

CHAIRMAN'S STATEMENT

Despite a slow start early in the fiscal year, the Group achieved another record result for 2003/2004.

On a year-to-year basis, sales turnover increased by 11.2% to HK\$1.2 billion, after-tax earnings by 19% to HK\$156.5 million, and earnings per share from 14.0 cents to 14.6 cents.

The Board of Directors has proposed a final dividend of 5 HK cents per share for the year.

This impressive result was driven by the strong sales of our OEM business in the second half of the fiscal year, helped by a reduction in the charges of HK\$10.6 million attributable to our corporate cost centre, which was primarily due to a saving of HK\$5.5 million in interest expenses and the release of exchange reserve of HK\$4.0 million on winding up of two subsidiaries in Europe.

In the OEM business, our efforts to increase sales to customers in all our markets while expanding the manufacturing facilities into the low cost region is paying off. The new business we developed - much of which is high value added, has enhanced the efficient use of our plant capacities and skills. This, together with the low cost production from the new plant in mainland China, were the main drivers of the improvement in our profit performance.

The brand business remains a challenge to the Group, as reflected by the lack of improvement in sales volume and continuing losses, albeit at a lower level than last year. In building our own brands in the mainland China market, we have been careful in developing distribution channels and selecting business partners. This cautious approach admittedly has compromised our sales goals. Nevertheless we view it as necessary in operating in an emerging market which offers as many uncertainties as opportunities. While we will adhere to our current business plan, we are examining other options which might accelerate the progress of broadening our distribution channels in that market.

At Top Form, we place equal emphasis on near term performance as well as long term growth. From time to time we review our operations and performance against the changing operating environment. We want to ensure that we are always well positioned to meet business needs and challenges, present and future. The elimination of the quota system following the accession of WTO next year, will bring changes to the trade relationships among the trading nations. It is important that Top Form, being the largest OEM supplier in the trade, spreads out its manufacturing facilities in the region in order to address the uncertainties brought on by these changes. With our recent expansion in Jiangxi province, mainland China production has exceeded 54% of our global capacity. In anticipation of further growth in our OEM business, we have recently begun building a new plant in Thailand which, when operating at full capacity next year, will not only give us the additional capacity needed to satisfy demand, but balance our expansion in mainland China. Meanwhile, we will continue to look for external opportunities for growth, particularly those that might compliment our effort to distribute our branded products in the mainland China market. Our prudent dividend policy is designed to enable us to make optimum use of internal funding in pursuing such opportunities while maintaining an attractive return to our shareholders.

This is a proper occasion to recognize the support of our customers, suppliers, service providers and last but not least, the hard work and contributions of our employees during the year, for which I want to express our gratitude on behalf of the Board of Directors.

Fung Wai Yiu

Chairman