

FINANCIAL RESULTS

The Directors are pleased to announce that the audited profit attributable to shareholders of the Group for the year ended 31st December, 2002 amounted to HK\$50,673,000 (2001: HK\$28,047,000). Earnings per share were HK 11.6 cents (2001: HK 7.6 cents).

MANAGEMENT DISCUSSIONS ON RESULTS

It is encouraging for the Group to achieve an outstanding performance in 2002. Implemented the right strategies at the right time resulted in another record year of earnings for the Group. Turnover of the Group increased to HK\$574,090,000 (2001: HK\$513,537,000), representing an increase of approximately 11.8%. Profit attributable to shareholders recorded a significant increase to HK\$50,673,000 (2001: HK\$28,047,000), representing an increase of approximately 80.7% from last year. Earnings before interest, tax, depreciation and amortisation amounted to HK\$88.2 million (2001: HK\$67.0 million), representing 31.7% increase from last year. Proposed dividend per ordinary share amounts to HK 2.8 cents, representing an increase of 40%.

Such remarkable growth was achieved with the concerted efforts of our dedicated staff. First of all, our efforts on proactive marketing are positive. Printing remains the major business segment of the Group, gaining a 10.9% increase to HK\$569,375,000, with sales orders rebounded significantly in the second half of 2002. Secondly, the active review on product mix enabled us to better utilise our resources and raised the productivity level. Thirdly, with continuous commitment on cost control, the gross margin was raised to 30.5%. Gross profit grew by about 13.9% to HK\$175.2 million. Although selling expenses slightly increased with sales growth, administration expenses were largely held at last year's level. With sound financial management, finance costs were also significantly reduced by 51.9% to HK\$4.1 million. As a result, the Group's profit before taxation increased by 84.3% to HK\$52.8 million.

DIVIDEND

The directors propose to declare a final dividend of HK 2.8 cents per ordinary share (2001: HK 2 cents) payable on or before 12th May, 2003 to ordinary shareholders whose names appear on the Company's register of members on 6th May, 2003. No interim dividend has been declared in respect of the current financial year (2001: Nil).

BUSINESS REVIEW

After the current management team took charge from mid 2001, the Group has committed to invest in human resources so as to improve our customer services. We also put much effort on operational efficiency to save costs and invest in the state-of-the-art technology to improve quality. As a result, in 2002, we won a total of 10 awards for printing excellence which were conferred on us by two prestigious printing competitions,



Books awarded for printing excellence

including: 1) 2002 Premier Print Award; and 2) The 14th Hong Kong Print Awards, and for the latter, we were honoured the Grand Award for 2002. We believe the success builds on the Group's commitments on providing impeccable services and unsurpassed quality.

(a) Printing Businesses

The Group's printing businesses focus on two growing market segments: book printing and paper products printing.

(i) Book Printing

The Group is one of the leading book printers and exporters in Asia. Over 90% of our sales are exported. Our customers include multinational publishers and conglomerates in the United States, Europe, Australia and New Zealand.



The Group participated in international book fair

The emotional effect of the 911 incident had not affected the fundamental of the Group's printing business. Turnover of book printing picked up rapidly in the second half of 2002 as publishers and customers unfolded their printing orders which were held back during the first half of the year. Our investment in technology is proven to be correct. During 2002, we added two new computer-to-plates ("CTPs") in our Yuanzhou plant which are well-received by customers. With the use of CTPs, clients are provided with a digital filmless solution, which is able to save on pre-press costs and shorten production cycle for order fulfillment.



Computer-to-plates in Yuanzhou Plant

To fulfill the growing demand for book printing from existing customers and potential customers, we are undertaking the first phase expansion plan in our Yuanzhou plant for additional printing facilities as well as hand-assembly capacity for novelty books. A 2-storey premises adjacent to the existing Yuanzhou plant is under construction and will be completed in the second quarter of 2003. Upon completion, the total gross floor area of Yuanzhou plant will be increased from 260,000 sq. ft. to 410,000 sq. ft., of

which an additional 75,000 sq. ft. will be used for hand-assembly works. Two new printing presses will be installed in 2003, including a 5-colour press and a 8-colour perfecter. Following these expansion, printing capacity of the Yuanzhou plant will be enhanced by more than 30% in order to accommodate our growth in sales.

