

Chairman's Statement

RESULTS

The Directors are pleased to announce that the audited consolidated results for the year ended 31st December, 2004.

Total turnover for the year amounted to approximately HK\$509,820,000 (2003: HK\$315,357,000). The net profit stood at approximately HK\$22,590,000 (2003: HK\$18,175,000). Earnings per share were 7.41 cents (2003: 6.55 cents).



Peace Breeds Wealth

Chairman's Statement (Cont'd)

FINAL DIVIDEND

The directors recommend the payment of a final dividend for the year ended 31st December, 2004 of 4.5 cents per share (2003: 3.5 cents per share) payable to shareholders on the register of members of the Company (the "Register of Members") on 10th May, 2005. This dividend together with the interim dividend of 1 cent per share (2003: 0.5 cent per share), will make a total of 5.5 cents per share for the year (2003: 4 cents per share). Subject to the approval of shareholders at the forthcoming Annual General Meeting, the final dividend will be paid on or about 19th May, 2005.



CLOSURE OF REGISTER OF MEMBERS

The Register of Members will be closed from 6th May, 2005 to 10th May, 2005, both days inclusive, during which period no share transfer will be registered. In order to qualify for the proposed final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong at Standard Registrars Limited, G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong no later than 4:00 p.m. on 5th May, 2005.

BUSINESS REVIEW

During the year, the turnover of the Group was increased substantially by about 62% to approximately HK\$509,820,000, while the net profit for the year was HK\$22,590,000 representing a growth of approximately 24%. The substantial growth in turnover was mainly due to the contribution from the toys segment, which was acquired in December 2003. The growth in turnover of the other three segments (namely, novelties and decorations, packaging, PVC films and plastic) was approximately 20%.

It was a year of challenge for the Group. First of all, the Group acquired a substantial number entities engaged in the manufacture and trading of toys products, which business is quite different to the initial core business of the Group, and it is normal for the Group to take some time to make modifications and changes to the daily operation of the toys segment in order to fit into the Group's operation. Secondly, the prices of various kinds of raw materials rose substantially in the year under review, making it harder for an enterprise to maintain profitability. Thirdly, the ever increasing in the wages level in the People's Republic of China (the "PRC") led to an ever increasing cost of production in the PRC, and staff cost was a major component of many enterprises in the PRC, including the Group.

Finance costs increased by about 626% to approximately HK\$1,314,000. This was mainly due to the interests paid on the bank borrowings to the toys segment and also the utilization of certain banking for investment and trade finance.

In order to widen its shareholder base, the Company issued 21,000,000 shares in January 2004 to various independent investors and the net proceeds were used as working capital for future expansion and development of the Group.

Chairman's Statement (Cont'd)

FUTURE PLAN & PROSPECT

Since the labour costs in the PRC increase continuously, it is the Group's policy to progress from labour intensive production process to automatic production as much as possible. As such, further investment in plant and machinery is expected. As the Group intends to utilize its funds flexibly, various kinds of sources of funds may be used for financing any new investment projects, including but not limited to cash on hand and funds from banking facilities.

As stated in the interim report of the Company, the first phase of the restructuring of the toys segment has been completed in 2004. It is expected that further restructuring process is necessary and is expected to be completed by the end of the first half of the year 2005.

For the coming year of 2005, it will still be a year of challenge to the Group: firstly, the keen competition in various segments becomes harder leading to the potential decrease in both turnover and profits margin; secondly, the consolidation progress with the toys segment acquired in December 2003 is not as smooth as expected, more time and effort are thus required to complete the process; thirdly, the unstable and insufficient supply of power and labour in the PRC may cause great problem to the costs and production of the production plants there; and finally, the worldwide upgrading requirement for safety will also have an adverse effect on the costs of production. In view of the foregoing, notwithstanding the recovery of both the global and local economies, the costs of materials, especially petroleum and related products are still too volatile, the board of directors are prudent on the performance of the Group in 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Segment results

Novelties and decorations

The turnover of this segment for the year slightly increased by approximately 3% to about HK\$140,412,000, while the segment result increased by about 23% to approximately HK\$14,181,000. The result of the segment improved as the global economy started to recover and the Group still maintains its leading position in the novelties and festival decoration products market in spite of the keen competition.

Packaging products

The turnover of packaging products to external customers increased by about 16% to approximately HK\$145,074,000, while the segment result was substantially increased by about 223% to approximately HK\$11,133,000. Such increase in segment result was mainly due to the write-off of a provision for trade debt due from a major customer of the Group for about HK\$6,639,000 in the comparative figures for 2003. Change in sales mix of the turnover to higher profit



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margin products is encouraged to improve the segment's profitability and competitive power.

