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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in SNP Leefung Holdings Limited, you should at once hand this circular to the purchaser or the transferee, or to the bank, licensed securities dealer or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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SNP LEEFUNG HOLDINGS LIMITED

利豐雅高印刷集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 623)

**MAJOR TRANSACTION
INVOLVING ACQUISITION OF 60% EQUITY INTEREST IN
YAU YUE PAPER PRODUCTS LIMITED**

Financial adviser to SNP Leefung Holdings Limited



* For identification purposes only

CONTENTS

| | <i>Page</i> |
|---|-------------|
| Definitions | 1 |
| Letter from the Board | |
| Introduction | 5 |
| The Acquisition Agreement | 6 |
| Information on Yau Yue | 10 |
| Shareholding structure of Yau Yue | 22 |
| Reasons for and benefits of the Acquisition | 22 |
| Implications under the Listing Rules | 23 |
| Additional information | 23 |
| Appendix I – Accountants’ report on Yau Yue | 24 |
| Appendix II – Financial information on the Group | 55 |
| Appendix III – Financial information on the Enlarged Group | 95 |
| Appendix IV – General information | 102 |

DEFINITIONS

In this circular, unless the context requires otherwise, the following expressions have the following meanings:

| | |
|-------------------------|---|
| “Acquisition” | the proposed acquisition of the Sale Shares by the Company from the Vendors pursuant to the Acquisition Agreement |
| “Acquisition Agreement” | the conditional agreement dated 18 March 2005 entered into between the Company, the Vendors and the Warrantors in relation to, among other things, the Acquisition and the Options |
| “associate” | the meaning ascribed to it under the Listing Rules |
| “Board” | the board of Directors |
| “business day” | a day (not being a Saturday or days on which a typhoon signal no. 8 or black rainstorm warning is hoisted in Hong Kong at 10:00 a.m.) on which banks are generally open for general banking business in Hong Kong |
| “Call Option” | the option granted by the Vendors to the Company pursuant to the Acquisition Agreement entitling the Company the right to require the Vendors to sell the Call Option Shares |
| “Call Option Shares” | ordinary shares representing the remaining shareholding interest in Yau Yue (excluding the Sale Shares) held by the Vendors that may be acquired by the Company upon exercise of the Call Option, which in any event shall not be less than 40% of the issued share capital of Yau Yue |
| “Company” | SNP Leefung Holdings Limited, a company incorporated in Bermuda with limited liability and the shares of which are listed on the Main Board of the Stock Exchange |
| “Completion” | completion of the sale and purchase of the Sale Shares in accordance with the terms of the Acquisition Agreement |
| “CTT” | CTT & Associates Limited, a company incorporated under the laws of the Kingdom of Thailand. As at the Latest Practicable Date, the Company was interested in approximately 98.93% of the total voting share capital of CTT, which was interested in approximately 5.07% of the total voting share capital of Excel (Thai) |

DEFINITIONS

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| “Deduction” | the shortfall of the audited net asset value of Yau Yue as at 31 December 2004 that bears to HK\$57.8 million, which amount shall be deducted from the Shareholders’ Loan on a dollar for dollar basis and such deducted amount shall be deemed irrevocably and unconditionally waived by the Vendors |
| “Directors” | directors of the Company |
| “Dividend” | the aggregate Net Profit for the Relevant Period or (if the aggregate Net Profit for the Relevant Period is less than HK\$30 million) for the period from 1 January 2005 to 31 December 2008, which amount shall be declared as dividend and be payable to the Company and the Vendors proportional to their shareholding interest at the time |
| “Enlarged Group” | the Group and Yau Yue Group |
| “Excel (HK)” | SNP Excel (Hong Kong) Company Limited (formerly known as SNP Excel United Company Limited), a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company as at the Latest Practicable Date |
| “Excel (Thai)” | SNP Excel (Thailand) Co., Ltd. (formerly known as SNP SPrint (Thailand) Co., Ltd.), a company incorporated under the laws of the Kingdom of Thailand. As at the Latest Practicable Date, the Company, through itself and CTT, had an effective interest of approximately 99.95% of the voting share capital of Excel (Thai) |
| “Group” | the Company and its subsidiaries |
| “HIBOR” | Hong Kong Interbank Offered Rate |
| “Hong Kong” | the Hong Kong Special Administrative Region of the PRC |
| “Keep Happy” | Keep Happy Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is beneficially owned by Mr. Kwong Chi Kin |

DEFINITIONS

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|---------------------------|--|
| “Latest Practicable Date” | 27 April 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange |
| “Ms. Zhang” | Ms. Zhang Li Fang, an independent third party who is not a connected person (as defined in the Listing Rules) of the Company |
| “Net Profit” | the audited net profit after taxation of Yau Yue and excluding extraordinary items, any amounts received or written back for debt or any other provisions, which shall be calculated by reference to the prevailing generally accepted accounting principles in Hong Kong and adopted by Yau Yue |
| “Options” | collectively the Call Option and the Put Option |
| “PRC” | the People’s Republic of China |
| “Put Option” | the option granted by the Company to the Vendors pursuant to the Acquisition Agreement entitling the Vendors the right to require the Company to purchase the Put Option Shares |
| “Put Option Shares” | ordinary shares representing the remaining shareholding interest in Yau Yue (excluding the Sale Shares) held by the Vendors that may be sold to the Company upon exercise of the Put Option, which in any event shall not be less than 40% of the issued share capital of Yau Yue |
| “Relevant Period” | the period from 1 January 2005 to 31 December 2007 (both dates inclusive) |
| “Sale Shares” | 2,640,000 ordinary shares of HK\$1.00 each in the capital of Yau Yue, representing 60% of the issued share capital of Yau Yue |
| “SFO” | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| “Share(s)” | ordinary share(s) of HK\$1.00 each in the share capital of the Company |

DEFINITIONS

| | |
|----------------------|---|
| “Shareholder(s)” | holder(s) of the Shares |
| “Shareholders’ Loan” | the amount owing by Yau Yue to its shareholders as at the date of Completion, the aggregate amount of which was approximately HK\$20.2 million as at the Latest Practicable Date |
| “SNP Corporation” | SNP Corporation Ltd, a company incorporated in Singapore and whose issued shares are listed on the Singapore Exchange. As at the Latest Practicable Date, SNP Corporation was the controlling shareholder of the Company having an approximately 70.11% interest in the issued share capital of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “US” | United States of America |
| “Vendors” | collectively Keep Happy, Winter Stars and Ms. Zhang |
| “Warrantors” | Mr. Kwong Chi Kin and Mr. Kwong Chi Keung |
| “Winter Stars” | Winter Stars Enterprises Limited, a company incorporated in the British Virgin Islands with limited liability and the entire issued share capital of which is beneficially owned by Mr. Kwong Chi Keung |
| “Yau Yue” | Yau Yue Paper Products Limited, a company incorporated in Hong Kong with limited liability |
| “Yau Yue Group” | Yau Yue and its subsidiaries from time to time |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “S\$” | Singapore dollars, the lawful currency of Singapore |
| “US\$” | United States dollars, the lawful currency of the US |



SNP LEEFUNG HOLDINGS LIMITED

利豐雅高印刷集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 623)

Executive Directors:

Yeo Chee Tong
Yang Sze Chen, Peter

Non-executive Director:

Tay Siew Choon

Independent non-executive Directors:

Cheng Wai Wing, Edmund
John Robert Walter
Lai Ming, Joseph
Kan Lai Kuen, Alice

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10th Floor
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Central
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29 April 2005

To the Shareholders

Dear Sir or Madam,

**MAJOR TRANSACTION
INVOLVING ACQUISITION OF 60% EQUITY INTEREST IN
YAU YUE PAPER PRODUCTS LIMITED**

INTRODUCTION

On 18 March 2005, the Board announced that the Company, the Vendors and the Warrantors entered into the Acquisition Agreement pursuant to which, among other things, (i) the Vendors conditionally agreed to sell and the Company conditionally agreed to purchase or procure the purchase of the Sale Shares, representing 60% of the issued share capital of Yau Yue, for an aggregate cash consideration of HK\$68.4 million; and (ii) the Vendors granted to the Company the Call Option and the Company granted to the Vendors the Put Option on terms as set out in the paragraph headed "The Options" below.

* For identification purposes only

LETTER FROM THE BOARD

The Acquisition together with the acceptance of the Call Option and the grant of the Put Option constitute a major transaction of the Company pursuant to Rule 14.06(3) of the Listing Rules. The purpose of this circular is to provide you with further information on the Acquisition Agreement and Yau Yue.

THE ACQUISITION AGREEMENT

Date

18 March 2005

Parties

Vendors: Keep Happy, Winter Stars and Ms. Zhang. As at the Latest Practicable Date, Keep Happy was beneficially and wholly owned by Mr. Kwong Chi Kin and Winter Stars was beneficially and wholly owned by Mr. Kwong Chi Keung. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, each of Keep Happy, Winter Stars and their respective beneficial owners and Ms. Zhang is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company. Keep Happy and Winter Stars are investment holding companies.

As at the Latest Practicable Date, Keep Happy, Winter Stars and Ms. Zhang were interested in 61.75%, 33.25% and 5% of the issued share capital of Yau Yue respectively.

Purchaser: the Company

Warrantors: Mr. Kwong Chi Kin and Mr. Kwong Chi Keung

Assets to be acquired

2,640,000 ordinary shares of HK\$1.00 each in the capital of Yau Yue, representing 60% of the issued share capital of Yau Yue.

Consideration

The aggregate consideration for the sale and purchase of the Sale Shares is HK\$68.4 million, to be shared between the Vendors in accordance with the percentage of their shareholding interest to be sold to the Company. The consideration has been agreed by the parties after arm's length negotiation. In arriving at the consideration, the Directors have considered factors including the historic financial results, net asset backing and business prospects of Yau Yue. Based on its audited financial statements, Yau Yue reported net profit for the year ended 31 March 2002, 2003 and 2004 of approximately HK\$12.1 million, HK\$22.7 million and HK\$31.9 million respectively. The consideration represents a price earnings multiple of approximately 5.1 times of the yearly average audited net profit of Yau Yue for the three years ended 31 March 2004 of approximately HK\$22.2 million. The Directors consider

LETTER FROM THE BOARD

that the historic price earnings multiple of approximately 5.1 times derived from the consideration is reasonable given that the shares of the Company, which is also a printing company, were traded at a historic price earnings multiple of approximately 11 times as at the date of the Acquisition Agreement.

The consideration will be fully satisfied in cash by drawing down on part of the Group's unutilized banking facilities.

Immediately after the signing of the Acquisition Agreement, the Company placed a refundable deposit of HK\$6.84 million into an escrow account maintained by the Company's solicitors.

The deposit and an amount of HK\$51.56 million shall be paid to the Vendors at Completion. The Company shall withhold an amount of HK\$10 million from the consideration payable to the Vendors by placing such amount with the Company's solicitors to be held in escrow as security for their obligations under the profit undertaking, as further detailed in the paragraph headed "Profit undertaking" of this letter. Such amount will be released to the Vendors immediately upon the provision by the Vendors of a bank guarantee in favour of the Company in the same amount.

On Completion, Yau Yue shall repay to the Vendors 60% of the Shareholders' Loan less the Deduction, if any, and less any amounts owing from the Vendors and/or the Warrantors to Yau Yue as at the date of Completion. The amount of the Shareholders' Loan and the total amount owing from the Vendors and/or the Warrantors to Yau Yue as at the Latest Practicable Date (both of which are unaudited) were approximately HK\$20.2 million and HK\$2.0 million respectively. The Directors do not expect any significant increase in the Shareholders' Loan at Completion given the entering into the Acquisition Agreement by the Vendors to dispose of 60% interest in Yau Yue.

On Completion, the Company shall procure that a shareholders' loan of an amount equal to 60% of the Shareholders' Loan less the Deduction, if any, and less any amounts owing from the Vendors and/or the Warrantors to Yau Yue as at the date of Completion shall be made to Yau Yue.

Pursuant to the Acquisition Agreement, the parties thereto have agreed that they shall use their reasonable endeavours to arrange borrowings/banking facilities for Yau Yue and provide such security and/or guarantee as may be required by a lender. The liability of each party with respect to any security/guarantee shall be proportional to their shareholding interest in Yau Yue as at Completion.

Conditions

Completion is conditional upon the following conditions:

- (a) the approval by the Shareholders of the Acquisition Agreement, the purchase of the Sale Shares, the acceptance of the Call Option and the grant of the Put Option, at a duly convened special general meeting (if necessary) or the obtaining of a written approval from SNP Corporation Ltd, being acceptable to the Stock Exchange, in lieu of holding a general meeting;

LETTER FROM THE BOARD

- (b) the Company undertaking a due diligence investigation in respect of Yau Yue including but not limited to the affairs, business, assets, results, legal and financing structure of Yau Yue and the Company being reasonably satisfied with the results of such due diligence investigation;
- (c) no event having occurred since the date of the Acquisition Agreement to Completion, the consequence of which is to materially and adversely affect the financial position, business or property, results of operations or business prospects of Yau Yue and such material adverse effect shall not have been caused;
- (d) the Company being satisfied that Yau Yue has no subsidiaries or interest in any other company and that its former subsidiary, Yau Ying Paper Products Limited, has been validly and effectively disposed of by Yau Yue;
- (e) the Company having despatched a circular to its Shareholders in connection with the transaction contemplated in the Acquisition Agreement as required under Chapter 14 of the Listing Rules; and
- (f) the warranties given by Keep Happy, Winter Stars and the Warrantors in the Acquisition Agreement, which relate to, among others, the business and operations, properties, accounts, taxation, litigation and financial matters of Yau Yue, remaining true and accurate and not misleading at Completion and at all times between the date of the Acquisition Agreement and Completion.

If any of the above conditions have not been fulfilled or waived by the Company (other than condition (a) which may not be waived) on or before 30 June 2005 (or such other date as the parties to the Acquisition Agreement may agree), the Acquisition Agreement shall terminate.

Up to the Latest Practicable Date, conditions (a), (b) and (d) above have been satisfied.

Subject to the fulfillment (or waiver) of the conditions on or before 30 June 2005 (or such other date as the parties may agree), Completion shall take place on the fifth business day after all the conditions have either been fulfilled or waived or at such other time as the parties shall agree.

Profit undertaking

Keep Happy, Winter Stars and the Warrantors have jointly and severally undertaken to the Company that in the event that the aggregate Net Profit for the Relevant Period shall be less than HK\$60 million (“Attained Lower Profit”), Keep Happy and Winter Stars will pay to the Company an amount equal to 60% of the shortfall of the Attained Lower Profit bears to HK\$60 million provided that the amount to be paid by Keep Happy and Winter Stars in total shall not exceed HK\$68.4 million less 60% of the audited net asset value of Yau Yue as at 31 December 2007.

LETTER FROM THE BOARD

The Options

The Vendors have granted to the Company the option to require the Vendors to sell to the Company the Call Option Shares (which shall not be less than 40% of the issued share capital of Yau Yue) at an aggregate consideration (“Call Option Consideration”) of (i) if the aggregate Net Profit for the Relevant Period is not less than HK\$30 million, 40% of a price earnings multiple of 6 times on the yearly average Net Profit for the Relevant Period or 40% of the audited net asset value of Yau Yue (ex-Dividend) as at 31 December 2007 (whichever is the higher); or (ii) if the aggregate Net Profit for the Relevant Period is less than HK\$30 million, 40% of a price earnings multiple of 6 times on the yearly average Net Profit for the period from 1 January 2005 to 31 December 2008 or 40% of the audited net asset value of Yau Yue (ex-Dividend) as at 31 December 2008 (whichever is the higher). The price earnings multiple of 6 times used for determining the Call Option Consideration has been agreed among the parties after arm’s length negotiation. The Directors consider that such price earnings multiple is reasonable given the fact that by having the Call Option, the Company is able to lock in the pricing mechanism for the purchase of the remaining 40% interest in Yau Yue, which may only take place in 3 or 4 years’ time.

The Call Option may be exercised only in whole by the Company in writing to the Vendors (i) within one month after the publication by the Company of its audited consolidated accounts for the year ending 31 December 2007 provided that the aggregate Net Profit for the Relevant Period is not less than HK\$30 million; or (ii) within one month after the publication by the Company of its audited consolidated accounts for the year ending 31 December 2008 if the aggregate Net Profit for the Relevant Period is less than HK\$30 million.

Completion of the sale and purchase of the Call Option Shares pursuant to the exercise of the Call Option is subject to compliance by the Company with all relevant rules of the Listing Rules relating to such exercise and shall, subject to the fulfilment of the aforesaid condition, take place within 2 months from the date of written notice given by the Company to the Vendors (and in any event not later than (i) 30 June 2008 if the aggregate Net Profit for the Relevant Period is not less than HK\$30 million; or (ii) 30 June 2009 if the aggregate Net Profit for the Relevant Period is less than HK\$30 million) (or such other date as the parties may agree).

A notice of exercise of the Call Option shall be deemed to have been served by the Company if either (i) the aggregate Net Profit for the Relevant Period is more than HK\$30 million; or (ii) the aggregate Net Profit for the period from 1 January 2005 to 31 December 2008 is more than HK\$40 million, each as determined by Yau Yue’s auditors. In the event that the aggregate Net Profit for the Relevant Period is less than HK\$30 million and the aggregate Net Profit for the period from 1 January 2005 to 31 December 2008 is less than HK\$40 million, the Company has the discretion to determine whether to exercise the Call Option. In such a case, completion of the sale and purchase of the Call Option Shares pursuant to the exercise of the Call Option shall, subject to compliance by the Company with all relevant rules of the Listing Rules relating to such exercise, take place within 2 months (or such later date as the parties may agree) from the date of determination of the relevant Net Profit by the auditors of Yau Yue.

LETTER FROM THE BOARD

The Company has also granted to the Vendors the option to require the Company to purchase all the Put Option Shares (which shall not be less than 40% of the issued share capital of Yau Yue) at an aggregate consideration of an amount equal to a 20% discount on 40% of the audited net asset value (ex-Dividend) of Yau Yue as at 31 December 2008. Given that the Put Option is exercised at the discretion of the Vendors, the Directors consider it appropriate to build in some protection for the Company and accordingly the consideration for the purchase of the Put Option Shares is set at a 20% discount to the net asset value of Yau Yue.

The Put Option may be exercised only in whole by the Vendors collectively if the Net Profit for the Relevant Period is less than HK\$30 million and only in writing to the Company within one month after the publication by the Company of its audited consolidated accounts for the year ending 31 December 2008.

Completion of the sale and purchase of the Put Option Shares pursuant to the exercise of the Put Option is subject to compliance by the Company with all relevant rules of the Listing Rules relating to such exercise and shall, subject to the fulfilment of the aforesaid condition, take place within 2 months from the date of written notice given by the Vendors to the Company (or such later date as the parties may agree).

If the aggregate Net Profit for the Relevant Period exceeds HK\$60 million, then upon completion of the sale and purchase of the Call Option Shares, the Company shall pay to the Vendors an additional aggregate sum equal to 5% of the Call Option Consideration.

The Put Option shall only be exercisable if the Call Option has not been exercised at the relevant time and vice versa.

The Company will comply with Chapter 14 of the Listing Rules if the Call Option or the Put Option is exercised.

INFORMATION ON YAU YUE

Yau Yue was incorporated in Hong Kong with limited liability on 8 January 1988. Yau Yue is principally engaged in the production of corrugated box and sheets in the People's Republic of China. The principal assets of Yau Yue are trade receivables, plant and machinery and inventories for the operation of its business. Yau Yue was owned as to 61.75%, 33.25% and 5% by Keep Happy, Winter Stars and Ms. Zhang respectively as at the Latest Practicable Date.

During the period from August 2003 to March 2005, Yau Yue had a wholly owned subsidiary, Yau Ying Paper Products Limited. Yau Ying Paper Products Limited has had a 100% equity interest in Yau Ying Paper Products (Shenzhen) Limited since December 2003. In March 2005, Yau Yue disposed of 99.99% equity interest in Yau Ying Paper Products Limited. In April 2005, Yau Yue disposed of the remaining 0.01% equity interest in Yau Ying Paper Products Limited. As at the Latest Practicable Date, Yau Yue did not have any subsidiaries or any interest in any other company.

LETTER FROM THE BOARD

Financial information

Based on the accountants' report on Yau Yue set out in Appendix I to this circular, the audited consolidated net asset value of Yau Yue was approximately HK\$57.9 million and HK\$47.3 million as at 31 December 2004 and 31 March 2004 respectively and the audited net asset value of Yau Yue was approximately HK\$36.3 million as at 31 March 2003. The following table shows the audited consolidated results of Yau Yue for the nine months ended 31 December 2004 and the year ended 31 March 2004 and the audited results of Yau Yue for the year ended 31 March 2003 as extracted from the accountants' report on Yau Yue set out in Appendix I to this circular:

| | For the nine months ended 31 December 2004 (Audited) <i>HK\$'million</i> | For the year ended 31 March 2004 (Audited) <i>HK\$'million</i> | For the year ended 31 March 2003 (Audited) <i>HK\$'million</i> |
|------------------------|---|---|---|
| Turnover | 219.5 | 261.9 | 227.3 |
| Profit before taxation | 11.6 | 34.3 | 24.9 |
| Profit after taxation | 10.6 | 31.2 | 22.8 |

Upon Completion, the Company will be interested in 60% of the issued share capital of Yau Yue and Yau Yue will become a subsidiary of the Company. Accordingly, the results of Yau Yue will be consolidated into the accounts of the Company so long as Yau Yue remains a subsidiary of the Company.

Management discussion and analysis of the results and financial conditions of Yau Yue (in respect of the two years ended 31 March 2003) or the Yau Yue Group (in respect of the year ended 31 March 2004 and nine months ended 31 December 2004)

Results of operation

For the year ended 31 March 2002

Turnover

Turnover for the year ended 31 March 2002 of approximately HK\$177.9 million was derived from the manufacture and sales of corrugated paper products.

Cost of sales

Cost of sales for the year ended 31 March 2002 of approximately HK\$148.2 million mainly comprised raw material costs of approximately HK\$121.6 million and other production costs of approximately HK\$26.6 million.

Gross profit

Gross profit was approximately HK\$29.7 million, representing an overall gross profit margin of approximately 16.7% for the year ended 31 March 2002.

Selling and distribution costs

Selling and distribution costs for the year ended 31 March 2002 of approximately HK\$9.5 million mainly comprised transportation cost of approximately HK\$9.0 million and sales commission of approximately HK\$0.5 million.

LETTER FROM THE BOARD

Administrative expenses

Administrative expenses for the year ended 31 March 2002 of approximately HK\$5.7 million mainly comprised amortization cost of assets of approximately HK\$1.0 million, salaries of approximately HK\$2.0 million and other office expenses of approximately HK\$2.7 million.

Profit from operations

Profit from operations amounted to approximately HK\$14.4 million for the year ended 31 March 2002.

Finance costs

Finance costs for the year ended 31 March 2002 of approximately HK\$1.3 million mainly comprised interest on bank borrowings of approximately HK\$1.2 million and interest on obligations under finance lease of approximately HK\$0.1 million.