Furthermore, we are conducting a feasibility study on the second phase expansion plan in our Yuanzhou plant. We plan to acquire the adjacent site with a site area of 450,000 sq. ft. for further expansion of our production capacity.



Yuanzhou Plant Extension (Artist Impression)

(ii) *Paper Products Printing*

With an aim to put our resources to better use and to enhance profitability, the Group repositioned its packaging printing and commercial printing, and formed a new division, the paper products printing division.

Turnover of packaging printing in our Dongguan plant recorded a double digit growth during 2002, as demand for packaging printing in the Pearl River Delta region improved along with the role of China as the world's production base becoming more prominent. Outlook for the packaging printing is promising.



Diversified into paper products printing

On the other hand, however, turnover of our commercial printing in Hong Kong continued to fall, as the local operating environment remained difficult during 2002. In order to eliminate the loss-making impact of commercial printing on the Group's bottom line, the Group has recently decided to relocate the printing resources in its leased Tsuen Wan plant to Dongguan, such that resources will be focused on the higher growth paper products printing.



Newly leased Dongguan Plant

post-press facilities during the second quarter of 2003. These strategy and expansion will provide a solid base for our paper products printing business to further prosper.

To cater for the expansion plan, at the beginning of 2003, the Group leased a 4-storey premises adjacent to its Dongguan plant to expand its production area from 410,000 sq. ft. to 660,000 sq. ft.. Besides the relocation of the Group's production facilities from its Tsuen Wan plant, we shall also install a new 6-colour full-size printing press, paper corrugator, and ancillary

In addition to packaging boxes, the Group is broadening its product coverage to paper products printing, including paper gift boxes and paper bags, which require quality printing as well as abundant hand-assembly works. The widening of product range will reduce the seasonal impact of packaging boxes on the Group's production resources. Management resources and additional sales and marketing team are put into place on paper products printing. On the marketing side, the Group will embark on a series of active promotion to buyers overseas and in the PRC, as well as to enhance its ability on product design.

(b) Property Division

The Group holds the entire interests in Lambda Building, Yuen Sang Building and three blocks of residential units of Chuang's Garden in Huiyang, the PRC, as well as 51% interests in a commercial podium and basement of Chengdu Chuang's Centre in Sichuan, the PRC, with total attributable gross floor area of 920,500 sq. ft..

During the year under review, the property division contributed stable rental income. Occupancy rate of Yuen Sang Building and Lambda Building improved to about 80% with annual rental of about HK\$3.0 million. The three blocks of 372 residential units of Chuang's Garden are subject to the rental guarantee of not less than HK\$3,880,000 per annum, expiring by the end of 2003. Subsequent to the year under review, 92 units of Chuang's Garden have been leased.



Chengdu Chuang's Centre, Chengdu, Sichuan

In Chengdu, the entire 7-storey commercial podium and basement 1 of Chengdu Chuang's Centre have been fully leased for a period of 10 years, in addition to the lease of the commercial signboards for 10 years. These leases commenced in the fourth quarter of 2002. The aggregate annual rental will amount to about RMB12.6 million (approximately HK\$11.8 million) for the first full year, with escalating rent thereafter. Total rental income for the entire lease period will amount to approximately RMB175.0 million (or approximately HK\$163.6 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2002, the Group's bank balances and cash amounted to HK\$182.1 million (2001: HK\$136.2 million) and bank borrowings and obligation under finance lease amounted to HK\$86.7 million (2001: HK\$81.3 million), of which HK\$38.9 million (2001: HK\$21.3 million) are due from the second to the fifth year. Therefore, the calculation of net debt to equity ratio was not applicable because the Group had surplus cash of about HK\$95.4 million (2001: HK\$55.0 million) over bank borrowings and obligation under finance lease. Most of the Group's bank balances and borrowings were denominated in Hong Kong dollars and United States dollars, risk in exchange rate fluctuation would not be material. At the balance sheet date, certain assets of the Group with net book values of HK\$108.5 million (2001: HK\$110.2 million) had been pledged to secure borrowings granted to the Group.