Trading activities

The turnover of the trading of PVC film and plastic materials further increased by about 86% to HK\$83,012,000, as a result of the change of management of one of the segment's principal departments in the first half of 2003, together with the recovery

of both the local and global economies, leading to a segment result of approximately HK\$3,190,000 for the year, representing 216% growth in this segment. Since the price of the petroleum products was volatile during the year, being side-products of petroleum, the prices of PVC film and plastic materials were also very volatile, and it's quite speculative and dangerous to cumulate too much stock for the goods. Hence, the Group continues to adopt a prudent policy in the trading activities of the these products in order to minimize the risk.

Toy products

The turnover of this segment was approximately HK\$141,322,000, while the segment result therefrom was approximately HK\$4,963,000. As expected, this segment has become one the Group's major business segments both in terms of turnover and segment result. However, the segment result in terms of its turnover was still not satisfactory. This was mainly due to (i) the substantial increase in the price of raw materials, which was suffered by the segment, and (ii) the process of consolidation not progressing as scheduled leading to the decrease in productivity.

Investments

To well utilize the available cash on hand, the Group has invested in the securities of several unlisted companies in different industries as long-term investment. As at 31st December, 2004, the total investment therein was about HK\$2,239,000 (2003: HK\$3,531,000). All of these investments were held in convertible notes or preferred shares, which ensured the earning of regular income from the investment.

Investment in listed securities is held for short-term purposes for capital gain in the value of the securities. As at the balance sheet date, the market value of investment in securities was approximately HK\$10,136,000 (2003: HK\$3,990,000).

As at 31st December, 2004, the Group carried outstanding forward contracts which entailed a commitment for purchase of listed securities of notional amount of approximately HK\$64,300,000 (2003: Nil). The commitment will be settled monthly with an amount ranging from approximately HK\$3 million to HK\$6 million. Usually the securities acquired will be disposed shortly, so the commitment is not expected to have a material adverse impact on cash flow.



Chairman's Statement *(Cont'd)*



As the date of this report, the commitment for outstanding forward contracts is HK\$58,021,000.

Liquidity and financial resources

As at 31st December, 2004, the long-term finance lease obligation of the Group was approximately HK\$135,000 (2003: HK\$331,000), while the short term bank and other borrowings was HK\$5,951,000 (2003: HK\$26,835,000), and the net book value of the Group's plant and machinery held under a finance lease was HK\$412,000 (2003: HK\$527,000). The gearing ratio of the Group, measured by total bank and other borrowings divided by equity, was 2.33% (2003: 11.52%).

At balance sheet date, the Group had bank balances and cash of approximately HK\$39,152,000 (2003: HK\$77,724,000).

With cash and other current assets at 31st December, 2004 of HK\$243 million as well as available banking facilities, the Group has sufficient financial resources to satisfy its commitments and working capital requirements.

Net Asset value

The net asset value of the Group as at 31st December, 2004 was approximately HK\$0.85 (2003: HK\$0.84) per share based on the number of 306,401,607 (2003: 281,701,607) shares in issue on that date.

Employees and remuneration policies

As at 31st December, 2004, the Group employed approximately 3,700 full time employees. The Group remunerates its employees largely based on prevailing industry practice as well as individual merits. The Group has also established a share option scheme for among other others, its full time employees.

Foreign currency exposure

The Group's sales and purchases are mainly denominated in Hong Kong Dollar and US Dollar, with some in Renminbi and Euro Dollar. Since Hong Kong Dollar remains pegged to US Dollar, the Group does not foresee a substantial exposure in the area.

In relation to other currencies, the Group will closely monitor their trends in relation to US Dollar and will engage in exchange rate hedges when necessary.

At the balance sheet date, The Group did not use any financial instrument for hedging purposes.

Chairman's Statement *(Cont'd)*

CORPORATE GOVERNANCE

The Company has, throughout the year, complied with the Code of Best Practice as set out in Appendix 14 of the Rules governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

None of the Company or its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

AUDIT COMMITTEE

The Stock Exchange has revised the Code of Best Practice as set out in Appendix 14 of the Listing Rules on the Stock Exchange to require listed companies to establish an audit committee with written terms of reference which deal with its authority and duties. Amongst the committee's principal duties will be to review and supervise the Company's financial reporting process and internal control. The Company has set up an audit committee in December, 1998 with written terms of reference in accordance with the requirements of the Stock Exchange, which comprises of Mr Ng Siu Yu, Larry, Mr Lam Yat Cheong and Mr Yip Chi Hung, the Company's independent non-executive directors and Mr Tong Wui Tung, the Company's non-executive director.

APPRECIATION

Finally, I would like to take this opportunity to thank all my fellow directors and the staff for their contribution and cordial support during the year.

On behalf of the Board

Poon Siu Chung

Chairman & Managing Director

Hong Kong, 7th April, 2005