Taxation

Taxation was calculated at 16% of the estimated assessable profit derived in Hong Kong. Taxation for the year ended 31 March 2002 amounted to approximately HK\$1.0 million, equivalent to an effective tax rate of approximately 7.7%.

Net profit attributable to shareholders

Net profit attributable to shareholders for the year ended 31 March 2002 was approximately HK\$12.1 million.

For the year ended 31 March 2003

Turnover

Turnover for the year ended 31 March 2003 amounted to approximately HK\$227.3 million, representing an increase of approximately HK\$49.4 million or approximately 27.8% as compared to the previous financial year.

The significant increase was mainly attributable to the successful effort of the sales and marketing team in enlarging the customers base. The increase in sales was mainly from new customers who were engaged in the furniture industry.

Cost of sales

Cost of sales for the year ended 31 March 2003 was approximately HK\$182.7 million, representing an increase of approximately HK\$34.5 million or approximately 23.3% as compared to the year ended 31 March 2002. The increase was in line with the increase in turnover. Cost of sales for the year mainly consisted of raw material costs of approximately HK\$152.0 million and other production costs of approximately HK\$30.7 million.

LETTER FROM THE BOARD

Gross profit

Gross profit margin was approximately 19.6% for the year ended 31 March 2003, as compared to the gross profit margin of approximately 16.7% for the year ended 31 March 2002. The increase in the gross profit margin was mainly attributable to the decrease in costs of raw material. Such decrease was mainly due to the use of new sources of supplies of paper from Europe. Even though the prices of paper from Europe were generally higher than those supplied from Hong Kong and Taiwan, the better strength and quality of the paper from Europe enabled Yau Yue to use lesser weight of paper in its products. As a result, raw material cost per unit of finished goods declined without adversely affecting product quality and required specification from customers.

Other operating income

Other operating income for the year ended 31 March 2003 amounted to approximately HK\$0.1 million, which mainly comprised general insurance compensation and interest income.

Selling and distribution costs

Selling and distribution costs for the year ended 31 March 2003 amounted to approximately HK\$12.2 million, representing an increase of approximately HK\$2.6 million or approximately 27.7% as compared to the year ended 31 March 2002. Selling and distribution costs mainly comprised transportation cost of approximately HK\$11.3 million and sales commission of approximately HK\$0.8 million. The increase in selling and distribution costs was in line with the increase in turnover during the year.

Administrative expenses

Administrative expenses for the year ended 31 March 2003 amounted to approximately HK\$6.4 million, representing an increase of approximately HK\$0.6 million or approximately 11.1% from the previous financial year. Administrative expenses mainly comprised amortization cost of assets of approximately HK\$1.2 million, salaries of approximately HK\$2.7 million and other office expenses of approximately HK\$2.5 million. The increase was mainly attributable to a new provision of HK\$0.6 million made for retirement benefit obligations for employees during the year.

Profit from operations

Profit from operations was approximately HK\$26.2 million for the year ended 31 March 2003, representing an increase of approximately HK\$11.7 million or approximately 81.4% from the previous financial year. The significant increase was mainly attributable to (i) the successful effort of the sales and marketing team in enlarging the customers base; (ii) reduction of production costs by using European paper supplies; and (iii) effective cost control in administrative expenses.

LETTER FROM THE BOARD

Finance costs

Finance costs for the year ended 31 March 2003 amounted to approximately HK\$1.3 million, representing a decrease of approximately HK\$0.03 million or approximately 2.2% from the previous financial year. The decrease in finance costs was mainly attributable to the lower average balance of bank borrowings and obligations under finance leases during the year.

Taxation

Taxation was calculated at 16% of the estimated assessable profit derived in Hong Kong. Taxation for the year ended 31 March 2003 was approximately HK\$2.1 million, equivalent to an effective tax rate of approximately 8.3%. The increase in effective tax rate as compared to the previous financial year was mainly due to the recognition of deferred tax assets in previous financial year of approximately HK\$0.04 million.

Net profit attributable to shareholders

Net profit attributable to shareholders was approximately HK\$22.8 million for the year ended 31 March 2003, representing an increase of approximately 88.5% as compared to the previous financial year. The significant increase was mainly attributable to the combined effect of an increase in turnover and an improvement in gross profit margin as a result of the reduction in paper costs and effective cost control in administrative expenses.

For the year ended 31 March 2004

Turnover

Turnover for the year ended 31 March 2004 amounted to approximately HK\$261.9 million, representing an increase of approximately HK\$34.6 million or approximately 15.2% as compared to the previous financial year. The increase was mainly attributable to increased orders from existing customers.

Cost of sales

Cost of sales for the year ended 31 March 2004 was approximately HK\$210.9 million, representing an increase of approximately HK\$28.2 million or approximately 15.4%. The increase was in line with the increase in turnover. The amount mainly consisted of raw material costs of approximately HK\$179.4 million and other production costs of approximately HK\$31.5 million.

Gross profit

Gross profit margin for the year ended 31 March 2004 was approximately 19.5%, which was comparable with that of the previous financial year.

LETTER FROM THE BOARD

Other operating income

Other operating income for the year ended 31 March 2004 amounted to approximately HK\$0.2 million, which mainly comprised general insurance compensation and interest income.

Selling and distribution costs

Selling and distribution costs for the year ended 31 March 2004 amounted to approximately HK\$7.8 million, representing a decrease of approximately HK\$4.3 million or approximately 35.7% as compared to the previous financial year. The decrease was mainly attributable to the decrease in transportation cost by approximately HK\$4.6 million. With the increase in sales volume, the company successfully negotiated with the transportation company in obtaining the transportation services at a lower cost.

Administrative expenses

Administrative expenses for the year ended 31 March 2004 amounted to approximately HK\$7.6 million, representing an increase of approximately HK\$1.2 million or approximately 19.3% as compared to the previous financial year. The increase in administrative expenses was mainly attributable to the increase in staff cost of approximately HK\$0.2 million and professional fee of approximately HK\$0.6 million. Such expenses were incurred to strengthen the management team and company system to meet the growing business.

Profit from operations

Profit from operations was approximately HK\$35.8 million for the year ended 31 March 2004, representing an increase of approximately HK\$9.6 million or approximately 36.5% as compared to the previous financial year. The significant increase was mainly attributable to the increase in gross profit as a result of the increase in turnover and the decrease in selling and distribution costs.

Finance costs

Finance costs for the year ended 31 March 2004 amounted to approximately HK\$1.4 million, representing an increase of approximately HK\$0.1 million or approximately 11.3% as compared to the previous financial year. The increase was mainly attributable to the higher average balance of bank borrowings and obligations under finance leases during the year.

Taxation

Taxation was calculated at 17.5% of the estimated assessable profit derived in Hong Kong. Taxation for the year ended 31 March 2004 was approximately HK\$3.1 million, equivalent to an effective tax rate of approximately 9.0%. The increase in effective tax rate as compared to the previous financial year was mainly due to the increase in Hong Kong profits tax rate.

LETTER FROM THE BOARD

Net profit attributable to shareholders

Net profit attributable to shareholders was approximately HK\$31.2 million for the year ended 31 March 2004, representing an increase of approximately HK\$8.4 million or approximately 36.8% as compared to the previous financial year. The increase was in line with the increase in profit from operations.

For the nine months ended 31 December 2004

Turnover

Turnover for the nine months ended 31 December 2004 amounted to approximately HK\$219.5 million, representing an increase of approximately 11.7% as compared to the pro rata nine-month turnover for the year ended 31 March 2004. The increase was mainly attributable to continuous growing demand from customers.

Cost of sales

For the nine months ended 31 December 2004, cost of sales was approximately HK\$190.6 million, representing approximately 86.8% of the turnover. For the year ended 31 March 2004, cost of sales represented approximately 80.5% of the turnover. The higher cost of sales to turnover ratio for the nine months ended 31 December 2004 was mainly due to (i) a general price increase in paper supplies; (ii) an abnormal increase in consumption rate per unit of finished products of production during the trial run and additional operation expenses incurred in the early commencement of operation of the new production lines from April to August 2004 in a newly established factory in the PRC.

Gross profit

Gross profit margin for the nine months ended 31 December 2004 was approximately 13.2%, as compared to approximately 19.5% for the year ended 31 March 2004. The significant decrease was due to a relatively long adjusting period for the production lines to return to normal operation after the shifting of the major production processes to the new factory in the PRC in April 2004.

Other operating income

Other operating income for the nine months ended 31 December 2004 amounted to approximately HK\$0.1 million, which mainly comprised general insurance compensation and interest income.

Selling and distribution costs

For the nine months ended 31 December 2004, selling and distribution costs amounted to approximately HK\$7.7 million, representing approximately 3.5% of the turnover. For the year ended 31 March 2004, selling and distribution costs represented approximately 3.0% of the turnover. The higher selling and distribution costs to turnover ratio for the nine months ended 31 December 2004 was mainly attributable to an increase in transportation cost.

LETTER FROM THE BOARD

Administrative expenses

Administrative expenses for the nine months ended 31 December 2004 amounted to approximately HK\$7.9 million, representing an increase of approximately 38.5% as compared to the pro rata nine-month administrative expenses for the year ended 31 March 2004. The increase was mainly attributable to an increase in professional fees.

Profit from operations

Profit from operations was approximately HK\$13.5 million for the nine months ended 31 December 2004, representing an operating profit margin of approximately 6.1%. The operating profit margin for the year ended 31 March 2004 was approximately 13.7%. The decrease in operating profit margin was mainly attributable to the decrease in gross profit as a result of production inefficiency during the initial stage of moving to the new factory and the increase in selling and distribution costs and administrative expenses as explained above.

Finance costs

Finance costs for the nine months ended 31 December 2004 amounted to approximately HK\$1.8 million, representing an increase of approximately 71.1% as compared to the pro rata nine-month finance costs for the year ended 31 March 2004. The increase was mainly attributable to the raising of short term and long term borrowings to finance increasing working capital requirements and the acquisition of more advanced and automated machineries in the newly established factory in the PRC during the period.

Taxation

Taxation was calculated at 17.5% of the estimated assessable profit derived in Hong Kong. Taxation for the nine months ended 31 December 2004 was approximately HK\$1.0 million, equivalent to an effective tax rate of approximately 8.4%. Taxation for the year ended 31 March 2004 was approximately HK\$3.1 million, equivalent to an effective tax rate of approximately 9.0%. The drop in effective tax rate for the nine months ended 31 December 2004 was mainly attributable to over-provision of profits tax in prior years.

Net profit attributable to shareholders

Net profit attributable to shareholders was approximately HK\$10.6 million for the nine months ended 31 December 2004, representing a net profit margin of approximately 4.8%. The net profit margin was approximately 11.9% for the year ended 31 March 2004. The decrease in net profit margin was mainly attributable to the decrease in gross profit as a result of production inefficiency during the initial stage of the relocation to the new factory.

Liquidity and financial resources

As at 31 March 2002

As at 31 March 2002, Yau Yue had total assets of approximately HK\$53.7 million, which were financed by liabilities of approximately HK\$30.1 million and equity of approximately HK\$23.6 million. Yau Yue had cash and bank balances of approximately HK\$3.9 million,

LETTER FROM THE BOARD

obligations under finance leases of approximately HK\$0.1 million, and bank borrowings of approximately HK\$13.8 million. All bank borrowings were utilised to fund Yau Yue's working capital. The gearing ratio, which is calculated by dividing the aggregate of bank borrowings and obligations under finance leases by total assets, was approximately 0.26.

As at 31 March 2003

As at 31 March 2003, Yau Yue had total assets of approximately HK\$82.3 million, which were financed by liabilities of approximately HK\$46.0 million and equity of approximately HK\$36.3 million. Yau Yue had cash and bank balances of approximately HK\$7.9 million, obligations under finance leases of approximately HK\$1.9 million, and bank borrowings of approximately HK\$18.2 million. The increase in liabilities by approximately HK\$15.9 million was mainly due to (i) the increase in dividend payable of approximately HK\$6.3 million; (ii) the increase in bank borrowings of approximately HK\$4.5 million for funding Yau Yue's working capital; and (iii) the increase in obligations under finance leases of approximately HK\$1.8 million as a result of the purchase of new machineries. The gearing ratio, which is calculated by dividing the aggregate of bank borrowings and obligations under finance leases by total assets, was approximately 0.24, which was comparable to the gearing ratio of approximately 0.26 as at 31 March 2002.

As at 31 March 2004

As at 31 March 2004, the Yau Yue Group had total assets of approximately HK\$146.9 million, which were financed by liabilities of approximately HK\$99.6 million and equity of approximately HK\$47.3 million. The Yau Yue Group had cash and bank balances of approximately HK\$14.1 million, obligations under finance leases of approximately HK\$9.7 million, and bank borrowings of approximately HK\$45.0 million. The increase in liabilities by approximately HK\$53.6 million was mainly due to (i) the increase in bank borrowings of approximately HK\$26.8 million which was mainly attributable to the needs of acquiring new and more advanced plant and machineries to meet the increasing demand of sales; (ii) the increase in dividend payable of approximately HK\$10.1 million; (iii) the increase in trade and other payables of approximately HK\$9.3 million which was in line with the increase in purchases; and (iv) the increase in obligations under finance leases of approximately HK\$7.8 million which arose from the purchase of machineries. As a result of the increase in obligations under finance leases and bank borrowings as explained above, the gearing ratio, which is calculated by dividing the aggregate of bank borrowings and obligations under finance leases by total assets, increased to approximately 0.37.

As at 31 December 2004

As at 31 December 2004, the Yau Yue Group had total assets of approximately HK\$160.6 million, which were financed by liabilities of approximately HK\$102.7 million and equity of approximately HK\$57.9 million. The Yau Yue Group had cash and bank balances of approximately HK\$7.2 million, obligations under finance leases of approximately HK\$8.2 million, and bank borrowings of approximately HK\$50.0 million. Total liabilities and bank borrowings remained comparable to those in previous year. The gearing ratio, which is calculated by dividing the aggregate of bank borrowings and obligations under finance leases by total assets, was approximately 0.36, which was comparable to the gearing ratio of approximately 0.37 as at 31 March 2004.

LETTER FROM THE BOARD

Capital structure and details of charges

As at 31 March 2002

As at 31 March 2002, bank borrowings amounted to approximately HK\$13.8 million, of which approximately HK\$12.6 million was due within one year from the balance sheet date and approximately HK\$1.2 million was due in the second year. All these borrowings were interest bearing and carried floating interest rates ranging from HIBOR+0.5% to HIBOR+2.25% or prime rate-0.5% or best lending rate+1% per annum. All bank loans were denominated in Hong Kong dollars. As at 31 March 2002, all cash balances were denominated in Hong Kong dollars.

As at 31 March 2002, the bank loans were secured by fixed assets of approximately HK\$2.0 million, funds on deposit owned by directors of Yau Yue and wife of a director of Yau Yue of approximately HK\$20.8 million, and personal guarantees by directors of Yau Yue of approximately HK\$28.0 million.

As at 31 March 2003

As at 31 March 2003, bank borrowings amounted to approximately HK\$18.2 million, of which approximately HK\$17.8 million was due within one year from the balance sheet date, approximately HK\$0.2 million was due in the second year, and approximately HK\$0.3 million was due in the third to fifth year. All these borrowings were interest bearing and carried floating interest rates ranging from prime rate-0.625% to prime rate-0.5% or best lending rate per annum. All bank loans were denominated in Hong Kong dollars. As at 31 March 2003, all cash balances were denominated in Hong Kong dollars.

As at 31 March 2003, the bank loans were secured by fixed assets of approximately HK\$1.9 million, funds on deposit owned by directors of Yau Yue and wife of a director of Yau Yue of approximately HK\$16.4 million, and personal guarantees by directors of Yau Yue of approximately HK\$18.0 million.

As at 31 March 2004

As at 31 March 2004, bank borrowings amounted to approximately HK\$45.0 million, of which approximately HK\$36.4 million was due within one year from the balance sheet date, approximately HK\$4.8 million was due in the second year, and approximately HK\$3.8 million was due in the third to fifth year. All these borrowings were interest bearing and carried floating interest rates ranging from prime rate-0.625% to prime rate-0.5% or HIBOR+2.75% per annum. All bank loans were denominated in Hong Kong dollars. As at 31 March 2004, all cash balances were denominated in Hong Kong dollars.

As at 31 March 2004, the bank loans were secured by fixed assets of approximately HK\$1.9 million, funds on deposit owned by directors of Yau Yue and wife of a director of Yau Yue of approximately HK\$12.5 million, and personal guarantees by directors of Yau Yue of approximately HK\$18.0 million.

LETTER FROM THE BOARD

As at 31 December 2004

As at 31 December 2004, bank borrowings amounted to approximately HK\$50.0 million, of which approximately HK\$39.7 million was due within one year from the balance sheet date, approximately HK\$6.4 million was due in the second year, and approximately HK\$3.9 million was due in the third to fifth year. All these borrowings were interest bearing and carried floating interest rates ranging from HIBOR+2.5% to HIBOR+2.75% per annum. The bank loans amounting to approximately US\$1.7 million (equivalent to approximately HK\$12.8 million) were denominated in US dollars and bank loans amounting to approximately HK\$37.2 million were denominated in Hong Kong dollars. As at 31 December 2004, approximately HK\$5.1 million and HK\$2 million of the Yau Yue Group's cash balances were denominated in Hong Kong dollars and US dollars respectively.

As at 31 December 2004, the bank loans were secured by fixed assets of approximately HK\$1.8 million, funds on deposit owned by directors of Yau Yue and wife of a director of Yau Yue of approximately HK\$13.2 million, and personal guarantees by directors of Yau Yue of approximately HK\$35.0 million.

Exchange rate exposure

For the three years ended 31 March 2004 and the nine months ended 31 December 2004, the Yau Yue Group derived its revenue, made purchases and incurred expenses denominated mainly in Hong Kong dollars and US dollars. The Yau Yue Group has utilised forward contracts of foreign currency to hedge against exchange rate risks.

Contingent liabilities

As at 31 March 2002, 2003 and 2004 and 31 December 2004, the Yau Yue Group had no contingent liabilities.

Significant investments, material acquisitions and disposals

Save as disclosed in this circular, no significant investments were held and there were no material acquisitions and disposals of subsidiaries and associated companies by the Yau Yue Group during the three years ended 31 March 2004 and the nine months ended 31 December 2004.

Staff, workers and remuneration policies

As at 31 March 2002, 2003 and 2004 and 31 December 2004, the Yau Yue Group employed approximately 530, 570, 700 and 810 employees and workers respectively and the staff costs for each of the three years ended 31 March 2004 and the nine months ended 31 December 2004 were approximately HK\$8.0 million, HK\$10.3 million, HK\$11.2 million and HK\$9.7 million respectively. The Yau Yue Group's remuneration policies are based on the prevailing industry practice, performance and experience of individual employees. Training is also provided to improve the calibre of the staff.

The Yau Yue Group does not have a share option scheme.

LETTER FROM THE BOARD

Directors

As at the Latest Practicable Date, the directors of Yau Yue were Mr. Kwong Chi Kin and Mr. Kwong Chi Keung. It is the intention of the Company to retain them as directors of Yau Yue upon Completion. Set out below is a brief description of Mr. Kwong Chi Kin and Mr. Kwong Chi Keung:

Mr. Kwong Chi Kin, aged 57, is one of the founders of Yau Yue. He is responsible for the overall corporate development planning, business development, procurement and logistics management of Yau Yue. He has over 40 years' experience in the corrugated paper products industry. He is the brother of Mr. Kwong Chi Keung.

Mr. Kwong Chi Keung, aged 50, is one of the founders of Yau Yue. He is primarily responsible for the pricing of products, operational strategies and management and also the quality control of the products of Yau Yue. He has over 30 years' experience in the corrugated paper products industry. He is the brother of Mr. Kwong Chi Kin.

Yau Yue will on Completion enter into service contracts with each of Mr. Kwong Chi Kin and Mr. Kwong Chi Keung, the material terms of which are as follows:

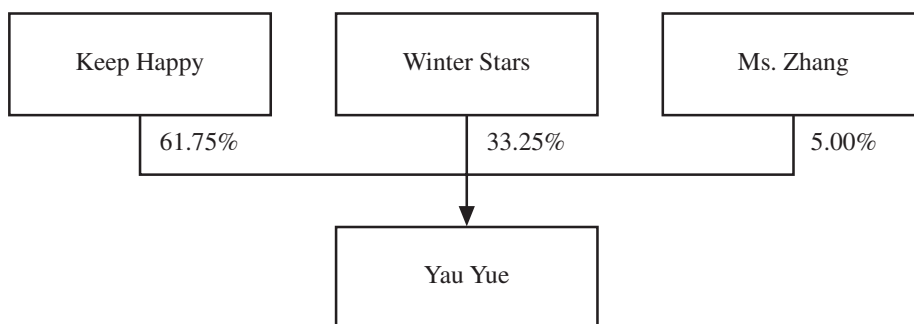
| | |
|--------------|---|
| Term: | 3 years |
| Salary: | HK\$43,000 per month plus a year end double pay equivalent to one month of basic salary |
| Termination: | Each contract is not terminable within the first 3 years unless the relevant director ceases to hold shares in Yau Yue. |

LETTER FROM THE BOARD

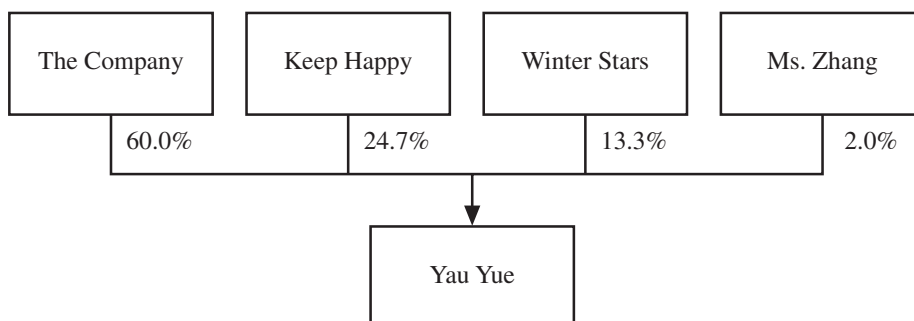
SHAREHOLDING STRUCTURE OF YAU YUE

The following diagrams illustrate the shareholding structure of Yau Yue as at the Latest Practicable Date and immediately after Completion:

As at the Latest Practicable Date



Immediately after Completion (before exercise of the Options)*



* Assuming no other changes to the issued share capital of Yau Yue and the shareholding structure in Yau Yue from the Latest Practicable Date to Completion, other than pursuant to the transactions contemplated by the Acquisition Agreement.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the printing of books, magazines, packaging products and pop-up and touch-and-feel books.

