 million was write backs of revaluation deficit on the Group's leasehold land and buildings and investment properties no longer required as a result of the recovery of the property markets in Hong Kong. Had such write backs been excluded, the net operating profit of the Group's overall printing business after finance costs and taxation charges for the year ended 31 March 2004 would have been at approximately HK\$33.1 million. Last year, the Group reported a net loss of approximately HK\$5.2 million (restated), which was mainly due to a provision for a revaluation deficit of about HK\$6.2 million on the Group's leasehold land and buildings and investment properties not covered by previous revaluation surplus and a provision for the recovery of the outstanding principal amount of a convertible redeemable note (the "Note") of HK\$23.5 million entered by the Group and the accrued interest thereon of HK\$1.2 million. Had such full provision and the provision of the revaluation deficit as mentioned above been excluded, the net operating profit of the Group's overall printing business after finance costs and taxation charges for the year ended 31 March 2003 would have been at approximately HK\$25.7 million.



The Note as mentioned above was subscribed for HK\$24 million by the Group with an independent third party private company (the "Borrower") in July 2001. The Note bore interest at a rate of 8% per annum and was secured by a share mortgage over all the issued share capital and a debenture over all the assets of the Borrower and personal guarantees executed by two directors of the Borrower. The Borrower was engaged in the undertaking of maintenance building works from the Hong Kong SAR Government as a subcontractor. The outstanding principal amount of the Note was convertible into ordinary shares prior to its maturity in July 2003 by the Group. If the Note was not converted, it would be redeemed at par. However, for incidents as detailed in note 16 of the section on notes to the financial statements, the Group filed for winding up order against the Borrower in the High Court of Hong Kong SAR on 18 September 2002 upon the failure of the Borrower to make the stipulated settlements. On 20 November 2002, the Borrower was ordered wound-up by the High Court. In view of the development of the situation, full provision for the recovery of the outstanding principal amount of the Note of HK\$23.5 million and the accrued interest thereon of HK\$1.2 million as at 20 November 2002 was made. On 17 May 2004, the Group

filed for creditor's bankruptcy petitions against the two directors of the Borrower in the High Court of the SAR in respect of their personal guarantees executed to the Note. On 7 July 2004, the Group withdrew the petition against one of the directors of the Borrower as the director has been involved in another bankruptcy petition and was adjudicated bankrupt by the High Court on the same day. The petition against the other director of the Borrower is scheduled to be heard on 9 August 2004. The Group has also been notified by the liquidator of the Borrower that a meeting of the first creditors will be convened on 27 July 2004.

The commitment to use advanced technology and machinery has been helping the Group to achieve product excellence and operational efficiency. During the year under review, the Group spent about HK\$25.0 million (2003: HK\$9.7 million) in plant and machinery. The expenditure mainly included a brand new six-colour sheet-fed offset printing press and various supplementary machines.

To better serve its customers, the Group acquired the whole 26th Floor, total twelve units, of the Metroplaza, Tower II, in Kwai Chung, as its future head office and principal place of business in early January 2004 for approximately HK\$30.4 million, including stamp duties and legal fees. The purchase was completed in mid March 2004. In early May 2004, four units out of the twelve units, being more than needed by the Group, were disposed of for about HK\$16.6 million. The sale was completed in mid July 2004. The Group expects the new head office and principal place of business to operate by the end of September 2004.

## PROSPECTS

With recent sign of recovery in the global economy, the strengthening of consumers confidence and market sentiment, the Directors believe that the market performance will continue to be promising for the year to come. However, the Directors anticipate that competition



within the printing industry will continue to be keen, which couples with the rising operating costs in the PRC, will continue to intensify the challenges towards the printers within the industry. To maintain its competitive edge as one of the leading printers within the industry, the Group will continue to adopt the latest technology for production flexibility and efficiency enhancement. The Group will also keep itself abreast of the latest market trends and continue to seek growth opportunities in various kind of printing business. The demand for children books, premium items and paper products in the overseas markets has been particularly strong. More marketing effort will be made and additional production facilities will be developed to tap into these markets.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in Hong Kong. The Group is financially sound and its cash position remains strong. The Group's cash position was further enhanced as a result of the completion in January 2004 of the Placing and Subscription of 50,000,000 shares of the Company at HK\$0.37 per share by Harmony Link Corporation, a substantial shareholder of Company, for net proceeds of about HK\$17.8 million. The net proceeds so raised have been used for general working capital of the Group. As at 31 March 2004, the Group has available aggregate banking facilities of approximately HK\$35.2 million which were secured by legal charges on certain properties owned by the Group. The Group's cash and bank balances and short term bank deposits as at 31 March 2004 amounted to approximately HK\$89.8 million. The Group's gearing ratio as at 31 March 2004 was 6.6% (31 March 2003: below 1.0%), basing on the short term and long term interest bearing bank borrowings of HK\$22.4 million (31 March 2003: HK\$0.1 million) and the shareholders fund of HK\$338.0 million (31 March 2003: HK\$289.7 million).

## EXCHANGE RATE EXPOSURE

Most of the transactions of the Group were made in Hong Kong dollars, Renminbi and US dollars. For the year ended 31 March 2004, the Group was not exposed to any material exchange risk as the exchange rate of Hong Kong dollars, Renminbi and US dollars were relatively stable and no hedging for foreign currency transactions has been carried out.

## EMPLOYMENT AND REMUNERATION POLICIES

As at 31 March 2004, the Group had an available workforce of 2,800, of which 2,600 were based in the People's Republic of China.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis and bonuses paid, if any, will be based on performance appraisals and other relevant factors. Staff benefits plans maintained by the Group include mandatory provident fund scheme, share option scheme and medical insurance.



### CONTINGENT LIABILITIES AND CHARGES ON ASSETS

As at 31 March 2004, corporate guarantee amounting to HK\$79.9 million were given to banks by the Company for the provision of general banking facilities granted to the Group's subsidiaries, which were secured by legal charges on certain properties owned by the Group with a total net book value of approximately HK\$53.1 million.

### PURCHASES, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities for the year ended 31 March 2004.

### CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code"), as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the year under review, save that the independent non-executive directors have not been appointed for specific terms as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the Company's bye-laws.

### APPRECIATION

On behalf of the Board of Directors, I would like to thank all our staff for their dedication and contribution and our customers, suppliers, business associates and shareholders for their continuous support.

By Order of the Board

**Lui Chi**

*Chairman*

Hong Kong, 26 July 2004