In April 2002, Chuang's China Investments Limited exercised its rights to convert HK\$7.2 million Series A preference shares of the Company into 24,000,000 ordinary shares of the Company. Subsequent to 31st December, 2002, the Group redeemed 83,333,333 Series B preference shares of the Company at HK\$0.60 each, totaling HK\$50 million. As at the date of this report, the Group has in issue HK\$43.2 million Series A preference shares and HK\$152.5 million Series B preference shares.

MANAGEMENT

To cater for the Group's strategy to focus on book printing and paper products printing, we have strengthened our management team as follows:-

1. Mr. Kwong Tin Lap, our Group Managing Director, continues to be responsible for the overall management of the Group, and in particular the development of the book printing business.
2. Mr. Kwok Chi Fai was promoted as the Group Deputy Managing Director, and is in charge of the development of the paper products printing business.
3. Mr. Ng Kwok Keung, Thompson joined our paper products printing division, who is in charge of sales and business development. Mr. Ng is a committee member of our paper products printing as mentioned below. He has over 31 years of experiences in the paper products and packaging printing business.

4. Two sub-committees were formed. One is for the book printing business and the other is for the paper products printing business. The members of each of the sub-committee comprise the executive directors of the Company and the respective general manager of our plants in the PRC. The function of the sub-committee is to steer the development of each business closely along the direction of the board.
5. Mr. Cheng Wing Keung was promoted as Financial Controller of the Group, responsible for finance and accounting.

THE OUTLOOK FOR 2003 AND BEYOND

Amid its low production costs and abundant labour supply, the PRC has become the global production base for the book printing industry. In terms of import sources of books to the United States, being the major book market in the world, the PRC has been gaining market share over the past few years. Multinational book publishers have been shifting their printing orders from high-cost regions to low-cost regions like the PRC. The Group, being one of the largest book printers in the PRC with both the capability and capacity, is poised to continue to benefit from this trend in the long term. The prospects are very promising.

The paper products printing division is expected to see a significant growth in profitability in 2003 as the Group has scaled down the unfavourable commercial printing business in Hong Kong since early 2003 and shifted the resources to focus on higher growth paper products printing business in the PRC.

To meet the strong and growing demand for our printing business, the Group plans to invest HK\$60 million in 2003 to expand our plants and machineries in the PRC, which will well-equip ourselves for another year of significant growth.

For the printing business, the outlook for the first half of 2003 is positive. The strong demand for printing services in the second half of 2002 is indicative of buyer's positive market forecast for 2003, with expected sales for the first quarter of 2003 to record a double-digit growth.

The Group will continue to look for business expansion in overseas markets and take proactive strategies to strengthen customer value and brand building. The Group will actively participate in international trade fairs, including the Bologna Children's Book Fair, Bookexpo America, and the Frankfurt Book Fair. The PRC is also one of the high potential markets for us to explore. In addition to the sales force in Shenzhen, a new sales force will be set up in Beijing to serve clients domestically, paving our way to capture market potential in the future.

On the property investment front, rental income is expected to increase substantially in 2003 since Chengdu Chuang's Centre will begin to make the first full-year rental contribution to the Group this year as compared with less than three months in 2002.

Overall, both the printing and property divisions are expected to see growth this year. The Group is confident that 2003 will be another fruitful year to shareholders.

STAFF

As at 31st December, 2002, the Group employed 2,100 staff and workers approximately, with their remuneration normally reviewed annually. The Group also provides its staff with other benefits including year-end double-pay, discretionary bonus, contributory provident fund, share options and medical insurance. Staff training is also provided as and when required.

APPRECIATION

On behalf of the board of directors, I would like to express my heartfelt thanks to Mr. TANG Wei, Donald for his valuable contribution throughout his services with the Company for the past years and to all management and staff for their dedicated contribution. With the support of my colleagues, I am confident that we can look ahead and continue to maximize our resources to bringing greatest reward to our shareholders.

CHAN Sheung Chiu

Chairman

Hong Kong, 10th March, 2003