With the profitable track record of Yau Yue and its expertise in the packaging industry, the Directors consider that the Acquisition will allow the Group to leverage on the strengths of Yau Yue and benefit from the synergies achieved through the Acquisition. The Directors are of the view that the Acquisition will enable the Group to consolidate its packaging printing business by improving its operating efficiency and market competitiveness arising from economy of scale and leveraging on the brand name of Yau Yue in the corrugated paper industry. The Directors also consider that the Acquisition will enhance the earning base of the Group, thereby bringing better return to the Shareholders.

The Directors consider that the entering into of the Acquisition Agreement is in the interest of the Shareholders as a whole and that the terms of the Acquisition Agreement are fair and reasonable.

LETTER FROM THE BOARD

IMPLICATIONS UNDER THE LISTING RULES

The Acquisition together with the acceptance of the Call Option and the grant of the Put Option constitute a major transaction of the Company pursuant to Rule 14.06(3) of the Listing Rules. As no Shareholder is required to abstain from voting on the resolution to approve the Acquisition Agreement, the Acquisition, the acceptance of the Call Option and the grant of the Put Option, and a written shareholders' approval has been obtained from SNP Corporation, a Shareholder who as at the date of the Acquisition Agreement and as at the Latest Practicable Date, held 282,343,988 Shares or approximately 70.11% in nominal value of the Shares giving the right to attend and vote at a general meeting of the Company to approve the Acquisition Agreement, the Acquisition, the acceptance of the Call Option and the grant of the Put Option, the conditions stipulated under Rule 14.44 (1) and (2) of the Listing Rules are fulfilled. Accordingly, pursuant to Rule 14.44 of the Listing Rules, no general meeting of Shareholders will be held in this regard and the written shareholders' approval as aforementioned is accepted in lieu of holding a general meeting.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,

For and on behalf of the Board
SNP Leefung Holdings Limited

Yeo Chee Tong

Executive Director and Chief Executive Officer



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Hong Kong

29 April 2005

The Directors
SNP Leefung Holdings Limited
Yau Yue Paper Products Limited
Tai Fook Capital Limited

Dear Sirs,

We set out below our report on the financial information (“Financial Information”) regarding Yau Yue Paper Products Limited (“Yau Yue”) and its subsidiaries (hereinafter collectively referred to as “Yau Yue Group”) for each of the three years ended 31 March, 2002, 2003 and 2004 and the nine months ended 31 December, 2004 (the “Relevant Periods”), for inclusion in the circular of SNP Leefung Holdings Limited dated 29 April 2005 (the “Circular”), issued in connection with the proposed acquisition of Yau Yue (the “Acquisition”).

Yau Yue was incorporated in Hong Kong on 8 January, 1988 with limited liability and is principally engaged in the manufacture and trading of paper products.

As at 31 December, 2004, Yau Yue has the following subsidiaries, all of which are private limited companies, or if incorporated/established outside Hong Kong, have substantially the same characteristics as a private limited company in Hong Kong.

| Name of subsidiary | Place and date of incorporation or registration/ operations | Issued and fully paid share capital/ paid up registered capital | Attributable equity interest held by Yau Yue | | Principal activities |
|---|--|---|--|------------|---|
| | | | Directly | Indirectly | |
| Yau Ying Paper Products Limited (“Yau Ying Paper”)* | Hong Kong 20 August, 2003 | HK\$10,000 | 100% | – | Investment holding |
| Yau Ying Paper Products (Shenzhen) Limited 有盈紙品(深圳)有限公司 (“Yau Ying Shenzhen”) | The People’s Republic of China (the “PRC”) 31 December, 2003 | HK\$1,000,000 | – | 100% | Production of corrugated box and operation has not yet been commenced |

* Yau Yue disposed of 100% equity interest in Yau Ying Paper and its subsidiary Yau Ying Shenzhen subsequent to 31 December, 2004.

Since Yau Yue has no subsidiaries as at 31 March, 2002 and 31 March, 2003, no consolidated financial statements have therefore been presented.

The statutory financial statements of Yau Ying Shenzhen were prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC. The statutory auditors of Yau Ying Shenzhen were 深圳市永明會計師事務所 (Yong Ming Certified Public Accountants Company Limited) and 深圳正大華明會計師事務所 (Shenzhen Chan, Chow & Tse Certified Public Accountants), Certified Public Accountants registered in the PRC, as of period ended 31 December, 2003 and for the year ended 31 December, 2004, respectively.

The financial statements of Yau Yue for each of the three years ended 31 March, 2004 were audited by Onric CPA Limited, Certified Public Accountants registered in Hong Kong. No financial statements have been prepared for Yau Ying Paper since its incorporation. We have acted as auditors of Yau Yue Group for the nine months ended 31 December, 2004.

For the purpose of this report, we have however, undertaken our own independent audits in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") of the financial statements of Yau Ying Shenzhen and Yau Ying Paper for the Relevant Periods or since the respective date of incorporation/establishment to 31 December, 2004 which were prepared in accordance with accounting principles generally accepted in Hong Kong.

We have examined the audited financial statements or, where appropriate, management accounts ("Underlying Financial Statements") of Yau Yue Group for the Relevant Periods or from the respective date of incorporation to 31 December, 2004, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the directors of Yau Yue Group who approved their issue. The directors of SNP Leefung Holdings Limited are responsible for the contents of the Circular in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Yau Yue as at 31 March, 2002, 31 March, 2003, 31 March, 2004 and 31 December, 2004 and of Yau Yue Group as at 31 March, 2004 and 31 December, 2004 and of the results and cash flows of Yau Yue for the two years ended 31 March, 2003 and of Yau Yue Group for the year ended 31 March, 2004 and nine months ended 31 December, 2004.

A. FINANCIAL INFORMATION

Income Statements

| | <i>Notes</i> | Yau Yue | | Yau Yue Group | |
|-----------------------------------|--------------|--|--|--|---|
| | | Year ended 31 March, 2002 <i>HK\$'000</i> | Year ended 31 March, 2003 <i>HK\$'000</i> | Year ended 31 March, 2004 <i>HK\$'000</i> | Nine months ended 31 December, 2004 <i>HK\$'000</i> |
| Turnover | 4 | 177,888 | 227,278 | 261,855 | 219,456 |
| Cost of sales | | (148,203) | (182,703) | (210,923) | (190,554) |
| Gross profit | | 29,685 | 44,575 | 50,932 | 28,902 |
| Other operating income | | – | 135 | 229 | 99 |
| Selling and distribution costs | | (9,525) | (12,168) | (7,822) | (7,666) |
| Administrative expenses | | (5,723) | (6,359) | (7,588) | (7,880) |
| Profit from operations | 5 | 14,437 | 26,183 | 35,751 | 13,455 |
| Finance costs | 7 | (1,316) | (1,287) | (1,432) | (1,838) |
| Profit before taxation | | 13,121 | 24,896 | 34,319 | 11,617 |
| Taxation | 8 | (1,015) | (2,076) | (3,104) | (980) |
| Net profit for the year/period | | <u>12,106</u> | <u>22,820</u> | <u>31,215</u> | <u>10,637</u> |
| Dividends | 9 | <u>5,280</u> | <u>10,120</u> | <u>20,240</u> | <u>–</u> |
| Earnings per share – basic | 10 | <u>HK\$2.75</u> | <u>HK\$5.19</u> | <u>HK\$7.09</u> | <u>HK\$2.42</u> |

Note: As Yau Yue has no subsidiaries for the years ended 31 March, 2002 and 31 March, 2003, no consolidated income statements for the years ended 31 March, 2002 and 31 March, 2003 have therefore been presented.

Consolidated Balance Sheets

| | <i>Notes</i> | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
|--|--------------|---|--|
| Non-current asset | | | |
| Property, plant and equipment | <i>11</i> | 42,769 | 56,578 |
| Deposit paid for property, plant and equipment | | 3,531 | 496 |
| | | <u>46,300</u> | <u>57,074</u> |
| Current assets | | | |
| Inventories | <i>13</i> | 28,105 | 35,052 |
| Trade receivables | <i>14</i> | 53,672 | 59,068 |
| Amount due from a director | <i>15</i> | 806 | 854 |
| Other receivables | | 3,478 | 303 |
| Taxation recoverable | | 430 | 1,023 |
| Bank balances and cash | | 14,099 | 7,223 |
| | | <u>100,590</u> | <u>103,523</u> |
| Current liabilities | | | |
| Amount due to a director | <i>15</i> | 76 | 126 |
| Trade and other payables | <i>16</i> | 21,455 | 19,880 |
| Dividend payable | | 20,240 | 20,240 |
| Obligations under finance leases | | | |
| – due within one year | <i>17</i> | 2,515 | 2,709 |
| Bank borrowings – due within one year | <i>18</i> | 36,436 | 39,658 |
| | | <u>80,722</u> | <u>82,613</u> |
| Net current assets | | <u>19,868</u> | <u>20,910</u> |
| Total assets less current liabilities | | <u>66,168</u> | <u>77,984</u> |
| Non-current liabilities | | | |
| Obligations under finance leases | | | |
| – due after one year | <i>17</i> | 7,182 | 5,526 |
| Bank borrowings – due after one year | <i>18</i> | 8,601 | 10,378 |
| Deferred tax liabilities | <i>19</i> | 2,453 | 3,483 |
| Retirement benefit obligations | | 654 | 682 |
| | | <u>18,890</u> | <u>20,069</u> |
| Net assets | | <u>47,278</u> | <u>57,915</u> |
| Capital and reserves | | | |
| Share capital | <i>20</i> | 4,400 | 4,400 |
| Reserves | | 42,878 | 53,515 |
| Total capital and reserves | | <u>47,278</u> | <u>57,915</u> |

Balance Sheets

| | | 2002 | As at 31 March, | | As at |
|---|-------|---------------|-----------------|----------------|----------------|
| | Notes | HK\$'000 | 2003 | 2004 | 31 December, |
| | | | HK\$'000 | HK\$'000 | 2004 |
| | | | | | HK\$'000 |
| Non-current assets | | | | | |
| Property, plant and equipment | 11 | 9,535 | 11,833 | 42,769 | 56,578 |
| Deposit paid for property, plant and equipment | | – | 2,904 | 3,531 | 496 |
| Investment in a subsidiary | 12 | – | – | 10 | – |
| | | <u>9,535</u> | <u>14,737</u> | <u>46,310</u> | <u>57,074</u> |
| Current assets | | | | | |
| Inventories | 13 | 5,940 | 14,801 | 28,105 | 35,052 |
| Trade receivables | 14 | 34,187 | 43,340 | 53,672 | 59,068 |
| Amount due from a director | 15 | – | – | 806 | 854 |
| Other receivables | | 141 | 1,571 | 3,478 | 303 |
| Tax recoverable | | – | – | 430 | 1,023 |
| Bank balances and cash | | 3,935 | 7,873 | 14,095 | 7,164 |
| | | <u>44,203</u> | <u>67,585</u> | <u>100,586</u> | <u>103,464</u> |
| Current liabilities | | | | | |
| Amount due to a director | 15 | – | 1,493 | 60 | – |
| Trade and other payables | 16 | 11,335 | 12,153 | 21,455 | 19,880 |
| Dividend payable | | 3,828 | 10,120 | 20,240 | 20,240 |
| Taxation payable | | 629 | 913 | – | – |
| Obligations under finance leases – due within one year | 17 | 115 | 489 | 2,515 | 2,709 |
| Bank borrowings – due within one year | 18 | 12,603 | 17,783 | 36,436 | 39,658 |
| | | <u>28,510</u> | <u>42,951</u> | <u>80,706</u> | <u>82,487</u> |
| Net current assets | | <u>15,693</u> | <u>24,634</u> | <u>19,880</u> | <u>20,977</u> |
| Total assets less current liabilities | | <u>25,228</u> | <u>39,371</u> | <u>66,190</u> | <u>78,051</u> |
| Non-current liabilities | | | | | |
| Obligations under finance leases – due after one year | 17 | – | 1,429 | 7,182 | 5,526 |
| Bank borrowings – due after one year | 18 | 1,168 | 462 | 8,601 | 10,378 |
| Deferred tax liabilities | 19 | 457 | 536 | 2,453 | 3,483 |
| Retirement benefit obligations | | – | 641 | 654 | 682 |
| | | <u>1,625</u> | <u>3,068</u> | <u>18,890</u> | <u>20,069</u> |
| Net assets | | <u>23,603</u> | <u>36,303</u> | <u>47,300</u> | <u>57,982</u> |
| Capital and reserves | | | | | |
| Share capital | 20 | 4,400 | 4,400 | 4,400 | 4,400 |
| Accumulated profits | 21 | 19,203 | 31,903 | 42,900 | 53,582 |
| Total capital and reserves | | <u>23,603</u> | <u>36,303</u> | <u>47,300</u> | <u>57,982</u> |

Consolidated Statements of Changes in Equity

| | Share capital | Accumulated profits | Total |
|---------------------------|--------------------------|--------------------------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1 April, 2003 | 4,400 | 31,903 | 36,303 |
| Net profit for the year | – | 31,215 | 31,215 |
| Dividend | – | (20,240) | (20,240) |
| | <hr/> | <hr/> | <hr/> |
| At 31 March, 2004 | 4,400 | 42,878 | 47,278 |
| Net profit for the period | – | 10,637 | 10,637 |
| | <hr/> | <hr/> | <hr/> |
| At 31 December, 2004 | <u>4,400</u> | <u>53,515</u> | <u>57,915</u> |

Cash Flow Statements

| | Yau Yue | | Yau Yue Group | |
|--|----------------------|---------------|-----------------------------------|--------------|
| | Year ended 31 March, | | Year ended 31 March, 31 December, | |
| | 2002 | 2003 | 2004 | 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| OPERATING ACTIVITIES | | | | |
| Profit from operations | 14,437 | 26,183 | 35,751 | 13,455 |
| Adjustments for: | | | | |
| Allowance for bad and doubtful debts | – | – | 277 | 706 |
| Depreciation | 4,261 | 4,032 | 1,920 | 3,874 |
| Bank interest income | – | (2) | (4) | (7) |
| (Gain) loss on disposal of property, plant and equipment | – | (24) | 202 | – |
| Retirement benefit obligations | – | 641 | 13 | 28 |
| Operating cash flows before movements in working capital | 18,698 | 30,830 | 38,159 | 18,056 |
| Decrease (increase) in inventories | 2,305 | (8,861) | (13,304) | (6,947) |
| Increase in trade receivables | (2,994) | (9,153) | (10,609) | (6,102) |
| Decrease (increase) in other receivables | 32 | (1,430) | (1,907) | 3,175 |
| Increase in amount due from a director | – | – | (806) | (48) |
| (Decrease) increase in trade and other payables | (2,859) | 522 | 1,453 | (733) |
| Increase (decrease) in amount due to a director | – | 1,493 | (1,417) | 50 |
| Cash generated from operations | 15,182 | 13,401 | 11,569 | 7,451 |
| Hong Kong Profits Tax paid | (551) | (1,713) | (2,530) | (543) |
| Interest paid | (1,316) | (1,287) | (1,432) | (1,838) |
| NET CASH FROM OPERATING ACTIVITIES | 13,315 | 10,401 | 7,607 | 5,070 |

| | Yau Yue | | Yau Yue Group | |
|---|----------------------|----------------|-----------------|-------------------------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, 2004 | ended 31 December, 2004 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| INVESTING ACTIVITIES | | | | |
| Purchases of property, plant and equipment | (3,259) | (6,831) | (19,300) | (15,000) |
| Proceeds on disposal of property, plant and equipment | – | 24 | 1,877 | – |
| Interest received | – | 2 | 4 | 7 |
| NET CASH USED IN INVESTING ACTIVITIES | <u>(3,259)</u> | <u>(6,805)</u> | <u>(17,419)</u> | <u>(14,993)</u> |
| FINANCING ACTIVITIES | | | | |
| New bank borrowings raised | – | 315 | 16,531 | 8,544 |
| Trust receipt loans | (1,331) | 5,167 | 12,796 | 2,929 |
| Repayment of obligations under finance leases | (1,596) | (304) | (634) | (1,952) |
| Dividend paid | (1,452) | (3,828) | (10,120) | – |
| Repayment of bank borrowings | (4,172) | (1,008) | (2,535) | (6,474) |
| NET CASH (USED IN) FROM FINANCING ACTIVITIES | <u>(8,551)</u> | <u>342</u> | <u>16,038</u> | <u>3,047</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,505 | 3,938 | 6,226 | (6,876) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD | <u>2,430</u> | <u>3,935</u> | <u>7,873</u> | <u>14,099</u> |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by bank balances and cash | <u>3,935</u> | <u>7,873</u> | <u>14,099</u> | <u>7,223</u> |

Note: As Yau Yue has no subsidiaries for the years ended 31 March, 2002 and 31 March, 2003, no consolidated cash flow statements for the years ended 31 March, 2002 and 31 March, 2003 have therefore been presented.

Notes:

1. GENERAL

Yau Yue is a private limited company incorporated in Hong Kong. Yau Yue and its subsidiaries are engaged in the manufacture and trading of paper products.

Yau Yue has changed its financial year end date in respect of the accounting periods commencing on or after 1 April 2004 from 31 March to 31 December.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants (the "HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January, 2005. Yau Yue Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December, 2004.

Yau Yue Group has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Yau Yue and its subsidiary made up to 31 March for the year ended 31 March, 2004 and for the nine months ended 31 December, 2004.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated income statement from the effective date of acquisition or up to effective date of disposal, as appropriate.

All significant intercompany transactions and balances within Yau Yue Group are eliminated on consolidation.

Investments in subsidiary

Investments in subsidiary is included in Yau Yue's balance sheet at cost less any identified impairment loss.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and any identified impairment losses.

Construction in progress are stated at cost, less accumulated impairment losses. No depreciation is provided for construction in progress until the construction is completed and assets are ready for use.

Depreciation and amortisation are provided to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Leasehold land | Over the shorter of the term of the lease, or 50 years |
| Furniture, fixtures and equipment | 20% |
| Plant and machinery | 10%-20% |
| Motor vehicles | 20% |
| Decoration and installation | 20% |
| Computer equipment | 30% |

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the period of the relevant lease.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Impairment

At each balance sheet date, Yau Yue Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiary, except where Yau Yue Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Assets held under finance leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to Yau Yue Group. Assets held under finance leases are capitalised at their fair values at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight line basis over the relevant lease term.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Foreign currencies

Transactions in foreign currencies are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are dealt with in the income statement.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") and the state-managed retirement benefit schemes are charged as expenses when they fall due.

4. TURNOVER

Turnover represents the gross amounts received and receivable for goods sold less returns and allowances to outside customers during the year/period.

5. PROFIT FROM OPERATIONS

| | Yau Yue | | Yau Yue Group | |
|--|----------------------|----------|---------------|--------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, | ended |
| | HK\$'000 | HK\$'000 | 2004 | 31 December, |
| | | | HK\$'000 | 2004 |
| | | | | HK\$'000 |
| Profit from operations has been arrived at after charging: | | | | |
| Auditors' remuneration | 25 | 25 | 25 | 200 |
| Depreciation and amortisation | 4,261 | 4,032 | 1,920 | 3,874 |
| Loss on disposal of property, plant and equipment | – | – | 202 | – |
| Allowance for bad and doubtful debts | – | – | 277 | 706 |
| Directors' remuneration (<i>Note 6</i>) | 1,225 | 1,270 | 1,508 | 810 |
| Other staff costs: | | | | |
| Salaries and other allowances | 6,772 | 9,010 | 9,631 | 8,845 |
| Retirement benefits scheme contribution, excluding directors | 35 | 36 | 36 | 84 |
| Total staff costs | 8,032 | 10,316 | 11,175 | 9,739 |
| and after crediting: | | | | |
| Gain on disposal of property, plant and equipment | – | 24 | – | – |
| Bank interest income | – | 2 | 4 | 7 |

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of directors' emoluments are as follows:

| | Yau Yue | | Yau Yue Group | |
|--|----------------------|----------|---------------|--------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, | ended |
| | HK\$'000 | HK\$'000 | 2004 | 31 December, |
| | | | HK\$'000 | 2004 |
| | | | | HK\$'000 |
| Directors | | | | |
| – fees | – | – | – | – |
| – salaries and other benefits | 677 | 558 | 728 | 792 |
| – bonus | 531 | 690 | 756 | – |
| – retirement benefits scheme contributions | 17 | 22 | 24 | 18 |
| Total emoluments | 1,225 | 1,270 | 1,508 | 810 |

The emoluments of the directors were detailed as follows:

| | Yau Yue | | Yau Yue Group | |
|---------------------|--|--------------|---|--|
| | Year ended 31 March, 2002 HK\$'000 | | Year ended 31 March, 2004 HK\$'000 | Nine months ended 31 December, 2004 HK\$'000 |
| Mr. Kwong Chi Kin | 796 | 635 | 754 | 405 |
| Mr. Kwong Chi Keung | 429 | 635 | 754 | 405 |
| | <u>1,225</u> | <u>1,270</u> | <u>1,508</u> | <u>810</u> |

Of the five individuals with the highest emoluments in Yau Yue Group for the Relevant Periods, two were directors of Yau Yue whose emoluments are included in the disclosure set out above. The emoluments of the remaining individuals were as follows:

| | Yau Yue | | Yau Yue Group | |
|---|--|--------------|---|--|
| | Year ended 31 March, 2002 HK\$'000 | | Year ended 31 March, 2004 HK\$'000 | Nine months ended 31 December, 2004 HK\$'000 |
| Employee | | | | |
| – salaries and other benefits | 972 | 1,082 | 1,258 | 914 |
| – bonus | – | – | – | – |
| – retirement benefits scheme contributions | 10 | 2 | 2 | 4 |
| | <u>982</u> | <u>1,084</u> | <u>1,260</u> | <u>918</u> |

The emoluments of the employees were within the following bands:

| | Number of employees | | | |
|-------------------|--------------------------------------|----------|---------------------------------|--|
| | Yau Yue | | Yau Yue Group | |
| | Year ended 31 March, 2002 2003 | | Year ended 31 March, 2004 | Nine months ended 31 December, 2004 |
| Nil-HK\$1,000,000 | <u>3</u> | <u>3</u> | <u>3</u> | <u>3</u> |

During the Relevant Periods, no emoluments were paid by Yau Yue to any of the directors or the five highest paid individuals (including directors and non-director employee) as an inducement to join or upon joining Yau Yue or as compensation for loss of office. No director waived any emoluments during the Relevant Periods.

7. FINANCE COSTS

| | Yau Yue | | Yau Yue Group | |
|--|----------------------|--------------|---------------|--------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, | ended |
| | HK\$'000 | HK\$'000 | 2004 | 31 December, |
| | | | HK\$'000 | 2004 |
| | | | | HK\$'000 |
| Interest on: | | | | |
| – obligations under finance leases | 86 | 37 | 91 | 282 |
| – bank borrowings wholly repayable within five years | 1,230 | 1,250 | 1,341 | 1,556 |
| | <u>1,316</u> | <u>1,287</u> | <u>1,432</u> | <u>1,838</u> |

8. TAXATION

| | Yau Yue | | Yau Yue Group | |
|---|----------------------|--------------|---------------|--------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, | ended |
| | HK\$'000 | HK\$'000 | 2004 | 31 December, |
| | | | HK\$'000 | 2004 |
| | | | | HK\$'000 |
| The charge comprises: | | | | |
| Hong Kong Profits Tax: | | | | |
| – Current year/period | 1,090 | 2,000 | 1,200 | – |
| – Overprovision in prior years | (39) | (3) | (13) | (50) |
| | <u>1,051</u> | <u>1,997</u> | <u>1,187</u> | <u>(50)</u> |
| Deferred tax (note 19): | | | | |
| – (Credit) charge for the year/period | (36) | 79 | 1,867 | 1,030 |
| – Attributable to change in tax rate in Hong Kong | – | – | 50 | – |
| | <u>1,015</u> | <u>2,076</u> | <u>3,104</u> | <u>980</u> |

Hong Kong Profits Tax is calculated at 16%, 16%, 17.5% and 17.5%, respectively of the estimated assessable profit for each of the three years ended 31 March, 2004 and the nine months ended 31 December, 2004. The provision for Hong Kong Profits Tax is made in accordance with Departmental Interpretation and Practice Note No. 21 issued by the Hong Kong Inland Revenue Department which specifies that only 50% of the assessable profits derived from the sale of goods manufactured in the PRC under commission processing agreements would be subject to Hong Kong Profits Tax.

In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at 31 March, 2004.

The PRC statutory tax rate is 33%. The PRC subsidiary has no assessable profit for the year ended 31 March, 2004, and the nine months ended 31 December, 2004.

The charge for the Relevant Periods can be reconciled to profit before taxation per the income statement as follows:

| | Yau Yue | | Yau Yue Group | |
|---|--|---------|---|--|
| | Year ended 31 March, 2002 HK\$'000 | | Year ended 31 March, 2004 HK\$'000 | Nine months ended 31 December, 2004 HK\$'000 |
| Profit before taxation | 13,121 | 24,896 | 34,319 | 11,617 |
| Tax at the Hong Kong Profits | | | | |
| Tax rate of 16%, 16%, 17.5% and 17.5% respectively | 2,099 | 3,983 | 6,006 | 2,033 |
| Tax effect of expenses that are not deductible for tax purposes | 3 | 150 | 51 | 27 |
| Tax effect of income not taxable for tax purposes | (1,051) | (2,067) | (3,040) | (1,030) |
| Overprovision of profits tax in prior years | (39) | (3) | (13) | (50) |
| Increase in opening deferred tax balances resulting from an increase in Hong Kong Profits | | | | |
| Tax rate | – | – | 50 | – |
| Others | 3 | 13 | 50 | – |
| Tax expense for the year/period | 1,015 | 2,076 | 3,104 | 980 |

Details of deferred tax liabilities for the Relevant Periods are set out in note 19.

9. DIVIDENDS

| | Yau Yue | | Yau Yue Group | |
|---|----------------------|---------------|---------------|--------------|
| | Year ended 31 March, | | Year ended | Nine months |
| | 2002 | 2003 | 31 March, | ended |
| | HK\$'000 | HK\$'000 | 2004 | 31 December, |
| | | | HK\$'000 | 2004 |
| | | | | HK\$'000 |
| Ordinary shares | | | | |
| Interim dividend of HK\$0.33 (31.3.2003, 31.3.2004 and 31.12.2004: Nil) per ordinary share | 1,452 | – | – | – |
| Final dividend of HK\$0.87 (31.3.2003: HK\$2.3, 31.3.2004: HK\$4.6 and 31.12.2004: Nil) per ordinary share | 3,828 | 10,120 | 20,240 | – |
| | <u>5,280</u> | <u>10,120</u> | <u>20,240</u> | <u>–</u> |

10. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods is based on the net profit for the year/period and on 4,400,000 shares in issue during the Relevant Periods.

Diluted earnings per share have not been presented for the Relevant Periods as Yau Yue has no potential dilutive shares outstanding during the Relevant Periods.

11. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | Decoration and installation HK\$'000 | Construction in progress HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
|--------------------------------------|-----------------------------------|--|------------------------------------|-------------------------------|---|---|-----------------------------------|-------------------|
| Yau Yue Group | | | | | | | | |
| COST | | | | | | | | |
| At 1 April, 2003 | 2,397 | 617 | 37,030 | 3,710 | 2,183 | - | 1,206 | 47,143 |
| Additions | - | 127 | 29,673 | 1,065 | - | 3,916 | 154 | 34,935 |
| Disposals | - | (288) | (9,308) | (863) | (333) | - | (305) | (11,097) |
| At 31 March, 2004 | 2,397 | 456 | 57,395 | 3,912 | 1,850 | 3,916 | 1,055 | 70,981 |
| Additions | - | 340 | 11,179 | 331 | - | 4,870 | 963 | 17,683 |
| Disposals | - | - | (11,232) | - | - | - | - | (11,232) |
| Reclassification | - | - | - | - | 8,786 | (8,786) | - | - |
| At 31 December, 2004 | 2,397 | 796 | 57,342 | 4,243 | 10,636 | - | 2,018 | 77,432 |
| DEPRECIATION AND AMORTISATION | | | | | | | | |
| At 1 April, 2003 | 480 | 587 | 29,160 | 1,938 | 2,104 | - | 1,041 | 35,310 |
| Provided for the year | 48 | 17 | 1,071 | 604 | 55 | - | 125 | 1,920 |
| Eliminated on disposals | - | (277) | (7,253) | (863) | (333) | - | (292) | (9,018) |
| At 31 March, 2004 | 528 | 327 | 22,978 | 1,679 | 1,826 | - | 874 | 28,212 |
| Provided for the period | 36 | 53 | 2,566 | 555 | 458 | - | 206 | 3,874 |
| Eliminated on disposals | - | - | (11,232) | - | - | - | - | (11,232) |
| At 31 December, 2004 | 564 | 380 | 14,312 | 2,234 | 2,284 | - | 1,080 | 20,854 |
| NET BOOK VALUES | | | | | | | | |
| At 31 December, 2004 | 1,833 | 416 | 43,030 | 2,009 | 8,352 | - | 938 | 56,578 |
| At 31 March, 2004 | 1,869 | 129 | 34,417 | 2,233 | 24 | 3,916 | 181 | 42,769 |

| | Land and buildings HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Plant and machinery HK\$'000 | Motor vehicles HK\$'000 | Decoration and installation HK\$'000 | Construction in progress HK\$'000 | Computer equipment HK\$'000 | Total HK\$'000 |
|--------------------------------------|-----------------------------------|--|------------------------------------|-------------------------------|---|---|-----------------------------------|-------------------|
| Yau Yue | | | | | | | | |
| COST | | | | | | | | |
| At 1 April, 2001 | 2,397 | 582 | 29,686 | 2,020 | 2,183 | – | 1,075 | 37,943 |
| Additions | – | 10 | 2,885 | 336 | – | – | 28 | 3,259 |
| At 31 March, 2002 | 2,397 | 592 | 32,571 | 2,356 | 2,183 | – | 1,103 | 41,202 |
| Additions | – | 25 | 4,459 | 1,743 | – | – | 103 | 6,330 |
| Disposals | – | – | – | (389) | – | – | – | (389) |
| At 31 March, 2003 | 2,397 | 617 | 37,030 | 3,710 | 2,183 | – | 1,206 | 47,143 |
| Additions | – | 127 | 29,673 | 1,065 | – | 3,916 | 154 | 34,935 |
| Disposals | – | (288) | (9,308) | (863) | (333) | – | (305) | (11,097) |
| At 31 March, 2004 | 2,397 | 456 | 57,395 | 3,912 | 1,850 | 3,916 | 1,055 | 70,981 |
| Additions | – | 340 | 11,179 | 331 | – | 4,870 | 963 | 17,683 |
| Disposals | – | – | (11,232) | – | – | – | – | (11,232) |
| Reclassification | – | – | – | – | 8,786 | (8,786) | – | – |
| At 31 December, 2004 | 2,397 | 796 | 57,342 | 4,243 | 10,636 | – | 2,018 | 77,432 |
| DEPRECIATION AND AMORTISATION | | | | | | | | |
| At 1 April, 2001 | 384 | 514 | 22,849 | 1,470 | 1,752 | – | 437 | 27,406 |
| Provided for the year | 48 | 58 | 3,215 | 337 | 297 | – | 306 | 4,261 |
| At 31 March, 2002 | 432 | 572 | 26,064 | 1,807 | 2,049 | – | 743 | 31,667 |
| Provided for the year | 48 | 15 | 3,096 | 520 | 55 | – | 298 | 4,032 |
| Eliminated on disposals | – | – | – | (389) | – | – | – | (389) |
| At 31 March, 2003 | 480 | 587 | 29,160 | 1,938 | 2,104 | – | 1,041 | 35,310 |
| Provided for the year | 48 | 17 | 1,071 | 604 | 55 | – | 125 | 1,920 |
| Eliminated on disposals | – | (277) | (7,253) | (863) | (333) | – | (292) | (9,018) |
| At 31 March, 2004 | 528 | 327 | 22,978 | 1,679 | 1,826 | – | 874 | 28,212 |
| Provided for the period | 36 | 53 | 2,566 | 555 | 458 | – | 206 | 3,874 |
| Eliminated on disposals | – | – | (11,232) | – | – | – | – | (11,232) |
| At 31 December, 2004 | 564 | 380 | 14,312 | 2,234 | 2,284 | – | 1,080 | 20,854 |
| NET BOOK VALUES | | | | | | | | |
| At 31 December, 2004 | 1,833 | 416 | 43,030 | 2,009 | 8,352 | – | 938 | 56,578 |
| At 31 March, 2004 | 1,869 | 129 | 34,417 | 2,233 | 24 | 3,916 | 181 | 42,769 |
| At 31 March, 2003 | 1,917 | 30 | 7,870 | 1,772 | 79 | – | 165 | 11,833 |
| At 31 March, 2002 | 1,965 | 20 | 6,507 | 549 | 134 | – | 360 | 9,535 |

The net book value of the land and buildings comprises:

| | Yau Yue Group | |
|--|---|--|
| | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
| Land and buildings in Hong Kong under medium-term leases | 1,869 | 1,833 |

| | Yau Yue | | | |
|--|---------------------------------|---|---------------------------------|--|
| | 2002 <i>HK\$'000</i> | As at 31 March, 2003 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
| Land and buildings in Hong Kong under medium-term leases | 1,965 | 1,917 | 1,869 | 1,833 |

The land and buildings of Yau Yue are situated in Hong Kong and are held on medium term leases.

At 31 December, 2004, the net book value of plant and machinery of Yau Yue Group and Yau Yue includes an amount of approximately HK\$10,936,000 (31.3.2002: Nil; 31.3.2003: HK\$1,965,000; 31.3.2004: HK\$11,684,000) respectively in respect of plant and machinery held under finance leases.

12. INVESTMENT IN A SUBSIDIARY

| | Yau Yue | | | |
|--------------------------|---------------------------------|---|---------------------------------|--|
| | 2002 <i>HK\$'000</i> | As at 31 March, 2003 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
| Unlisted shares, at cost | – | – | 10 | – |

13. INVENTORIES

| | Yau Yue Group | |
|------------------|---|--|
| | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
| Raw materials | 25,182 | 31,120 |
| Work in progress | 1,297 | 2,029 |
| Finished goods | 1,626 | 1,903 |
| | 28,105 | 35,052 |

| | Yau Yue | | | As at |
|------------------|-----------------|-------------------------|-----------------|----------------------|
| | 2002 | As at 31 March, 2003 | 2004 | 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 5,940 | 14,317 | 25,182 | 31,120 |
| Work in progress | – | 388 | 1,297 | 2,029 |
| Finished goods | – | 96 | 1,626 | 1,903 |
| | <u>5,940</u> | <u>14,801</u> | <u>28,105</u> | <u>35,052</u> |

All inventories were stated at cost at 31 March 2002, 2003, 2004 and 31 December 2004.

14. TRADE RECEIVABLES

Yau Yue Group allows an average credit period of 30 days to 90 days to its trade customers.

The following is an aged analysis of trade receivables at the respective balance sheet dates:

| | Yau Yue Group | |
|--------------|----------------------------|-------------------------------|
| | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0-30 days | 39,939 | 39,335 |
| 31-60 days | 7,363 | 12,079 |
| 61-90 days | 3,964 | 5,800 |
| Over 90 days | <u>2,406</u> | <u>1,854</u> |
| | <u>53,672</u> | <u>59,068</u> |

| | Yau Yue | | | As at |
|--------------|-----------------|-------------------------|-----------------|----------------------|
| | 2002 | As at 31 March, 2003 | 2004 | 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0-30 days | 24,220 | 30,189 | 39,939 | 39,335 |
| 31-60 days | 7,687 | 8,692 | 7,363 | 12,079 |
| 61-90 days | 1,449 | 2,820 | 3,964 | 5,800 |
| Over 90 days | <u>831</u> | <u>1,639</u> | <u>2,406</u> | <u>1,854</u> |
| | <u>34,187</u> | <u>43,340</u> | <u>53,672</u> | <u>59,068</u> |

15. AMOUNT DUE FROM (TO) A DIRECTOR

Details of amounts due from directors are as follows:

Yau Yue Group

| | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
|--|---|--|
| Mr. Kwong Chi Kin | – | 854 |
| Mr. Kwong Chi Keung | 806 | – |
| | <u>806</u> | <u>854</u> |
| Maximum balance outstanding during the year/period | <u>806</u> | <u>854</u> |

Yau Yue

| | As at 31 March, | | | As at |
|---|-----------------|-----------------|-----------------|----------------------|
| | 2002 | 2003 | 2004 | 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Mr. Kwong Chi Kin | – | – | – | 854 |
| Mr. Kwong Chi Keung | – | – | 806 | – |
| | <u>–</u> | <u>–</u> | <u>806</u> | <u>854</u> |
| Maximum balance outstanding during the year/period | <u>–</u> | <u>–</u> | <u>806</u> | <u>854</u> |

The amounts due from (to) directors are unsecured, non-interest bearing and are repayable on demand.

16. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the respective balance sheet dates:

| | Yau Yue Group | |
|---|-------------------------------------|--|
| | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0-30 days | 7,453 | 5,998 |
| 31-60 days | 1,219 | 771 |
| 61-90 days | – | 8 |
| Over 90 days | – | 9 |
| | <hr/> | <hr/> |
| Payable for purchase of property, plant and equipment | 8,672 | 6,786 |
| Other payables | 8,145 | 7,303 |
| | <hr/> | <hr/> |
| | 4,638 | 5,791 |
| | <hr/> | <hr/> |
| | 21,455 | 19,880 |
| | <hr/> <hr/> | <hr/> <hr/> |

| | Yau Yue | | | |
|--|-----------------|------------------------|-----------------|---------------------|
| | 2002 | As at 31 March, | | As at |
| | <i>HK\$'000</i> | 2003 | 2004 | 31 December, |
| | | <i>HK\$'000</i> | <i>HK\$'000</i> | 2004 |
| | | | | <i>HK\$'000</i> |
| 0-30 days | 5,624 | 6,937 | 7,453 | 5,998 |
| 31-60 days | 1,298 | 2,057 | 1,219 | 771 |
| 61-90 days | 8 | 88 | – | 8 |
| Over 90 days | – | 2 | – | 9 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| Payable for purchase of property, plant and equipment | 6,930 | 9,084 | 8,672 | 6,786 |
| Other payables | – | 296 | 8,145 | 7,303 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 4,405 | 2,773 | 4,638 | 5,791 |
| | <hr/> | <hr/> | <hr/> | <hr/> |
| | 11,335 | 12,153 | 21,455 | 19,880 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

17. OBLIGATIONS UNDER FINANCE LEASES

| | Yau Yue Group | | | |
|---|---|--|---|--|
| | Minimum lease payments | | Present value of minimum lease payments | |
| | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> | As at 31 March, 2004 <i>HK\$'000</i> | As at 31 December, 2004 <i>HK\$'000</i> |
| | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | 2,700 | 2,974 | 2,515 | 2,709 |
| In the second to fifth year inclusive | 7,718 | 5,755 | 7,182 | 5,526 |
| | 10,418 | 8,729 | 9,697 | 8,235 |
| Less: Future finance charges | (721) | (494) | – | – |
| Present value of lease obligations | <u>9,697</u> | <u>8,235</u> | 9,697 | 8,235 |
| Less: Amount due within one year (shown under current liabilities) | | | (2,515) | (2,709) |
| Amount due after one year | | | <u>7,182</u> | <u>5,526</u> |

| | Yau Yue | | | | | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|---|-------------------------|-------------------------|-------------------------|
| | Minimum lease payments | | | | Present value of minimum lease payments | | | |
| | As at 31 March, | | As at 31 December, | | As at 31 March, | | As at 31 December, | |
| | 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
| Amounts payable under finance leases: | | | | | | | | |
| Within one year | 123 | 560 | 2,700 | 2,974 | 115 | 489 | 2,515 | 2,709 |
| In the second to fifth year inclusive | – | 1,511 | 7,718 | 5,755 | – | 1,429 | 7,182 | 5,526 |
| | 123 | 2,071 | 10,418 | 8,729 | 115 | 1,918 | 9,697 | 8,235 |
| Less: Future finance charges | (8) | (153) | (721) | (494) | – | – | – | – |
| Present value of lease obligations | <u>115</u> | <u>1,918</u> | <u>9,697</u> | <u>8,235</u> | 115 | 1,918 | 9,697 | 8,235 |
| Less: Amount due within one year (shown under current liabilities) | | | | | (115) | (489) | (2,515) | (2,709) |
| Amount due after one year | | | | | <u>–</u> | <u>1,429</u> | <u>7,182</u> | <u>5,526</u> |

It is Yau Yue Group's policy to lease certain of its plant and machinery under finance leases. The lease term ranges from two to five years. For the years ended 31 March, 2002, 2003 and 2004, and the nine months ended 31 December, 2004, the average effective borrowing rate was 6.4%, 5.3%, 4.1% and 4.1%, respectively. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

Yau Yue Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

18. BANK BORROWINGS

| | Yau Yue Group | |
|--|-------------------------------------|--|
| | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Secured bank loans | 15,297 | 17,471 |
| Secured trust receipt loans | 29,305 | 32,234 |
| Other bank borrowings | 435 | 331 |
| | <u>45,037</u> | <u>50,036</u> |
| Bank borrowings are repayable as follows: | | |
| Within one year | 36,436 | 39,658 |
| In the second year | 4,812 | 6,449 |
| In the third to fifth year | 3,789 | 3,929 |
| | <u>45,037</u> | <u>50,036</u> |
| Less: Amount due within one year (shown under current liabilities) | <u>(36,436)</u> | <u>(39,658)</u> |
| Amount due after one year | <u>8,601</u> | <u>10,378</u> |

| | Yau Yue | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| | As at 31 March, | | As at | As at |
| | 2002 | 2003 | 31 March, | 31 December, |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Secured bank loans | 2,004 | 1,008 | 15,297 | 17,471 |
| Secured trust receipt loans | 11,342 | 16,509 | 29,305 | 32,234 |
| Other bank borrowings | 425 | 728 | 435 | 331 |
| | <u>13,771</u> | <u>18,245</u> | <u>45,037</u> | <u>50,036</u> |
| Bank borrowings are repayable as follows: | | | | |
| Within one year | 12,603 | 17,783 | 36,436 | 39,658 |
| In the second year | 1,168 | 166 | 4,812 | 6,449 |
| In the third to fifth year | – | 296 | 3,789 | 3,929 |
| | <u>13,771</u> | <u>18,245</u> | <u>45,037</u> | <u>50,036</u> |
| Less: Amount due within one year (shown under current liabilities) | <u>(12,603)</u> | <u>(17,783)</u> | <u>(36,436)</u> | <u>(39,658)</u> |
| Amount due after one year | <u>1,168</u> | <u>462</u> | <u>8,601</u> | <u>10,378</u> |

19. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities recognised by Yau Yue Group and Yau Yue and movements thereon during the current and prior reporting periods:

| | Accelerated tax depreciation <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---------------------------------|--|--|--|
| Yau Yue Group | | | |
| At 1 April, 2003 | 536 | – | 536 |
| Charge to income for the year | 1,867 | – | 1,867 |
| Effect of change in tax rate | 50 | – | 50 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 March, 2004 | 2,453 | – | 2,453 |
| Charge to income for the period | 1,059 | (29) | 1,030 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December, 2004 | <u> </u> <u> </u> | <u> </u> <u> </u> | <u> </u> <u> </u> |
| Yau Yue | | | |
| At 1 April, 2001 | 493 | – | 493 |
| Credit to income for the year | (36) | – | (36) |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 March, 2002 | 457 | – | 457 |
| Charge to income for the year | 79 | – | 79 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 March, 2003 | 536 | – | 536 |
| Charge to income for the year | 1,867 | – | 1,867 |
| Effect of change in tax rate | 50 | – | 50 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 March, 2004 | 2,453 | – | 2,453 |
| Charge to income for the period | 1,059 | (29) | 1,030 |
| | <u> </u> | <u> </u> | <u> </u> |
| At 31 December, 2004 | <u> </u> <u> </u> | <u> </u> <u> </u> | <u> </u> <u> </u> |

For the purpose of balance sheet presentation, the above deferred tax assets and liabilities have been offset.

20. SHARE CAPITAL

Yau Yue

| | As at 31 March, 2002, 2003 & 2004 and 31 December, 2004 | |
|-------------------------------|--|---|
| | Authorised <i>HK\$</i> | Issued and fully paid <i>HK\$</i> |
| Ordinary shares of HK\$1 each | <u> </u> <u> </u> | <u> </u> <u> </u> |
| | 6,000,000 | 4,400,000 |

21. RESERVES

| | Accumulated profits <i>HK\$'000</i> |
|-----------------------|---|
| Yau Yue | |
| At 1 April, 2001 | 12,377 |
| Profit for the year | 12,106 |
| Dividend | (5,280) |
| | <hr/> |
| At 31 March, 2002 | 19,203 |
| Profit for the year | 22,820 |
| Dividend | (10,120) |
| | <hr/> |
| At 31 March, 2003 | 31,903 |
| Profit for the year | 31,237 |
| Dividend | (20,240) |
| | <hr/> |
| At 31 March, 2004 | 42,900 |
| Profit for the period | 10,682 |
| | <hr/> |
| At 31 December, 2004 | 53,582 |
| | <hr/> <hr/> |

22. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 March, 2003, Yau Yue has entered into finance lease contracts in respect of property, plant and equipment acquired with a total capital value at the inception of the contracts of approximately HK\$2,107,000.

During the year ended 31 March, 2004 and nine months ended 31 December, 2004, Yau Yue Group and Yau Yue have entered into finance lease contracts in respect of property, plant and equipment acquired with a total capital value at the inception of the contracts of approximately HK\$8,413,000 (31.12.2004: HK\$490,000).

23. OPERATING LEASES

| | <u>Yau Yue</u> | | <u>Yau Yue Group</u> | |
|---|---|-------------------------|--|---|
| | Year ended 31 March, 2002 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> | Year ended 31 March, 2004 <i>HK\$'000</i> | Nine months ended 31 December, 2004 <i>HK\$'000</i> |
| Minimum lease payments paid under operating leases during the year/period | 1,821 | 1,819 | 1,474 | 3,175 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

At the balance sheet date, Yau Yue Group and Yau Yue had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | Yau Yue Group | |
|---------------------------------------|-------------------------------------|--|
| | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 3,998 | 5,178 |
| In the second to fifth year inclusive | 14,038 | 15,585 |
| Over five years | 15,208 | 13,306 |
| | <u>33,244</u> | <u>34,069</u> |

| | Yau Yue | | | |
|---------------------------------------|--------------------------|--------------------------|-------------------------------------|--|
| | As at 31 March, | | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>2002 HK\$'000</i> | <i>2003 HK\$'000</i> | <i>2004 HK\$'000</i> | <i>2004 HK\$'000</i> |
| Within one year | 1,465 | 1,465 | 3,998 | 5,178 |
| In the second to fifth year inclusive | 1,953 | 488 | 14,038 | 15,585 |
| Over five years | – | – | 15,208 | 13,306 |
| | <u>3,418</u> | <u>1,953</u> | <u>33,244</u> | <u>34,069</u> |

Operating lease payment represent rentals payable by Yau Yue Group for certain of its office properties. Leases are negotiated and fixed for an average term of seven to nine years.

24. CAPITAL COMMITMENTS

| | Yau Yue Group | |
|--|-------------------------------------|--|
| | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditure in respect of the acquisition of plant and machinery contracted for but not provided in the financial statements | <u>5,493</u> | <u>1,969</u> |

| | Yau Yue | | | |
|--|--------------------------|--------------------------|-------------------------------------|--|
| | As at 31 March, | | As at 31 March, 2004 | As at 31 December, 2004 |
| | <i>2002 HK\$'000</i> | <i>2003 HK\$'000</i> | <i>2004 HK\$'000</i> | <i>2004 HK\$'000</i> |
| Capital expenditure in respect of the acquisition of plant and machinery contracted for but not provided in the financial statements | <u>–</u> | <u>15,475</u> | <u>5,493</u> | <u>1,969</u> |

25. PLEDGE OF ASSETS

The following assets were pledged to banks to secure general banking facilities granted to Yau Yue Group and Yau Yue.

| | Yau Yue Group | | | |
|-------------------------------|---|--|--|--|
| | As at 31 March, 2004 <i>HK\$'000</i> | | As at 31 December, 2004 <i>HK\$'000</i> | |
| | | | | |
| Property, plant and equipment | 1,869 | | 1,833 | |

| | Yau Yue | | | | | |
|-------------------------------|--|-------|---|-------|--|--|
| | As at 31 March, 2002 <i>HK\$'000</i> | | As at 31 March, 2004 <i>HK\$'000</i> | | As at 31 December, 2004 <i>HK\$'000</i> | |
| | | | | | | |
| Property, plant and equipment | 1,965 | 1,917 | 1,869 | 1,833 | | |

The general banking facilities granted to Yau Yue Group are also secured by:

- (a) personal guarantee by directors of Yau Yue, Mr. Kwong Chi Kin, and Mr. Kwong Chi Keung amounted to approximately HK\$28,000,000 as at 31 March, 2002 (31.3.2003: HK\$18,000,000; 31.3.2004: HK\$18,000,000; 31.12.2004: HK\$35,000,000);
- (b) funds on deposit owned by Mr. Kwong Chi Kin, Mr. Kwong Chi Keung, directors of Yau Yue, and Ms. Law Yuk Oi, wife of Mr. Kwong Chi Kin, of not less than approximately HK\$20,817,000 (31.3.2003: HK\$16,370,000; 31.3.2004: HK\$12,509,000; 31.12.2004: HK\$13,159,000).

26. RETIREMENT BENEFITS PLANS

Yau Yue Group operates a MPF Scheme for all qualifying employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the Mandatory Provident Fund Schemes Ordinance. The assets of the MPF Scheme are held separately from those of Yau Yue Group in funds under the control of an independent trustee. Under the rules of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of Yau Yue Group with respect to MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by Yau Yue Group at rates specified in the rules of the scheme.

The employees employed by the operations in the PRC are members of the state-managed retirement benefits schemes operated by the PRC governments and are required to contribute a certain percentage of their payroll costs to the retirement benefits schemes to fund the benefits of the employees. The only obligation of Yau Yue Group with respect to the retirement benefits schemes is to make the required contributions under the schemes.

27. SEGMENTAL INFORMATION

Business segments and geographic segment

During the Relevant Periods, Yau Yue Group was solely engaged in the manufacture and trading of paper products, and over 90% of its turnover were sold to customers located in the PRC, accordingly, no analysis of Yau Yue Group's business segments and geographic segments are presented.

B. DISTRIBUTABLE RESERVES

Yau Yue had distributable reserve of HK\$53,582,000 at 31 December, 2004 (31.3.2002: HK\$19,203,000; 31.3.2003: HK\$31,903,000; 31.3.2004: HK\$42,900,000).

C. DIRECTORS' REMUNERATION

Save as disclosed in this respect, no remuneration was paid or is payable by Yau Yue or any of its subsidiaries to Yau Yue's directors in respect of the Relevant Periods.

Details of the aggregate remuneration of Yau Yue's directors for the year ending 31 December, 2005 under the arrangement presently in force are set out in the paragraph headed "Service contract" in Appendix IV to the Circular.

D. SUBSEQUENT EVENTS

Yau Yue Group had the following subsequent events:

- (1) Subsequent to 31 December, 2004, a customer of Yau Yue was in financial difficulties and is in the process of applying liquidation. As at 31 December, 2004, trade receivable balance of approximately HK\$706,000 with this customer has already been fully provided for. There is an additional bad debt expense of approximately HK\$1,200,000 subsequent to 31 December, 2004 as a result of trading with this customer subsequent to the year end date.
- (2) Subsequent to 31 December, 2004, Yau Yue disposed of 100% equity interest in Yau Ying Paper and its subsidiary, Yau Ying Shenzhen.

The following is a summary of the financial information of Yau Ying Paper and Yau Ying Shenzhen:

| | Yau Ying Paper | | Yau Ying Shenzhen | |
|---------------------|--|---|--|---|
| | For the period from 20 August, 2003 (date of incorporation) to 31 March, 2004 <i>HK\$'000</i> | Nine months ended 31 December, 2004 <i>HK\$'000</i> | For the period from 31 December, 2003 (date of incorporation) to 31 March, 2004 <i>HK\$'000</i> | Nine months ended 31 December, 2004 <i>HK\$'000</i> |
| Turnover | — | — | — | — |
| Loss for the period | 8 | 5 | 13 | 51 |

| | Yau Ying Paper As at 31 December, 2004 <i>HK\$'000</i> | Yau Ying Shenzhen As at 31 December, 2004 <i>HK\$'000</i> |
|---------------------|---|--|
| Financial position: | | |
| Current assets | – | 59 |
| Current liabilities | <u>(3)</u> | <u>(123)</u> |
| Net liabilities | <u><u>(3)</u></u> | <u><u>(64)</u></u> |

E. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of Yau Yue Group, Yau Yue or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December, 2004.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

A. FINANCIAL SUMMARY

The following is a summary of the audited financial information of the Group for the three years ended 31 December 2004 extracted from the annual report of the Company for the year ended 31 December 2004:

Results

| | For the year ended 31 December | | |
|---|---------------------------------------|------------------------------|------------------------------|
| | 2002 | 2003 | 2004 |
| | (Audited) <i>HK\$'000</i> | (Audited) <i>HK\$'000</i> | (Audited) <i>HK\$'000</i> |
| Turnover | 1,021,819 | 734,586 | 974,147 |
| Profit from operations | | | |
| less finance costs | 61,812 | 29,554 | 53,007 |
| Share of results of associates (net of amortisation of goodwill) | 3,123 | 4,446 | 4,837 |
| Profit before tax | 64,935 | 34,000 | 57,844 |
| Income tax expenses | (16,171) | (11,220) | (7,079) |
| Profit after tax | 48,764 | 22,780 | 50,765 |
| Minority interests | (8,627) | (283) | (283) |
| Net profit attributable to shareholders | 40,137 | 22,497 | 50,482 |
| Dividends | 20,137 | 20,137 | 20,137 |

Assets, liabilities and minority interests

| | At 31 December | | |
|--------------------|------------------------------|------------------------------|------------------------------|
| | 2002 | 2003 | 2004 |
| | (Audited) <i>HK\$'000</i> | (Audited) <i>HK\$'000</i> | (Audited) <i>HK\$'000</i> |
| Total assets | 1,133,083 | 1,094,397 | 1,743,709 |
| Total liabilities | (409,972) | (370,266) | (986,186) |
| Minority interests | (3,545) | (2,410) | (2,655) |
| | 719,566 | 721,721 | 754,868 |

B. AUDITED FINANCIAL STATEMENTS

Set out below are the audited consolidated income statement of the Group for each of the two years ended 31 December 2004, the audited consolidated balance sheet of the Group as at 31 December 2003 and 2004, the audited balance sheet of the Company as at 31 December 2003 and 2004, the audited consolidated statement of changes in equity of the Group for each of the two years ended 31 December 2004 and the audited consolidated cash flow statement of the Group for each of the two years ended 31 December 2004 together with the notes to the financial statements, as extracted from the annual report of the Company for the year ended 31 December 2004.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2004

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| Turnover | 3 | 974,147 | 734,586 |
| Cost of sales | | <u>(748,024)</u> | <u>(573,076)</u> |
| Gross profit | | 226,123 | 161,510 |
| Other operating income | | 8,439 | 4,235 |
| Selling and distribution costs | | (90,761) | (46,886) |
| Administrative expenses | | (90,869) | (72,217) |
| Amortisation of goodwill arising from the acquisition of subsidiaries | | (4,647) | – |
| Surplus on revaluation of investment properties | | 7,525 | 960 |
| Gain (loss) on disposal of property, plant and equipment | | 1,308 | (268) |
| Loss on disposal of investment properties | | – | (951) |
| Impairment loss recognised in respect of plant and machinery | 5 | <u>–</u> | <u>(13,370)</u> |
| Profit from operations | 6 | 57,118 | 33,013 |
| Finance costs | 8 | (4,111) | (3,459) |
| Share of results of associates | | 5,240 | 4,849 |
| Amortisation of goodwill arising from the acquisition of an associate | | <u>(403)</u> | <u>(403)</u> |
| Profit before tax | | 57,844 | 34,000 |
| Income tax expenses | 9 | <u>(7,079)</u> | <u>(11,220)</u> |
| Profit after tax | | 50,765 | 22,780 |
| Minority interests | | <u>(283)</u> | <u>(283)</u> |
| Net profit attributable to shareholders | | <u><u>50,482</u></u> | <u><u>22,497</u></u> |
| Dividends | 10 | | |
| Interim | | 8,055 | 8,055 |
| Proposed final | | <u>12,082</u> | <u>12,082</u> |
| | | <u><u>20,137</u></u> | <u><u>20,137</u></u> |
| Earnings per share | 11 | | |
| Basic | | <u>HK12.54 cents</u> | <u>HK5.59 cents</u> |
| Diluted | | <u>N/A</u> | <u>N/A</u> |

CONSOLIDATED BALANCE SHEET*at 31 December 2004*

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Investment properties | <i>12</i> | – | 10,420 |
| Property, plant and equipment | <i>13</i> | 679,490 | 530,152 |
| Goodwill | <i>14</i> | 134,602 | – |
| Interests in associates | <i>16</i> | 82,877 | 81,386 |
| | | <u>896,969</u> | <u>621,958</u> |
| Current assets | | | |
| Inventories | <i>17</i> | 207,373 | 111,538 |
| Trade receivables | <i>18</i> | 417,282 | 244,231 |
| Prepayments, deposits and other receivables | | 61,338 | 35,910 |
| Other investments | <i>19</i> | 622 | – |
| Tax recoverable | | 8,313 | – |
| Bank balances and cash | | 151,812 | 80,760 |
| | | <u>846,740</u> | <u>472,439</u> |
| Current liabilities | | | |
| Trade and bills payables | <i>20</i> | 147,176 | 106,130 |
| Other payables and accruals | | 129,542 | 50,863 |
| Tax liabilities | | 15,410 | 8,262 |
| Amount due to SNP Group | <i>34</i> | 1,971 | 1,545 |
| Amounts due to associates | <i>34</i> | 13,862 | 17,861 |
| Obligations under finance leases | | | |
| – due within one year | <i>21</i> | 1,333 | – |
| Bank borrowings – due within one year | <i>22</i> | 158,881 | 47,000 |
| | | <u>468,175</u> | <u>231,661</u> |
| Net current assets | | <u>378,565</u> | <u>240,778</u> |
| Total assets less current liabilities | | <u>1,275,534</u> | <u>862,736</u> |

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--------------------------------------|--------------|--------------------------------|--------------------------------|
| Non-current liabilities | | | |
| Bank borrowings – due after one year | 22 | 500,000 | 125,000 |
| Obligations under finance leases | | | |
| – due after one year | 21 | 1,290 | – |
| Deferred tax liabilities | 26 | 16,721 | 13,605 |
| | | <u>518,011</u> | <u>138,605</u> |
| Minority interests | | <u>2,655</u> | <u>2,410</u> |
| | | <u>754,868</u> | <u>721,721</u> |
| Capital and reserves | | | |
| Share capital | 23 | 40,273 | 40,273 |
| Reserves | | 714,595 | 681,448 |
| | | <u>754,868</u> | <u>721,721</u> |

BALANCE SHEET*at 31 December 2004*

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------|--------------------------------|--------------------------------|
| Non-current assets | | | |
| Interests in subsidiaries | <i>15</i> | 810,619 | 829,196 |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 492 | 565 |
| Bank balances and cash | | 55 | 60 |
| | | <u>547</u> | <u>625</u> |
| Current liabilities | | | |
| Other payables and accruals | | 1,072 | 529 |
| Amount due to SNP Group | <i>34</i> | 1,697 | 441 |
| Tax liabilities | | 35 | 35 |
| | | <u>2,804</u> | <u>1,005</u> |
| Net current liabilities | | <u>(2,257)</u> | <u>(380)</u> |
| Total assets less current liabilities | | 808,362 | 828,816 |
| Non-current liability | | | |
| Amounts due to subsidiaries | <i>27</i> | 155,380 | 154,442 |
| | | <u>652,982</u> | <u>674,374</u> |
| Capital and reserves | | | |
| Share capital | <i>23</i> | 40,273 | 40,273 |
| Reserves | <i>25</i> | 612,709 | 634,101 |
| | | <u>652,982</u> | <u>674,374</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2004

| | Share capital HK\$'000 | Share premium account HK\$'000 | Property revaluation reserve HK\$'000 | Capital redemption reserve HK\$'000 | Translation reserve HK\$'000 | Reserve fund HK\$'000 | Dividend reserve HK\$'000 | Retained profits HK\$'000 | Total HK\$'000 |
|---|------------------------------|---|--|--|------------------------------------|-----------------------------|---------------------------------|---------------------------------|-------------------|
| At 1 January 2003 | 40,273 | 326,493 | 11,891 | 2,515 | (4,636) | 5,069 | 12,082 | 325,879 | 719,566 |
| Effect of change in tax rate and net losses not recognised in the income statement | - | - | (205) | - | - | - | - | - | (205) |
| Net profit for the year | - | - | - | - | - | - | - | 22,497 | 22,497 |
| Final 2002 dividend paid | - | - | - | - | - | - | (12,082) | - | (12,082) |
| Interim 2003 dividend paid | - | - | - | - | - | - | - | (8,055) | (8,055) |
| Proposed final 2003 dividend | - | - | - | - | - | - | 12,082 | (12,082) | - |
| At 31 December 2003 and 1 January 2004 | 40,273 | 326,493 | 11,686 | 2,515 | (4,636) | 5,069 | 12,082 | 328,239 | 721,721 |
| Exchange differences on translation of overseas operations | - | - | - | - | 2,802 | - | - | - | 2,802 |
| Net profit for the year | - | - | - | - | - | - | - | 50,482 | 50,482 |
| Transfer of retained profits | - | - | - | - | - | 10,442 | - | (10,442) | - |
| Final 2003 dividend paid | - | - | - | - | - | - | (12,082) | - | (12,082) |
| Interim 2004 dividend paid | - | - | - | - | - | - | - | (8,055) | (8,055) |
| Proposed final 2004 dividend | - | - | - | - | - | - | 12,082 | (12,082) | - |
| At 31 December 2004 | <u>40,273</u> | <u>326,493</u> | <u>11,686</u> | <u>2,515</u> | <u>(1,834)</u> | <u>15,511</u> | <u>12,082</u> | <u>348,142</u> | <u>754,868</u> |
| Attributable to: | | | | | | | | | |
| The Company and subsidiaries | 40,273 | 326,493 | 11,686 | 2,515 | (1,834) | 10,442 | 12,082 | 346,333 | 747,990 |
| Associates | - | - | - | - | - | 5,069 | - | 1,809 | 6,878 |
| At 31 December 2004 | <u>40,273</u> | <u>326,493</u> | <u>11,686</u> | <u>2,515</u> | <u>(1,834)</u> | <u>15,511</u> | <u>12,082</u> | <u>348,142</u> | <u>754,868</u> |
| The Company and subsidiaries | 40,273 | 326,493 | 11,686 | 2,515 | (4,636) | - | 12,082 | 328,324 | 716,737 |
| Associates | - | - | - | - | - | 5,069 | - | (85) | 4,984 |
| At 31 December 2003 | <u>40,273</u> | <u>326,493</u> | <u>11,686</u> | <u>2,515</u> | <u>(4,636)</u> | <u>5,069</u> | <u>12,082</u> | <u>328,239</u> | <u>721,721</u> |

Note: Pursuant to the relevant rules and regulations of the People's Republic of China ("PRC"), a portion of the profits of a subsidiary and an associate of the Group established in the PRC has been transferred to a reserve fund which is restricted as to their use.

CONSOLIDATED CASH FLOW STATEMENT*for the year ended 31 December 2004*

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|--------------------------------|
| OPERATING ACTIVITIES | | |
| Profit from operations | 57,118 | 33,013 |
| Adjustments for: | | |
| Surplus on revaluation of investment properties | (7,525) | (960) |
| Depreciation | 51,298 | 45,617 |
| Allowance for doubtful debts, net | 6,315 | – |
| Allowance for inventories, net | 1,882 | – |
| Amortisation of goodwill arising from the acquisition of subsidiaries | 4,647 | – |
| Impairment loss recognised in respect of plant and machinery | – | 13,370 |
| Loss on disposal of investment properties | – | 951 |
| (Gain) loss on disposal of property, plant and equipment | (1,308) | 268 |
| Interest income | (1,164) | (848) |
| | <hr/> | <hr/> |
| Operating cash flows before movements in working capital | 111,263 | 91,411 |
| Increase in inventories | (18,149) | (14,804) |
| Increase in trade receivables | (988) | (37,836) |
| (Increase) decrease in prepayments, deposits and other receivables | (8,966) | 32,813 |
| Decrease in trade and bills payables | (22,022) | (7,366) |
| Increase in other payables and accruals | 23,757 | 7,889 |
| (Decrease) increase in amount due to SNP Group | (4,922) | 1,545 |
| (Decrease) increase in amounts due to associates | (3,999) | 6,144 |
| | <hr/> | <hr/> |
| Cash generated from operations | 75,974 | 79,796 |
| Hong Kong Profits Tax paid | (11,133) | (12) |
| PRC income tax paid | (4,095) | (4,194) |
| Overseas taxes paid | (247) | – |
| | <hr/> | <hr/> |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | 60,499 | 75,590 |
| | <hr/> <hr/> | <hr/> <hr/> |

| | <i>Notes</i> | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|--------------|--------------------------------|--------------------------------|
| INVESTING ACTIVITIES | | | |
| Acquisition of subsidiaries | 28 | (383,872) | – |
| Purchase of property, plant and equipment | 29 | (38,064) | (52,802) |
| Purchase of other investments | | (622) | – |
| Proceeds from disposal of property, plant and equipment | | 6,313 | 2,839 |
| Dividend received from an associate | | 1,964 | 1,964 |
| Interest received | | 1,164 | 848 |
| Repayment to an associate | | – | (23,759) |
| Proceeds from disposal of interests in subsidiaries | | – | 26,116 |
| Proceeds from disposal of investment properties | | – | 9,709 |
| | | <u>(413,117)</u> | <u>(35,085)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | | |
| FINANCING ACTIVITIES | | | |
| New bank loans raised | | 549,600 | 27,000 |
| Repayment of bank loans | | (101,326) | (56,338) |
| Dividend paid | | (20,137) | (20,137) |
| Interest paid | | (4,111) | (3,459) |
| Repayment of obligations under finance leases | | (564) | – |
| Dividend paid to minority shareholders | | (283) | (1,418) |
| | | <u>423,179</u> | <u>(54,352)</u> |
| NET CASH GENERATED FROM (USED IN) FINANCING ACTIVITIES | | | |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | | |
| | | 70,561 | (13,847) |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | | | |
| | | 80,760 | 94,607 |
| EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET | | | |
| | | <u>491</u> | <u>–</u> |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR, | | | |
| represented by bank balances and cash | | <u>151,812</u> | <u>80,760</u> |

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

1. General

The Company was incorporated as an exempted company with limited liability in Bermuda on 3 June 1991 under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Its ultimate holding company is Temasek Holdings (Private) Limited, a company incorporated in Singapore.

During the year, the Group was involved in the printing of books, magazines, packaging products and pop-up and touch-and-feel books.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention, as modified for the revaluation of certain properties and other investments. The principal accounting policies adopted are as follows:

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group have been eliminated on consolidation.

Goodwill

Goodwill arising on the acquisition represents the excess of the cost of acquisition over the Group’s interest in the fair value of the identifiable assets and liabilities of subsidiaries and an associate at the date of acquisition.

Goodwill arising on the acquisition of subsidiaries is capitalised and amortised on a straight-line basis over its estimated useful economic life. Goodwill arising on the acquisition of an associate is included within the carrying amount of the associate and amortised on a straight-line basis over its estimated useful economic life.

Investments in subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company’s balance sheet at cost less any identified impairment loss.

Interests in associates

An associate is an enterprise over which the Group is in a position to exercise significant influence, including participation in financial and operating policy decisions of the investee.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. The carrying amount of such interests is reduced to recognise any identified impairment loss in the value of individual investments.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance of this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to the property disposed of is credited to the income statement.

No depreciation is provided on investment properties which are held on leases with an unexpired term of more than 20 years.

Other investments

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the year.

Property, plant and equipment

Property, plant and equipment, other than plant and machinery under installation and factory buildings under construction, are stated at cost or valuation less accumulated depreciation and amortisation and impairment loss.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

Advantage has been taken of the transitional relief provided by paragraph 80 of Statement of Standard Accounting Practice No. ("SSAP") 17 "Property, plant and equipment" from the requirement to make revaluation on a regular basis of the land and buildings of the Group which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. In previous years, the revaluation increase arising on the revaluation of these assets was credited to property revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

Depreciation and amortisation are provided to write off the cost or valuation of assets, other than plant and machinery under installation and factory buildings under construction, over their estimated useful lives, using the straight line method, at the following rates per annum:

| | |
|-----------------------------------|--|
| Leasehold land | Over the lease terms, including the renewable period |
| Buildings | 2.5% – 5% |
| Plant and machinery | 6 $\frac{2}{3}$ % – 33 $\frac{1}{3}$ % |
| Equipment, furniture and fixtures | 10% – 50% |
| Motor vehicles | 10% – 25% |

Plant and machinery under installation and factory buildings under construction are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Revenue recognition

Sales of goods are recognised when the goods are delivered and title has passed.

Interest income is accrued on a time basis, by reference to the principal outstanding and the applicable rate of interest.

Dividend income is recognised when the shareholder's right to receive payment has been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

Leases

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases are capitalised at their fair value at the date of acquisition. The corresponding liability to the lessor, net of interest charges, is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant leases so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the rentals are charged to the income statement on a straight-line basis over the relevant lease terms.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are retranslated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the year.

On consolidation, the assets and liabilities of the Group's overseas operations are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the year in which the operation is disposed of.

Retirement benefit costs

Payments to state managed retirement benefit schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

3. Turnover

Turnover represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, during the year.

An analysis of the Group's turnover is as follows:

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Printing of books and magazines | 691,124 | 668,133 |
| Printing of packaging products | 95,683 | 66,453 |
| Printing of pop-up and touch-and-feel books | 187,340 | – |
| | <u>974,147</u> | <u>734,586</u> |

4. Business and Geographical Segments

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – printing of books and magazines, printing of packaging products and printing of pop-up and touch-and-feel books. These divisions are the basis on which the Group reports its primary segment information.

Inter-segment sales are charged at prevailing market prices.

Segment information about these businesses is presented below:

For the year ended 31 December 2004

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Printing of pop-up and touch-and- feel books <i>HK\$'000</i> | Eliminations <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|--|---|--|---------------------------------|---------------------------------|
| Segment revenue | | | | | |
| External sales | 691,124 | 95,683 | 187,340 | – | 974,147 |
| Inter-segment sales | 353 | 6,611 | 414 | (7,378) | – |
| Total | <u>691,477</u> | <u>102,294</u> | <u>187,754</u> | <u>(7,378)</u> | <u>974,147</u> |
| Result | | | | | |
| Segment result | <u>80,978</u> | <u>(9,391)</u> | <u>13,340</u> | – | 84,927 |
| Surplus on revaluation of investment properties | | | | | 7,525 |
| Amortisation of goodwill arising from the acquisition of subsidiaries | – | – | (4,647) | – | (4,647) |
| Unallocated corporate expenses | | | | | <u>(30,687)</u> |
| Profit from operations | | | | | 57,118 |
| Finance costs | | | | | (4,111) |
| Share of results of associates | 2,552 | 2,688 | – | – | 5,240 |
| Amortisation of goodwill arising from the acquisition of an associate | (403) | – | – | – | (403) |
| Profit before tax | | | | | 57,844 |
| Income tax expenses | | | | | <u>(7,079)</u> |
| Profit after tax | | | | | 50,765 |
| Minority interests | | | | | <u>(283)</u> |
| Net profit attributable to shareholders | | | | | <u><u>50,482</u></u> |

For the year ended 31 December 2004

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Printing of pop-up and touch-and- feel books <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|--|---|--|---------------------------------|
| OTHER INFORMATION | | | | |
| Capital addition | 49,402 | 3,279 | 7,708 | 60,389 |
| Depreciation | 38,754 | 5,965 | 6,579 | 51,298 |
| Gain (loss) on disposal of property, plant and equipment | 1,323 | (6) | (9) | 1,308 |
| Allowance for doubtful debt, net | – | – | 6,315 | 6,315 |
| Allowance (reversal of allowance) for inventories, net | 2,763 | – | (881) | 1,882 |
| | <u>2,763</u> | <u>–</u> | <u>(881)</u> | <u>1,882</u> |

At 31 December 2004

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Printing of pop-up and touch-and- feel books <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-----------------------------------|--|---|--|---------------------------------|
| BALANCE SHEET | | | | |
| Assets | | | | |
| Segment assets | 742,726 | 140,616 | 549,465 | 1,432,807 |
| Interests in associates | 58,342 | 24,535 | – | 82,877 |
| Unallocated corporate assets | | | | 228,025 |
| Consolidated total assets | | | | <u>1,743,709</u> |
| Liabilities | | | | |
| Segment liabilities | 195,076 | 9,165 | 85,589 | 289,830 |
| Unallocated corporate liabilities | | | | 696,356 |
| Consolidated total liabilities | | | | <u>986,186</u> |

For the year ended 31 December 2003

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Eliminations <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---|--|--|--|
| Segment revenue | | | | |
| External sales | 668,133 | 66,453 | – | 734,586 |
| Inter-segment sales | – | 6,128 | (6,128) | – |
| | <u>668,133</u> | <u>72,581</u> | <u>(6,128)</u> | <u>734,586</u> |
| Total | <u>668,133</u> | <u>72,581</u> | <u>(6,128)</u> | <u>734,586</u> |
| Result | | | | |
| Segment result | <u>89,433</u> | <u>(15,965)</u> | <u>–</u> | 73,468 |
| Surplus on revaluation of investment properties | | | | 960 |
| Loss on disposal of investment properties | | | | (951) |
| Impairment loss recognised in respect of plant and machinery | – | (13,370) | – | (13,370) |
| Unallocated corporate expenses | | | | <u>(27,094)</u> |
| Profit from operations | | | | 33,013 |
| Finance costs | | | | (3,459) |
| Share of results of associates | 2,160 | 2,689 | – | 4,849 |
| Amortisation of goodwill arising from the acquisition of an associate | (403) | – | – | <u>(403)</u> |
| Profit before tax | | | | 34,000 |
| Income tax expenses | | | | <u>(11,220)</u> |
| Profit after tax | | | | 22,780 |
| Minority interests | | | | <u>(283)</u> |
| Net profit attributable to shareholders | | | | <u><u>22,497</u></u> |

For the year ended 31 December 2003

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|--|--|---|---------------------------------|
| OTHER INFORMATION | | | |
| Capital addition | 42,591 | 10,211 | 52,802 |
| Depreciation and amortisation | 38,821 | 6,796 | 45,617 |
| Loss on disposal of property, plant and equipment | 202 | 66 | 268 |
| Impairment loss recognised in respect of plant and machinery | – | 13,370 | 13,370 |
| | <u>–</u> | <u>13,370</u> | <u>13,370</u> |

At 31 December 2003

| | Printing of books and magazines <i>HK\$'000</i> | Printing of packaging products <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-----------------------------------|--|---|---------------------------------|
| BALANCE SHEET | | | |
| Assets | | | |
| Segment assets | 696,472 | 131,184 | 827,656 |
| Interests in associates | 56,851 | 24,535 | 81,386 |
| Unallocated corporate assets | | | 185,355 |
| | | | <u>185,355</u> |
| Consolidated total assets | | | <u>1,094,397</u> |
| Liabilities | | | |
| Segment liabilities | 159,133 | 15,634 | 174,767 |
| Unallocated corporate liabilities | | | 195,499 |
| | | | <u>195,499</u> |
| Consolidated total liabilities | | | <u>370,266</u> |

(b) *Geographical segments*

The printing of books and magazines, packaging products and pop-up and touch-and-feel books divisions are located in the People's Republic of China ("PRC"), Thailand and Hong Kong.

The following table provides an analysis of the Group's turnover by geographical market, irrespective of the origin of the goods/services.

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|------------------------------|-------------------------|-------------------------|
| The PRC, excluding Hong Kong | 392,819 | 359,502 |
| Hong Kong | 24,317 | 34,082 |
| The United States of America | 331,885 | 227,402 |
| United Kingdom | 115,215 | 60,430 |
| Australia | 46,406 | 44,364 |
| Other areas | 63,505 | 8,806 |
| | <u>974,147</u> | <u>734,586</u> |

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located has not been presented as they are substantially located in the PRC.

5. Impairment loss recognised in respect of plant and machinery

The Packaging Division in Dongguan has been incurring operating losses since 2001. In connection to this, the management of the Company conducted a detailed assessment of its plant and machinery in 2003 and concluded that the recoverable amount of certain machineries were less than their carrying values due to obsolescence. Accordingly, an impairment loss of approximately HK\$13.4 million was recognised as an expense in the income statement in 2003.

6. Profit from operations

| | THE GROUP | |
|---|----------------|---------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| Profit from operations was arrived at after charging: | | |
| Staff costs, including directors' remuneration (<i>note 7(a)</i>): | | |
| – Salaries, wages and other benefits | 137,825 | 84,967 |
| – Retirement benefit scheme contributions, net of forfeited contributions of HK\$5,000 (2003: HK\$14,000) | 4,715 | 4,616 |
| | <u>142,540</u> | <u>89,583</u> |
| Total staff costs | | |
| Auditors' remuneration | 1,222 | 1,108 |
| Depreciation of property, plant and equipment | | |
| – Owned assets | 50,856 | 45,617 |
| – Assets held under finance leases | 442 | – |
| | <u>51,298</u> | <u>45,617</u> |
| Minimum lease payments under operating leases: | | |
| – Plant and machinery | 96 | 49 |
| – Land and buildings | 4,496 | 1,076 |
| | <u>4,592</u> | <u>1,125</u> |
| Exchange loss, net | 3,704 | – |
| Allowance for inventories, net | 1,882 | – |
| Allowance for doubtful debts, net | 6,315 | – |
| and after crediting: | | |
| Gross rental income | 1,185 | 428 |
| Less: outgoings | <u>(966)</u> | <u>(41)</u> |
| Net rental income | <u>219</u> | <u>387</u> |
| Interest income | 1,164 | 848 |
| Exchange gain, net | <u>–</u> | <u>1,997</u> |

7. Director's and employees' emoluments

(a) Directors' emoluments

| | 2004 | 2003 |
|--|---------------------|---------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Fees: | | |
| Executive directors | – | 232 |
| Non-executive directors | 614 | 427 |
| | <u>614</u> | <u>659</u> |
| Other emoluments of executive directors: | | |
| Salaries and other benefits | 4,305 | 4,841 |
| Retirement benefit scheme contributions | 46 | 103 |
| | <u>4,351</u> | <u>4,944</u> |
| Total directors' emoluments | <u><u>4,965</u></u> | <u><u>5,603</u></u> |

Fees include HK\$391,000 (2003: HK\$309,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2003: Nil).

The emoluments of the directors were within the following bands:

| | Number of directors | |
|--------------------------------|----------------------------|-------------|
| | <i>2004</i> | <i>2003</i> |
| Nil to HK\$1,000,000 | 9 | 13 |
| HK\$1,000,001 to HK\$1,500,000 | – | 1 |
| HK\$1,500,001 to HK\$2,000,000 | 1 | – |
| HK\$2,000,001 to HK\$2,500,000 | 1 | 1 |
| | <u>11</u> | <u>15</u> |

No director waived any emoluments in the years ended 31 December 2004 and 2003.

(b) Employees' emoluments

During the year, the five highest paid individuals included two directors (2003: three directors), details of whose emoluments are set out above. The emoluments of the remaining three (2003: two) highest paid individuals were as follows:

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Salaries and other benefits | 4,028 | 1,990 |
| Retirement benefits schemes contributions | 24 | 43 |
| Performance related incentive payments | 696 | 123 |
| | <u>4,748</u> | <u>2,156</u> |

Their emoluments were within the following bands:

| | Number of employees | |
|--|---------------------|-----------------|
| | 2004 | 2003 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 2 |
| HK\$1,500,001 to HK\$2,000,000 | 2 | – |
| | <u>3</u> | <u>2</u> |
| 8. Finance costs | | |
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Interest on: | | |
| Bank and other borrowings wholly repayable within five years | 3,144 | 3,459 |
| Bank and other borrowings wholly repayable over five years | 914 | – |
| Obligations under finance leases | 53 | – |
| | <u>4,111</u> | <u>3,459</u> |
| 9. Income tax expenses | | |
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Current tax: | | |
| – Hong Kong | 2,035 | 3,555 |
| – Other jurisdictions | 5,851 | 4,970 |
| | <u>7,886</u> | <u>8,525</u> |
| (Over) underprovision in prior years: | | |
| – Hong Kong | (834) | – |
| – Other jurisdictions | 1,762 | – |
| | <u>928</u> | <u>–</u> |
| | <u>8,814</u> | <u>8,525</u> |
| Deferred taxation (<i>note 26</i>) | | |
| – Current year | (3,117) | 500 |
| – Attributable to a change in tax rate | – | 919 |
| | <u>(3,117)</u> | <u>1,419</u> |
| Taxation attributable to the Company and its subsidiaries | 5,697 | 9,944 |
| Share of taxation attributable to associates | 1,382 | 1,276 |
| | <u>7,079</u> | <u>11,220</u> |

Hong Kong Profits Tax is calculated at 17.5% (2003: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

The Group's subsidiaries operating in Thailand are eligible for certain tax holidays and concessions and certain amount of these subsidiaries' profits were exempted from Thailand corporate income tax for the year.

The charge for the year can be reconciled to the profit per the income statement as follows:

| | 2004 | | 2003 | |
|---|---------------------|--------------------|----------------------|--------------------|
| | HK\$'000 | % | HK\$'000 | % |
| Profit before tax | <u>57,844</u> | | <u>34,000</u> | |
| Tax at Hong Kong Profits Tax rate of 17.5% | 10,123 | 17.5 | 5,950 | 17.5 |
| Tax effect of expenses/income that are not deductible/taxable in determining taxable profit | 876 | 1.5 | 2,364 | 7.0 |
| Underprovision in prior year | 928 | 1.6 | – | – |
| Tax effect of different tax rates of the subsidiaries and associates operating in other jurisdictions | (995) | (1.7) | (308) | (0.9) |
| Tax effect of unrecognised tax losses | 588 | 1.0 | 1,679 | 4.9 |
| Utilisation of tax losses previously not recognised | (2,953) | (5.1) | – | – |
| Tax effect of unrecognised allowance for inventories | (616) | (1.1) | 616 | 1.8 |
| Recognition of tax losses previously not recognised | (300) | (0.5) | – | – |
| Effect of tax exemptions granted to a subsidiary in Thailand | (572) | (1.0) | – | – |
| Increase in opening deferred tax liabilities resulting from an increase in Hong Kong Profits Tax rate | <u>–</u> | <u>–</u> | <u>919</u> | <u>2.7</u> |
| Tax expense and effective tax rate for the year | <u><u>7,079</u></u> | <u><u>12.2</u></u> | <u><u>11,220</u></u> | <u><u>33.0</u></u> |

In addition to the amount charged to the income statement, deferred tax relating to the revaluation of the Group's properties has been charged directly to equity (see note 26).

10. Dividends

| | 2004 | 2003 |
|--|----------------------|----------------------|
| | HK\$'000 | HK\$'000 |
| Interim dividend paid: HK2 cents (2003: HK2 cents) per share | 8,055 | 8,055 |
| Final dividend proposed: HK3 cents (2003: HK3 cents) per share | <u>12,082</u> | <u>12,082</u> |
| | <u><u>20,137</u></u> | <u><u>20,137</u></u> |

The directors propose that a final dividend of HK3 cents per share be paid to shareholders on 7 April 2005. This dividend is subject to approval by shareholders at the Annual General Meeting and has been included as a dividend reserve in these financial statements.

The proposed dividend for 2004 is payable to all shareholders on the Register of Members on 28 February 2005.

11. Earnings per share

The calculation of the basic earnings per share is based on the net profit attributable to shareholders of HK\$50,482,000 (2003: HK\$22,497,000) and the weighted average of 402,726,918 shares (2003: 402,726,918 shares) in issue during the year.

No diluted earnings per share has been presented because the exercise prices of the Company's options were higher than the average market prices of the shares for both financial years.

12. Investment properties

| | THE GROUP <i>HK\$'000</i> |
|---|-------------------------------------|
| AT VALUATION | |
| At 1 January 2004 | 10,420 |
| Surplus on revaluation | 7,525 |
| Transfer to property, plant and equipment | <u>(17,945)</u> |
| At 31 December 2004 | <u><u>–</u></u> |

During the year, the Group's investment properties were transferred to property, plant and equipment which were revalued at their open market values by Sallmanns (Far East) Limited, independent professionally qualified valuers at 30 November 2004, the time of transfer. The surplus arising on revaluation has been credited to the income statement.

13. Property, plant and equipment

| | Leasehold land and buildings <i>HK\$'000</i> | Plant and machinery <i>HK\$'000</i> | Equipment, furniture and fixtures <i>HK\$'000</i> | Motor vehicles <i>HK\$'000</i> | Plant and machinery under installation and factory buildings under construction <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|---|--|--------------------------------------|---|--------------------------|
| THE GROUP | | | | | | |
| COST OR VALUATION | | | | | | |
| At 1 January 2004 | 307,456 | 502,582 | 42,701 | 13,945 | 724 | 867,408 |
| Additions | 301 | 9,217 | 5,014 | 1,586 | 44,271 | 60,389 |
| Acquired on acquisition of subsidiaries | 42,015 | 71,401 | 8,676 | 4,075 | – | 126,167 |
| Reclassifications | 1,333 | 1,043 | 1,619 | 324 | (4,319) | – |
| Disposals | (3,202) | (3,620) | (3,658) | (3,472) | – | (13,952) |
| Transfer from investment properties | 17,945 | – | – | – | – | 17,945 |
| Exchange realignment | 575 | 1,747 | 128 | 92 | – | 2,542 |
| | <u>366,423</u> | <u>582,370</u> | <u>54,480</u> | <u>16,550</u> | <u>40,676</u> | <u>1,060,499</u> |
| At 31 December 2004 | | | | | | |
| Comprising: | | | | | | |
| At cost | 251,559 | 582,370 | 54,480 | 16,550 | 40,676 | 945,635 |
| At valuation – 31.3.1994 | 58,620 | – | – | – | – | 58,620 |
| – 31.3.1995 | 7,393 | – | – | – | – | 7,393 |
| – 31.3.1998 | 30,906 | – | – | – | – | 30,906 |
| – 30.11.2004 | 17,945 | – | – | – | – | 17,945 |
| | <u>366,423</u> | <u>582,370</u> | <u>54,480</u> | <u>16,550</u> | <u>40,676</u> | <u>1,060,499</u> |
| DEPRECIATION AND AMORTISATION | | | | | | |
| At 1 January 2004 | 41,526 | 255,123 | 30,285 | 10,322 | – | 337,256 |
| Provided for the year | 6,827 | 37,125 | 5,235 | 2,111 | – | 51,298 |
| Eliminated on disposals | (765) | (1,187) | (3,627) | (3,368) | – | (8,947) |
| Exchange realignment | 169 | 1,071 | 92 | 70 | – | 1,402 |
| | <u>47,757</u> | <u>292,132</u> | <u>31,985</u> | <u>9,135</u> | <u>–</u> | <u>381,009</u> |
| At 31 December 2004 | | | | | | |
| NET BOOK VALUES | | | | | | |
| At 31 December 2004 | <u>318,666</u> | <u>290,238</u> | <u>22,495</u> | <u>7,415</u> | <u>40,676</u> | <u>679,490</u> |
| At 31 December 2003 | <u>265,930</u> | <u>247,459</u> | <u>12,416</u> | <u>3,623</u> | <u>724</u> | <u>530,152</u> |

| | THE GROUP | |
|--|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| The carrying amount of leasehold land and buildings comprises: | | |
| Long leases in Hong Kong | 102,183 | 84,525 |
| Medium-term leases in Hong Kong | 13,225 | 8,675 |
| Medium-term leases and land use rights in other parts of the PRC | 193,926 | 172,730 |
| Medium-term leases in Thailand | 9,332 | – |
| | <u>318,666</u> | <u>265,930</u> |

Certain of the Group's leasehold land and buildings were revalued at 31 March 1994 and 1995 by Sallmanns (Far East) Limited, independent professionally qualified valuers on an open market value basis. Since 1995, no further revaluations of the Group's leasehold land and buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of SSAP 17 "Property, plant and equipment", from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Properties carried at 1998 and 2004 valuations are properties which were reclassified from investment properties on the basis of the directors' and independent professional qualified valuers' valuation as at 31 March 1998 and 30 November 2004, respectively.

Had these land and buildings been carried at cost less accumulated depreciation and amortisation, their carrying values would have been approximately HK\$305 million (2003: HK\$252 million).

At 31 December 2004, the net book value of plant and machinery and motor vehicles of the Group includes an amount of approximately HK\$1,841,000 and HK\$2,189,000 respectively in respect of plant and machinery and motor vehicles held under finance leases.

The Group has pledged property, plant and equipment having a net book value of approximately HK\$9,998,000 (2003: nil) to secure general banking facilities granted to the Group.

14. Goodwill

| | THE GROUP |
|--|------------------|
| | <i>HK\$'000</i> |
| COST | |
| Arising on acquisition of subsidiaries and at 31 December 2004 | 139,249 |
| AMORTISATION | |
| Charge for the year and at 31 December 2004 | <u>(4,647)</u> |
| NET CARRYING AMOUNT | |
| At 31 December 2004 | <u>134,602</u> |

The amortisation period adopted for goodwill is 10 years.

15. Interests in subsidiaries

| | THE COMPANY | |
|-------------------------------|--------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | 73,024 | 73,024 |
| Amounts due from subsidiaries | 737,595 | 756,172 |
| | <u>810,619</u> | <u>829,196</u> |

Amounts due from subsidiaries are unsecured. Except for an amount of approximately HK\$120,146,000 (2003: HK\$120,146,000) which bears interest at 3% (2003: 3%) per annum, the remaining balance is interest free. In the opinion of directors, the amounts will not be repayable within twelve months from the balance sheet date and are accordingly classified as non-current.

Details of the Company's principal subsidiaries at 31 December 2004 are set out in note 35.

16. INTERESTS IN ASSOCIATES

| | THE GROUP | |
|---------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Share of net assets | 82,407 | 80,513 |
| Goodwill | 470 | 873 |
| | <u>82,877</u> | <u>81,386</u> |

The movements in goodwill arising from the acquisition of associates are as follows:

| | THE GROUP |
|--|------------------|
| | <i>HK\$'000</i> |
| COST | |
| At 1 January 2004 and 31 December 2004 | <u>2,016</u> |
| AMORTISATION | |
| At 1 January 2004 | 1,143 |
| Charge for the year | <u>403</u> |
| At 31 December 2004 | <u>1,546</u> |
| NET CARRYING AMOUNT | |
| At 31 December 2004 | <u>470</u> |
| At 31 December 2003 | <u>873</u> |

Details of the Group's associates at 31 December 2004 are set out in note 35.

17. Inventories

| | THE GROUP | |
|------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Raw materials | 167,924 | 92,238 |
| Work in progress | 33,309 | 17,626 |
| Finished goods | 6,140 | 1,674 |
| | <u>207,373</u> | <u>111,538</u> |

Included above are raw materials of HK\$9,652,000 (2003: HK\$13,340,000) of the Group carried at net realisable value.

18. Trade receivables

The Group allows different credit periods to its trade customers depending on the type of printing products provided. Credit periods vary from 90 to 180 days in accordance with the industry practice.

An aged analysis of the trade receivables as at the balance sheet date, based on payment due date, and net of allowance, is as follows:

| | THE GROUP | |
|----------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within credit period | 302,420 | 179,354 |
| 1 – 30 days | 49,528 | 31,901 |
| 31 – 60 days | 40,248 | 17,499 |
| 61 – 90 days | 10,272 | 8,492 |
| Over 90 days | 14,814 | 6,985 |
| | <u>417,282</u> | <u>244,231</u> |

19. Other investments

| | THE GROUP | |
|-------------------------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Equity securities: | | |
| Listed in Hong Kong at market value | 622 | – |
| | <u>622</u> | <u>–</u> |

20. Trade and bills payables

An aged analysis of the trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

| | THE GROUP | |
|---------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 0 – 30 days | 119,533 | 84,555 |
| 31 – 60 days | 14,695 | 10,531 |
| 61 – 90 days | 3,303 | 7,393 |
| 91 – 120 days | 2,213 | 2,641 |
| Over 120 days | 7,432 | 1,010 |
| | <u>147,176</u> | <u>106,130</u> |

21. Obligations under finance leases

| | Minimum lease payments | | Present value of minimum lease payments | |
|--|-------------------------------|-----------------|--|-----------------|
| | 2004 | 2003 | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| THE GROUP | | | | |
| Amounts payable under finance leases: | | | | |
| Within one year | 1,436 | – | 1,333 | – |
| In the second to fifth year inclusive | <u>1,338</u> | <u>–</u> | <u>1,290</u> | <u>–</u> |
| | 2,774 | – | 2,623 | – |
| <i>Less:</i> Future finance charges | <u>(151)</u> | <u>–</u> | <u>–</u> | <u>–</u> |
| Present value of lease obligations | <u>2,623</u> | <u>–</u> | 2,623 | – |
| <i>Less:</i> Amount due for settlement within one year (shown under current liabilities) | | | <u>(1,333)</u> | <u>–</u> |
| Amount due for settlement after one year | | | <u>1,290</u> | <u>–</u> |

The lease term ranges from two to five years. For the year ended 31 December, 2004, the average effective borrowing rate was 5%. Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

22. BANK BORROWINGS

| | THE GROUP | |
|----------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Secured bank loans | 6,736 | – |
| Unsecured bank loans | 652,145 | 172,000 |
| | <u>658,881</u> | <u>172,000</u> |

The above amounts bear interest at prevailing market rates and are repayable as follows:

| | THE GROUP | |
|---|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| Within one year | 158,881 | 47,000 |
| In the second year | 100,000 | 40,000 |
| In the third to fifth years inclusive | 275,000 | 85,000 |
| Over five years | 125,000 | – |
| | <u>658,881</u> | <u>172,000</u> |
| <i>Less:</i> Amount due for settlement within one year (shown under current liabilities) | <u>(158,881)</u> | <u>(47,000)</u> |
| Amount due for settlement after one year | <u>500,000</u> | <u>125,000</u> |

23. Share capital

| | 2004 | | 2003 | |
|----------------------------------|---------------------|------------------------------|---------------------|------------------------------|
| | Number of shares | Nominal value HK\$'000 | Number of shares | Nominal value HK\$'000 |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorised: | | | | |
| At 1 January and 31 December | <u>500,000,000</u> | <u>50,000</u> | <u>500,000,000</u> | <u>50,000</u> |
| Issued and fully paid: | | | | |
| At 1 January and 31 December | <u>402,726,918</u> | <u>40,273</u> | <u>402,726,918</u> | <u>40,273</u> |

24. Share options schemes

(a) 2003 Scheme

A share option scheme (the “2003 Scheme”) of the Company was adopted on 28 August 2003 for the purpose of providing incentives and rewards to eligible participants, including the executive directors of the Company, who contribute to the success of the Group’s operations.

The Board of Directors of the Company may, at their discretion, grant options to the eligible participant including any employee, officer, director or consultant of the Group. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its 2003 Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is

limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK\$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

At 31 December 2004, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Scheme of the Company was 2,900,000, representing 0.7% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 30 business days from the date of the offer, upon payment of a consideration by the offeree. The consideration for a grant of options of the Company is HK\$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received during the year from a director and employees for taking up the options granted during the year is HK\$19 (2003: HK\$17).

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options must be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer; (ii) the average of the Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

The following table discloses the details of the share options under 2003 Scheme held by a director and employees and movements in such holdings during the year of 2003 and 2004:

| | Date of grant | Number of share options | | | | | | |
|------------|------------------|-------------------------|-------------------------|-------------------------|-------------------------|------------------------|---------------------------|--------------------------|
| | | Outstanding at 1.1.2003 | Granted during the year | Outstanding at 1.1.2004 | Granted during the year | Lapsed during the year | Outstanding at 31.12.2004 | Exercise price per share |
| | | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ | HK\$ |
| A director | 9 October 2003 | - | 450,000 | 450,000 | - | - | 450,000 | 1.45 |
| | 25 November 2004 | - | - | - | 225,000 | - | 225,000 | 1.05 |
| Employees | 9 October 2003 | - | 1,510,000 | 1,510,000 | - | (180,000) | 1,330,000 | 1.45 |
| | 25 November 2004 | - | - | - | 895,000 | - | 895,000 | 1.05 |
| | | <u>-</u> | <u>1,960,000</u> | <u>1,960,000</u> | <u>1,120,000</u> | <u>(180,000)</u> | <u>2,900,000</u> | |

The options granted may be exercised in accordance with the terms of the relevant scheme as to:

- (i) 25% of the options will be exercisable after the expiry of 12 months from the date of grant (the "First Exercise Date");
- (ii) 25% of the options will be exercisable after the expiry of each successive 12 months period from the First Exercise Date; and
- (iii) the options will expire after ten years from the date of grant.

(b) SNP Share Option Plan and SNP Performance Share Plan

SNP Corporation Ltd (“SNP”), the immediate holding company of the Company, also operates SNP Share Option Plan and SNP Performance Share Plan (collectively referred to as the “Share Plans”).

These Share Plans apply to SNP and its subsidiaries’ employees, non-executive directors and associated company employees.

(i) SNP Share Option Plan

The following table discloses details of the SNP share options held by the directors of the Company and movements thereon during the year:

| Name of director | Number of share options | | | | Outstanding at 31.12.2004 |
|---------------------------------------|-------------------------------|-------------------------------|---------------------------------|------------------------------|---------------------------------|
| | Outstanding at 1.1.2004 | Granted during the year | Exercised during the year | Lapsed during the year | |
| Peter, Yang Sze Chen | 5,000 | 20,000 | – | – | 25,000 |
| Yeo Chee Tong | 400,000 | 160,000 | – | – | 560,000 |
| Tay Siew Choon | 120,000 | 70,000 | – | – | 190,000 |
| Edmund, Cheng Wai Wing | 55,000 | 50,000 | (25,000) | – | 80,000 |
| John Robert Walter <i>(note 1)</i> | 90,000 | 50,000 | – | – | 140,000 |
| Koo Tse Chia <i>(note 2)</i> | 370,000 | – | – | (370,000) | – |
| | <u>1,040,000</u> | <u>350,000</u> | <u>(25,000)</u> | <u>(370,000)</u> | <u>995,000</u> |

Note 1: John Robert Walter was appointed as a director of the Company on 6 February 2004. Before John Robert Walter became a director of the Company, the number of share options outstanding held by him under SNP Share Option Plan was 90,000.

Note 2: Koo Tse Chia resigned as director of the Company on 6 February 2004.

(ii) SNP Performance Share Plan

SNP Performance Share Plan was established with the objective of motivating senior executives to strive for superior performance and sustaining long-term growth for SNP and its subsidiaries (“SNP Group”). Awards of performance shares, which are released to recipients free of payment, are granted conditional on performance targets based on medium-term corporate objectives.

There are no awards of performance shares to the senior executives and the directors during the years ended 31 December 2004 and 2003.

The financial impact of share options granted is not recorded in the Company’s or the Group’s balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

25. Reserves

| | Contributed surplus <i>HK\$'000</i> | Share premium account <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Dividend reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|--|--|---|-------------------------------------|-------------------------------------|--------------------------|
| THE COMPANY | | | | | | |
| At 1 January 2003 | 63,516 | 326,493 | 2,515 | 12,082 | 222,493 | 627,099 |
| Net profit for the year | – | – | – | – | 27,139 | 27,139 |
| Final 2002 dividend paid | – | – | – | (12,082) | – | (12,082) |
| Interim 2003 dividend paid | – | – | – | – | (8,055) | (8,055) |
| Proposed final 2003 dividend | – | – | – | 12,082 | (12,082) | – |
| At 31 December 2003 and 1 January 2004 | 63,516 | 326,493 | 2,515 | 12,082 | 229,495 | 634,101 |
| Net loss for the year | – | – | – | – | (1,255) | (1,255) |
| Final 2003 dividend paid | – | – | – | (12,082) | – | (12,082) |
| Interim 2004 dividend paid | – | – | – | – | (8,055) | (8,055) |
| Proposed final 2004 dividend | – | – | – | 12,082 | (12,082) | – |
| At 31 December 2004 | <u>63,516</u> | <u>326,493</u> | <u>2,515</u> | <u>12,082</u> | <u>208,103</u> | <u>612,709</u> |

The contributed surplus of the Company represents the difference between the consolidated net assets of the subsidiaries acquired by the Company and the nominal amount of the Company's shares which were issued under a group reorganisation in 1991. In addition to retained profits, the contributed surplus of the Company is also available for distribution to shareholders under Companies Act 1981 of Bermuda (as amended). However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

26. Deferred tax liabilities

| | THE GROUP | |
|--|--------------------------------|--------------------------------|
| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
| At the beginning of the year | 13,605 | 11,981 |
| (Credit) charge to income statement for the year | (3,117) | 500 |
| Effect of change in tax rate | – | 1,124 |
| Acquired on acquisition of subsidiaries | 6,233 | – |
| At the end of the year | <u>16,721</u> | <u>13,605</u> |

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

| | Accelerated tax depreciation <i>HK\$'000</i> | Allowance for doubtful debts <i>HK\$'000</i> | Allowance for inventories <i>HK\$'000</i> | Revaluation of properties <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|---|---|--|--|-------------------------------|--------------------------|
| THE GROUP | | | | | | |
| At 1 January 2003 | 25,657 | (7,520) | (3,518) | 2,184 | (4,822) | 11,981 |
| (Credit) charge to income statement for the year | (9,369) | 4,270 | 656 | – | 4,943 | 500 |
| Effect of change in tax rate | | | | | | |
| – charge to income statement | 1,402 | – | – | – | (483) | 919 |
| – charge to equity | – | – | – | 205 | – | 205 |
| At 31 December 2003 and 1 January 2004 | 17,690 | (3,250) | (2,862) | 2,389 | (362) | 13,605 |
| Acquired on acquisition of subsidiaries | 6,233 | – | – | – | – | 6,233 |
| (Credit) charge to income statement for the year | (1,388) | 72 | (11) | – | (1,790) | (3,117) |
| At 31 December 2004 | <u>22,535</u> | <u>(3,178)</u> | <u>(2,873)</u> | <u>2,389</u> | <u>(2,152)</u> | <u>16,721</u> |

As at the balance sheet date, the Group has the following major unprovided deferred assets due to the unpredictability of the future profit streams:

| | THE GROUP | |
|----------------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Allowance for inventories | – | 616 |
| Tax losses (<i>note</i>) | <u>1,522</u> | <u>4,187</u> |
| | <u>1,522</u> | <u>4,803</u> |

Note: As at 31 December 2003, included in unrecognised tax losses are tax losses of HK\$11.1 million and HK\$5.6 million that will expire in 2008 and 2007, respectively. As at 31 December 2004, no unrecognised tax losses will expire in 2008 and 2007. Other tax losses of HK\$8.7 million (2003: HK\$1.0 million) may be carried forward indefinitely.

The Company had no significant unprovided deferred taxation for the year or at the balance sheet date.

27. Amounts due to subsidiaries

The amounts are unsecured. Except for an amount of approximately HK\$120,146,000 (2003: HK\$120,146,000) which bears interest at 3% (2003: 3%) per annum, the remaining balance is interest free. In the opinion of directors, the amounts will not be repayable within twelve months from the balance sheet date and are accordingly classified as non-current.

28. Acquisition of subsidiaries

On 8 September 2004, the Group acquired the entire issued share capital of SNP Excel (Hong Kong) Company Limited (formerly known as SNP Excel United Company Limited) (“Excel (HK)”) and an equivalent of approximately 99.95% of issued voting share capital of SNP Excel (Thailand) Co., Ltd. (formerly known as SNP SPrint (Thailand) Co., Ltd.) (“Excel (Thai)”) for total consideration of approximately HK\$409,296,000. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was approximately HK\$139,249,000.

| | 2004 | 2003 |
|---|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net assets acquired: | | |
| Property, plant and equipment | 126,167 | – |
| Inventories | 78,840 | – |
| Trade receivables | 176,559 | – |
| Prepayments, deposits and other receivables | 15,837 | – |
| Bank balances and cash | 25,424 | – |
| Trade payables | (62,877) | – |
| Other payables and accruals | (32,180) | – |
| Amounts due to SNP Group | (5,299) | – |
| Obligations under finance leases | (3,187) | – |
| Tax liabilities | (5,568) | – |
| Deferred tax liabilities | (6,233) | – |
| Bank borrowings | (37,191) | – |
| Minority interests | (245) | – |
| | <hr/> | <hr/> |
| | 270,047 | – |
| Goodwill | 139,249 | – |
| | <hr/> | <hr/> |
| Total consideration | <u>409,296</u> | <u>–</u> |

The total consideration is satisfied by cash.

Net cash outflow (inflow) arising on acquisition:

| | 2004 | 2003 |
|--|-----------------|-----------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Cash consideration | 409,296 | – |
| Bank balances and cash acquired | (25,424) | – |
| | <hr/> | <hr/> |
| Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries | <u>383,872</u> | <u>–</u> |

The subsidiaries acquired during the year contributed approximately HK\$187,340,000 to the Group’s turnover, and HK\$13,340,000 to the Group’s profit from operations.

29. Major non-cash transaction

During the year, the Company has purchased property, plant and equipment of approximately HK\$60,389,000 of which approximately HK\$22,325,000 has not been due under the terms of the contract as at 31 December 2004.

30. Operating leases*(a) The Group as lessee*

The Group leases certain of its production factories, warehouse and staff quarters under operating lease arrangements. Leases for properties are negotiated for a term ranging from two to fifty years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 5,529 | 837 |
| In the second to fifth year inclusive | 15,060 | 366 |
| Over five years | 111,865 | – |
| | <u>132,454</u> | <u>1,203</u> |

(b) The Group as lessor

The Group leases its property and machinery under operating lease arrangements, with leases negotiated for terms ranging from three to four years. The property and machinery are expected to generate average rental yields of 5% (2003: 4%) on an ongoing basis.

During 2003, the Group also leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The investment properties were transferred to property, plant and equipment during the year.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | THE GROUP | |
|---------------------------------------|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 1,097 | 47 |
| In the second to fifth year inclusive | 1,297 | – |
| | <u>2,394</u> | <u>47</u> |

31. Capital commitments

| | THE GROUP | |
|--|------------------|-----------------|
| | 2004 | 2003 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Commitments in respect of the acquisition of property, plant and equipment | | |
| – contracted for but not provided | 3,878 | 5,356 |
| – authorised but not contracted for | 47 | 35 |
| | <u>3,925</u> | <u>5,391</u> |

The Company had no capital commitment at the balance sheet date (2003: Nil).

32. Contingent liabilities

| | THE GROUP | | THE COMPANY | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Guarantees given to banks in respect of banking facilities granted to subsidiaries | – | – | 1,378,152 | 754,200 |
| Guarantee given to an independent third party in respect of future lease payment of a staff quarter | 49 | 133 | – | – |
| | <u>49</u> | <u>133</u> | <u>1,378,152</u> | <u>754,200</u> |

33. Retirement benefit schemes

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the “MPF Scheme”) under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on percentage of the employees’ basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group’s employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group’s subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal government. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

34. Related party transactions

During the year, the Group had significant transactions with the following related parties, together with balance with them as at the balance sheet date, details of which are as follows:

Balances

| | THE GROUP | | THE COMPANY | |
|---------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Amount due to SNP Group | 1,971 | 1,545 | 1,697 | 441 |
| Amounts due to associates | 13,862 | 17,861 | – | – |
| | <u>13,862</u> | <u>17,861</u> | <u>–</u> | <u>–</u> |

The balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

An aged analysis of the amounts due to associates as at the balance sheet date, based on payment due date, is as follows:

| | THE GROUP | |
|---------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 |
| 0 – 30 days | 3,901 | 9,029 |
| 31 – 60 days | 4,271 | 4,560 |
| 61 – 90 days | 4,066 | 4,272 |
| 91 – 120 days | 1,624 | – |
| | <u>13,862</u> | <u>17,861</u> |

Transactions

- (a) During the year, the Group entered the following transactions with Beijing SNP Leefung Changcheng Printers Co., Ltd. (formerly known as Beijing Leefung-Asco Changcheng Printers Limited), an indirect 47% owned associate.

| Nature of transactions | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|--------------------------------|
| Subcontracting fee paid | 40,638 | 40,220 |
| Rental income received | 877 | – |
| Sales of goods | 1,829 | – |
| | <u> </u> | <u> </u> |

The transactions were determined at the rates fairly negotiated between both parties.

- (b) During the year, the Group also entered the following transactions with SNP Group.

| Nature of transactions | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|--------------------------------|
| Services fee paid | 1,664 | 560 |
| Sales of goods | 89 | 50 |
| | <u> </u> | <u> </u> |

The transactions were carried out at the terms agreed by both parties.

- (c) On 8 September 2004, the Group acquired the entire issued share capital of Excel (HK) and an equivalent of approximately 99.95% of issued voting share capital of Excel (Thai) for total consideration of approximately HK\$403,100,000 from SNP.

35. Principal subsidiaries and associates

Details of the principal subsidiaries at 31 December 2004 are as follows:

| Name of subsidiary | Class of shares held | Place of incorporation or registration/operation | Nominal value of issued and fully paid capital | Attributable equity interest of the Group | Principal activities |
|--|------------------------|--|--|---|--|
| Geltin Limited | Ordinary | Hong Kong | HK\$1,000 | 100% | Property holding |
| Shenzhen SNP Leefung Printers Co., Ltd. | Contributed capital | PRC | US\$1,500,000 | 90% | Printing of magazines |
| SNP Excel (Hong Kong) Company Limited (formerly known as SNP Excel United Company Limited) | Ordinary | Hong Kong | HK\$7,000,000 | 100% | Printing of books |
| SNP Leefung Investments Limited | Ordinary | British Virgin Islands | US\$100 | 100% | Investment holding |
| SNP Leefung Limited | Ordinary | Hong Kong | HK\$10,000 | 100% | Investment holding and trading of books and packaging products |
| | Deferred (Note 1) | | HK\$7,500,000 | 100% | |
| SNP Leefung Packaging and Printing (Dongguan) Co., Ltd. | Contributed capital | PRC | US\$16,250,000 | 100% | Printing of books and packaging products |
| SNP Leefung Printers Limited | Ordinary | Hong Kong | HK\$2 | 100% | Trading of books and packaging products |
| SNP Leefung Printers (Shenzhen) Co., Ltd. | Contributed capital | PRC | US\$15,000,000 | 100% | Printing of books and magazines |
| SNP Leefung Properties Limited | Ordinary | Hong Kong | HK\$2 | 100% | Property holding |
| SNP Excel (Thailand) Co., Ltd. (formerly known as SNP SPrint (Thailand) Co., Ltd.) | Ordinary | Thailand | Baht107,800,000 | 99.96% | Printing of books |
| | Preference (Note 2) | | Baht112,200,000 | 98.93% | |
| Best-Set Typesetter Limited Guangzhou | Contributed capital | PRC | US\$578,205 | 100% | Typesetting |
| Panyu Excel Printing United Company Limited | Contributed capital | PRC | HK\$43,000,000 | 100% | Printing of books |
| SNP Best-Set Typesetter Limited | Ordinary | Hong Kong | HK\$600,000 | 100% | Typesetting |

Other than SNP Leefung Investments Limited which is held directly by the Company, all subsidiaries are held by the Company indirectly.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries which, in the opinion of the directors, principally affected the results of the Group for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes:

1. The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the Company or to participate in any distribution in winding up.
2. The holders of preference shares are eligible to receive dividend at the fixed rate at Baht4.5 per share per annum and have preferred rights to receive dividend and the capital repayment before ordinary shareholders. However, the right to receive dividend is non-cumulative. In the shareholders' meeting, the holders of preference shares have the rights of voting of one vote per one hundred preference shares held.

Details of the Group's associates which are held by the Company indirectly at 31 December 2004 are as follows:

| Name of associate | Class of shares held | Place of registration/ operation | Attributable equity interest of the Group | Principal activities |
|--|----------------------|-------------------------------------|---|------------------------------|
| Beijing SNP Leefung Changcheng Printers Co., Ltd. (formerly known as Beijing Leefung-Asco Changcheng Printers Limited) | Contributed capital | PRC | 47% | Magazines printing |
| Shanghai Fang Yin Leefung-Asco Printing and Packing Co., Ltd. (Note a) | Contributed capital | PRC | 25% (Note b) | Cigarette packaging printing |

Notes:

- (a) The companies are registered in the term of sino-foreign cooperative enterprise.
- (b) 3.9% equity interest in this associate was pledged to secure one of the Group's other borrowings which is included in other payables and accruals.

C. UNAUDITED QUARTERLY RESULTS

Set out below is the unaudited quarterly results of the Group for the three months ended 31 March 2005 together with the accompanying notes and a discussion and analysis thereof as extracted from the announcement of the Company dated 12 April 2005.

Consolidated Profit and Loss Account

| | <i>Notes</i> | Three months ended 31 March 2005 (Unaudited) HK\$'000 | Three months ended 31 March 2004 (Unaudited) HK\$'000 |
|--|--------------|--|--|
| Turnover | 2 | 286,374 | 190,615 |
| Cost of sales | | <u>(224,629)</u> | <u>(148,628)</u> |
| Gross profit | | 61,745 | 41,987 |
| Other operating income | | 843 | 786 |
| Selling and distribution costs | | (27,575) | (14,848) |
| Administrative expenses | | <u>(21,961)</u> | <u>(19,466)</u> |
| Profit from operations | | 13,052 | 8,459 |
| Finance costs | | (2,524) | (434) |
| Share of results of associates | | 1,298 | 1,307 |
| Amortisation of goodwill arising from the acquisition of an associate | | <u>–</u> | <u>(101)</u> |
| Profit before tax | | 11,826 | 9,231 |
| Income tax expenses | 3 | <u>(2,579)</u> | <u>(1,988)</u> |
| Profit after tax | | 9,247 | 7,243 |
| Minority interests | | <u>(71)</u> | <u>(71)</u> |
| Net profit attributable to shareholders | | <u>9,176</u> | <u>7,172</u> |
| Basic earnings per share | 4 | <u>HK2.28 cents</u> | <u>HK1.78 cents</u> |

Notes:

1. Basis of preparation and accounting policies

The accounting policies and basis of preparation used in preparing the quarterly results are the same as those adopted in preparing the financial statement for the year ended 31 December 2004.

In the current period, the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

2. Turnover by geographical areas

| | Three months ended 31 March 2005 (Unaudited) HK\$'000 | Three months ended 31 March 2004 (Unaudited) HK\$'000 |
|-------------------------------------|--|--|
| Mainland China, excluding Hong Kong | 90,592 | 92,312 |
| Hong Kong | <u>12,319</u> | <u>6,652</u> |
| United States of America | 102,911 | 98,964 |
| United Kingdom | 110,436 | 37,625 |
| Australia | 46,711 | 26,664 |
| Other areas | 7,274 | 24,091 |
| | <u>19,042</u> | <u>3,271</u> |
| | <u><u>286,374</u></u> | <u><u>190,615</u></u> |

3. Income tax expenses

| | Three months ended 31 March 2005 (Unaudited) HK\$'000 | Three months ended 31 March 2004 (Unaudited) HK\$'000 |
|---|--|--|
| Current tax: | | |
| Hong Kong | 1,656 | 1,067 |
| Other jurisdictions | <u>514</u> | <u>548</u> |
| Taxation attributable to the Company and its subsidiaries | 2,170 | 1,615 |
| Share of taxation attributable to associates | <u>409</u> | <u>373</u> |
| | <u><u>2,579</u></u> | <u><u>1,988</u></u> |

Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profits for the period.

Taxation for other jurisdictions are calculated at the rates prevailing in the respective jurisdiction.

4. Basic earnings per share

The calculation of the basic earnings per share for the three months ended 31 March 2005 is based on the net profit attributable to shareholders of approximately HK\$9,176,000 (2004: HK\$7,172,000) and the weighted average of 402,726,918 shares (2004: 402,726,918 shares) in issue during the period.

There was no dilution arising from the outstanding share options granted by the Company in 2003. The dilution from the outstanding share options granted by the Company in 2004 was immaterial. Accordingly, diluted earnings per share have not been shown.

Management Discussion & Analysis

For the first quarter ended 31 March 2005, the Group reported a turnover of HK\$286.4 million, an increase of 50% compared to the same quarter last year and a net profit attributable to shareholders of HK\$9.2 million, an increase of 28% compared to the same period last year.

The reason for the large increase in turnover was attributed to the inclusion of the turnover from the pop-up business which was acquired in September last year. For the same reason, the level of selling and distribution costs also increased proportionately. The gross profit for the period increased from HK\$42.0 million to HK\$61.7 million which was in line with the increase in turnover with the gross profit margin remaining stable at approximately 22%.

The finance costs for the Group has increased by HK\$2.1 million, resulting from the combined effects of higher interest rates and the increase in bank borrowing to finance the acquisition of SNP Excel (Hong Kong) Company Limited and SNP Excel (Thailand) Co., Ltd. The net borrowing position and the net gearing ratio remained stable at HK\$508 million and 66% respectively at 31 December 2004 and at 31 March 2005.

Proposed Acquisition of Yau Yue Paper Products Limited (“Yau Yue”)

On 18 March 2005, the Company has entered into an acquisition agreement pursuant to which the shareholders of Yau Yue conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares, representing 60% of the issued share capital of Yau Yue, for an aggregate cash consideration of HK\$68.4 million. The transaction is expected to complete in early May 2005 and a circular containing the detailed information of the acquisition will be despatched to the shareholders in due course.

With the successful acquisition of Yau Yue, the Group will be able to immediately gear up its existing packaging business from a start-up stage to a growth stage as the enlarged packaging business will contribute about one-fourth of the Group’s annual turnover. Yau Yue’s business knowledge and experience in corrugated business will help turnaround the Group’s current loss-making corrugated business. Further costs synergies will be achieved upon full integration of the Group’s existing packaging business and Yau Yue.

Prospects

As explained in the section headed “Proposed acquisition of Yau Yue”, upon completion of the acquisition of Yau Yue, the Group would have successfully built up a diversified and well balanced product lines comprising magazines, case-bound books, pop-up books and packaging products. Apart from benefitting from the centralization of purchasing, administrative and procurement functions, the Group is also able to accelerate its business growth through cross-selling opportunities and full integration amongst the operating subsidiaries. The order on hand for the second quarter is encouraging and hence we are optimistic about the growth for the second quarter.



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29 April 2005

The Directors
SNP Leefung Holdings Limited
Tai Fook Capital Limited

Dear Sirs,

We report on the pro forma statement of assets and liabilities (the “Pro Forma Assets and Liabilities Statement”) of SNP Leefung Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “SNP Group”) and Yau Yue Paper Products Limited (“Yau Yue”) and its subsidiaries (“Yau Yue Group”, and together with the SNP Group hereinafter referred to as the “Enlarged Group”) set out in Appendix III of the circular dated 29 April 2005 (the “Circular”) in connection with the major transactions in relation to the proposed acquisition of 60% equity interest in Yau Yue (the “Acquisition”), which has been prepared by the directors of the Company (the “Directors”), as if the Acquisition had been completed as at 31 December 2004, for illustrative purposes only, to provide information about how the Acquisition might have affected the financial information presented.

RESPONSIBILITIES

It is the responsibility solely of the Directors to prepare the Pro Forma Assets and Liabilities Statement in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

It is our responsibility to form an opinion, as required by the paragraph 29(7) of Chapter 4 of the Listing Rules, on the Pro Forma Assets and Liabilities Statement and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Assets and Liabilities Statement beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work with reference to the Statements of Investment Circular Reporting Standards and Bulletin 1998/8 “Reporting on proforma financial information pursuant to the Listing Rules” issued by the Auditing Practices Board in the United Kingdom where applicable. Our work, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Assets and Liabilities Statement with the Directors.

Our work does not constitute an audit or a review in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants and accordingly we do not express any such assurance on the Pro Forma Assets and Liabilities Statement.

The Pro Forma Assets and Liabilities Statement has been prepared on the basis set out in the first paragraph of this letter for illustrative purposes only and because of its nature, it may not give an indicative financial position of the Enlarged Group as at 31 December 2004 or any future date.

Opinion

In our opinion:

- (a) the Pro Forma Assets and Liabilities Statement has been properly compiled on the basis as stated;
- (b) such basis is consistent with the accounting policies of the SNP Group; and
- (c) the adjustments are appropriate for the purposes of the Pro Forma Assets and Liabilities Statement as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

UNAUDITED PRO FORMA ASSETS AND LIABILITIES STATEMENT OF THE ENLARGED GROUP

Set out below is the unaudited Pro Forma Assets and Liabilities Statement of the Enlarged Group as if the Acquisition was completed as at 31 December 2004. The Pro Forma Assets and Liabilities Statement has been prepared based on the published audited consolidated balance sheet of the SNP Group as at 31 December 2004 and the consolidated balance sheet of Yau Yue Group as at 31 December 2004, as shown in the accountants' report of Yau Yue Group which set out in Appendix I to the Circular, and after making certain pro forma adjustments as set out below.

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. SNP Group and Yau Yue Group have not early adopted these new HKFRSs in their respective financial statements for the year ended 31 December 2004.

SNP Group and Yau Yue Group have commenced considering the potential impact of these new HKFRSs but are not yet in a position to determine whether these HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

| | SNP Group HK\$'000 | Yau Yue Group HK\$'000 | Proforma Total adjustments HK\$'000 | | Notes | Proforma balance HK\$'000 |
|--|--------------------------|------------------------------|---|-----------------|-------|---------------------------------|
| Non-current assets | | | | | | |
| Property, plant and equipment | 679,490 | 56,578 | 736,068 | – | | 736,068 |
| Goodwill | 134,602 | – | 134,602 | 33,651 | 1 | 168,253 |
| Interests in associates | 82,877 | – | 82,877 | – | | 82,877 |
| Deposit paid for property, plant and equipment | – | 496 | 496 | – | | 496 |
| | <u>896,969</u> | <u>57,074</u> | <u>954,043</u> | <u>33,651</u> | | <u>987,694</u> |
| Current assets | | | | | | |
| Inventories | 207,373 | 35,052 | 242,425 | – | | 242,425 |
| Trade receivables | 417,282 | 59,068 | 476,350 | – | | 476,350 |
| Prepayments, deposits and other receivables | 61,338 | 303 | 61,641 | – | | 61,641 |
| Other investments | 622 | – | 622 | – | | 622 |
| Amount due from a director of Yau Yue | – | 854 | 854 | (854) | 4 | – |
| Tax recoverable | 8,313 | 1,023 | 9,336 | – | | 9,336 |
| Bank balances and cash | 151,812 | 7,223 | 159,035 | (68,400) | 3 | 79,219 |
| | | | | (11,416) | 4 | |
| | <u>846,740</u> | <u>103,523</u> | <u>950,263</u> | <u>(80,670)</u> | | <u>869,593</u> |
| Current liabilities | | | | | | |
| Trade and bills payables | 147,176 | 6,786 | 153,962 | – | | 153,962 |
| Other payables and accruals | 129,542 | 13,094 | 142,636 | – | | 142,636 |
| Amount due to a director of Yau Yue | – | 126 | 126 | (126) | 4 | – |
| Tax liabilities | 15,410 | – | 15,410 | – | | 15,410 |
| Amount due to SNP Group | 1,971 | – | 1,971 | – | | 1,971 |
| Amounts due to associates | 13,862 | – | 13,862 | – | | 13,862 |
| Dividend payable/Amounts due to minority shareholders | – | 20,240 | 20,240 | (12,144) | 4 | 8,096 |
| Obligations under finance leases – due within one year | 1,333 | 2,709 | 4,042 | – | | 4,042 |
| Bank borrowings – due within one year | 158,881 | 39,658 | 198,539 | – | | 198,539 |
| | <u>468,175</u> | <u>82,613</u> | <u>550,788</u> | <u>(12,270)</u> | | <u>538,518</u> |
| Net current assets | <u>378,565</u> | <u>20,910</u> | <u>399,475</u> | <u>(68,400)</u> | | <u>331,075</u> |
| Total assets less current liabilities | <u>1,275,534</u> | <u>77,984</u> | <u>1,353,518</u> | <u>(34,749)</u> | | <u>1,318,769</u> |

| | SNP Group HK\$'000 | Yau Yue Group HK\$'000 | Proforma Total adjustments HK\$'000 | | Note | Proforma balance HK\$'000 |
|--------------------------------------|--------------------------|------------------------------|---|-----------------|------|---------------------------------|
| Non-current liabilities | | | | | | |
| Bank borrowings – due after one year | 500,000 | 10,378 | 510,378 | – | | 510,378 |
| Obligations under finance leases | | | | | | |
| – due after one year | 1,290 | 5,526 | 6,816 | – | | 6,816 |
| Deferred tax liabilities | 16,721 | 3,483 | 20,204 | – | | 20,204 |
| Retirement benefit obligations | – | 682 | 682 | – | | 682 |
| | <u>518,011</u> | <u>20,069</u> | <u>538,080</u> | <u>–</u> | | <u>538,080</u> |
| Minority interests | <u>2,655</u> | <u>–</u> | <u>2,655</u> | <u>23,166</u> | 2 | <u>25,821</u> |
| Net Assets | <u>754,868</u> | <u>57,915</u> | <u>812,783</u> | <u>(57,915)</u> | | <u>754,868</u> |

This statement has been prepared for illustrative purpose only and because of its nature, it may not give a true picture for the financial position of the Enlarged Group.

Pro Forma adjustments are set out below:

1. The adjustment reflects the difference between the cash consideration of HK\$68,400,000 for the acquisition of 60% equity interest in Yau Yue Group and the carrying amount of its net assets of HK\$34,749,000 as at 31 December 2004 attributable to the 60% equity interest in Yau Yue Group to be acquired, as shown in the Accountants' Report of Yau Yue Group set out in Appendix I to the Circular. For the purpose of calculating the amount of goodwill arising on the Acquisition, the carrying amount of net assets of Yau Yue Group as at 31 December 2004 is assumed to be the fair value of the identifiable assets and liabilities of Yau Yue Group at the date of completion.
2. The adjustment reflects the 40% minority interests in Yau Yue Group of HK\$23,166,000.
3. The adjustment reflects the total cash consideration of HK\$68,400,000 for the Acquisition which will be paid by the Company upon the completion.
4. The adjustment reflects the payment of 60% of dividend payable amounting to HK\$12,144,000 adjusting for any amounts due from and due to the vendors of Yau Yue amounting to HK\$854,000 and HK\$126,000 respectively, upon the completion of the Acquisition in accordance with acquisition agreement dated 18 March 2005.

FINANCIAL AND TRADING PROSPECTS

In September 2004, the Company acquired the entire issued share capital of Excel (HK) and an effective interest of approximately 99.95% of the voting share capital of Excel (Thai) from its controlling shareholder, SNP Corporation, at a total consideration of S\$88 million. The acquisition represents a big step forward by the Group to become a one-stop printing company, which offers not only printing of books and magazines but also production of pop-up and touch-and-feel books as well as printing of colour boxes and corrugated boxes. In addition, the markets for the pop-up and touch-and-feel books produced by Excel (HK) and Excel (Thai) are mainly situated in the United States and Europe. Hence the acquisition enables the Group to diversify and increase its revenue streams. The Directors expect that with the full integration with Excel (HK) and Excel (Thai), the Group will further benefit from the marketing, production and purchasing synergies arising from the integration.

The performance of the Group's packaging products printing business improved in 2004, with the loss reduced significantly by approximately 41.2% as compared to 2003, as a result of the effectiveness of the new management team in increasing the sales volume and implementing cost control measures. The Directors consider that the Acquisition will enable the Group to enhance its operating efficiency arising from economy of scale and leverage on the brand name of Yau Yue in the corrugated paper industry.

The Directors will continue to identify value-enhancing business opportunities and explore possibilities of vertical or horizontal integration within the Group to strengthen the Group's position in the industry and bring better return to the Shareholders.

INDEBTEDNESS

At the close of business on 31 March 2005, being the latest practicable date for the purpose of preparing this indebtedness statement prior to the printing of this circular, the Enlarged Group had total outstanding borrowings of approximately HK\$666 million. The borrowings comprised of unsecured trust receipts loans of approximately HK\$26 million, secured trust receipts loans of approximately HK\$7 million, unsecured bank loans of approximately HK\$612 million, secured bank loans of approximately HK\$10 million, secured bank overdrafts of HK\$1 million and obligation under finance leases of approximately HK\$10 million.

Save as aforesaid and apart from intra-group liabilities, the Enlarged Group did not have any mortgages, charges, debentures, loan capital, debt securities, loans, bank overdraft, or other similar indebtedness, hire purchase commitments or finance lease, liabilities under acceptances or acceptance credits, or any guarantees or other material contingent liabilities outstanding at the close of business on 31 March 2005.

WORKING CAPITAL

The Directors are satisfied after due and careful enquiry that taking into account the present internal financial resources and the present available credit facilities of the Enlarged Group and in the absence of unforeseen circumstances, the Enlarged Group has available sufficient working capital for its present requirements, that is for at least the next 12 months from the date of publication of this circular.

MATERIAL ADVERSE CHANGE

The Directors confirm that (a) there has been no material adverse change in the financial or trading position of the Group since 31 December 2004, the date to which the latest audited consolidated financial statements of the Group were made up; and (b) there has been no material adverse change in the financial or trading position of Yau Yue since 31 December 2004, the date to which the latest audited financial statements of Yau Yue were made up.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Enlarged Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DISCLOSURE OF INTERESTS**(a) Interests of Directors**

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

*(1) Long positions in shares and underlying shares of the Company**(a) Ordinary shares of HK\$0.10 each of the Company*

| Name of director | Capacity | Number of shares held | Percentage of issued share capital as at the Latest Practicable Date |
|-------------------------|---|----------------------------------|---|
| Yang Sze Chen, Peter | Beneficial owner | 900,000 | 0.22% |
| | Held by controlled corporation (<i>Note</i>) | <u>16,514,867</u> | <u>4.10%</u> |
| | | <u><u>17,414,867</u></u> | <u><u>4.32%</u></u> |

Note: These shares were held through Team Long Development Limited, a company that was wholly owned by Mr. Yang Sze Chen, Peter.

(b) Share options of the Company

| Name of director | Capacity | Date of grant | Number of share options held | Number of underlying shares |
|------------------|------------------|------------------|------------------------------|-----------------------------|
| Yeo Chee Tong | Beneficial owner | 9 October 2003 | 450,000 | 450,000 |
| | | 25 November 2004 | 225,000 | 225,000 |
| | | 12 April 2005 | 225,000 | 225,000 |
| | | | <u>900,000</u> | <u>900,000</u> |

The options granted may be exercised in accordance with the terms of the relevant scheme as to:

- (i) 25% of the options will be exercisable after the expiry of 12 months from the date of grant (the “First Exercise Date”);
- (ii) 25% of the options will be exercisable after the expiry of each successive 12 months period from the First Exercise Date; and
- (iii) the options will expire after ten years from the date of grant.

(2) Long positions in shares and underlying shares of the associated corporation of the Company, SNP Corporation

(a) Ordinary shares of S\$0.50 each of SNP Corporation

| Name of director | Capacity | Number of shares held | Percentage of issued share capital as at the Latest Practicable Date |
|---------------------------|------------------|-----------------------|--|
| Yeo Chee Tong | Beneficial owner | 986,553 | 0.85% |
| | Held by spouse | <u>70,000</u> | <u>0.06%</u> |
| | | 1,056,553 | 0.91% |
| Cheng Wai Wing, Edmund | Beneficial owner | <u>35,000</u> | <u>0.03%</u> |
| | | <u>1,091,553</u> | <u>0.94%</u> |

(b) Share options of SNP Corporation

| Name of director | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|-------------------------|------------------|------------------------------|-----------------------------|-----------------------|---------------------------------------|
| Yang Sze Chen, Peter | Beneficial owner | 1,250 | 1,250 | 1.29 | 15 October 2004 to 14 October 2013 |
| | | 1,250 | 1,250 | 1.29 | 15 October 2005 to 14 October 2013 |
| | | 1,250 | 1,250 | 1.29 | 15 October 2006 to 14 October 2013 |
| | | 1,250 | 1,250 | 1.29 | 15 October 2007 to 14 October 2013 |
| | | 5,000 | 5,000 | 0.83 | 21 October 2005 to 20 October 2014 |
| | | 5,000 | 5,000 | 0.83 | 21 October 2006 to 20 October 2014 |
| | | 5,000 | 5,000 | 0.83 | 21 October 2007 to 20 October 2014 |
| | | 5,000 | 5,000 | 0.83 | 21 October 2008 to 20 October 2014 |
| | | 2,750 | 2,750 | 0.90 | 19 April 2006 to 18 April 2015 |
| | | 2,750 | 2,750 | 0.90 | 19 April 2007 to 18 April 2015 |
| | | 2,750 | 2,750 | 0.90 | 19 April 2008 to 18 April 2015 |
| | | 2,750 | 2,750 | 0.90 | 19 April 2009 to 18 April 2015 |
| | | | | <u>36,000</u> | <u>36,000</u> |
| Yeo Chee Tong | Beneficial owner | 10,000 | 10,000 | 0.50 | 23 April 2002 to 22 April 2011 |
| | | 10,000 | 10,000 | 0.50 | 23 April 2003 to 22 April 2011 |
| | | 10,000 | 10,000 | 0.50 | 23 April 2004 to 22 April 2011 |

| Name of director | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|------------------|------------------|------------------------------|---------------------------------------|-----------------------|---------------------------------------|
| Yeo Chee Tong | Beneficial owner | 10,000 | 10,000 | 0.50 | 23 April 2005 to 22 April 2011 |
| | | 10,000 | 10,000 | 0.50 | 11 October 2002 to 10 October 2011 |
| | | 10,000 | 10,000 | 0.50 | 11 October 2003 to 10 October 2011 |
| | | 10,000 | 10,000 | 0.50 | 11 October 2004 to 10 October 2011 |
| | | 10,000 | 10,000 | 0.50 | 11 October 2005 to 10 October 2011 |
| | | 20,000 | 20,000 | 0.69 | 17 April 2003 to 16 April 2012 |
| | | 20,000 | 20,000 | 0.69 | 17 April 2004 to 16 April 2012 |
| | | 20,000 | 20,000 | 0.69 | 17 April 2005 to 16 April 2012 |
| | | 20,000 | 20,000 | 0.69 | 17 April 2006 to 16 April 2012 |
| | | 20,000 | 20,000 | 0.61 | 23 October 2003 to 22 October 2012 |
| | | 20,000 | 20,000 | 0.61 | 23 October 2004 to 22 October 2012 |
| | | 20,000 | 20,000 | 0.61 | 23 October 2005 to 22 October 2012 |
| | | 20,000 | 20,000 | 0.61 | 23 October 2006 to 22 October 2012 |
| | | 20,000 | 20,000 | 0.59 | 15 April 2004 to 14 April 2013 |
| | | 20,000 | 20,000 | 0.59 | 15 April 2005 to 14 April 2013 |
| | | 20,000 | 20,000 | 0.59 | 15 April 2006 to 14 April 2013 |
| | | 20,000 | 20,000 | 0.59 | 15 April 2007 to 14 April 2013 |
| 20,000 | 20,000 | 1.29 | 15 October 2004 to 14 October 2013 | | |

| Name of director | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|------------------|------------------|------------------------------|-----------------------------|-----------------------|---------------------------------------|
| Yeo Chee Tong | Beneficial owner | 20,000 | 20,000 | 1.29 | 15 October 2005 to 14 October 2013 |
| | | 20,000 | 20,000 | 1.29 | 15 October 2006 to 14 October 2013 |
| | | 20,000 | 20,000 | 1.29 | 15 October 2007 to 14 October 2013 |
| | | 20,000 | 20,000 | 1.19 | 21 April 2005 to 20 April 2014 |
| | | 20,000 | 20,000 | 1.19 | 21 April 2006 to 20 April 2014 |
| | | 20,000 | 20,000 | 1.19 | 21 April 2007 to 20 April 2014 |
| | | 20,000 | 20,000 | 1.19 | 21 April 2008 to 20 April 2014 |
| | | 20,000 | 20,000 | 0.83 | 21 October 2005 to 20 October 2014 |
| | | 20,000 | 20,000 | 0.83 | 21 October 2006 to 20 October 2014 |
| | | 20,000 | 20,000 | 0.83 | 21 October 2007 to 20 October 2014 |
| | | 20,000 | 20,000 | 0.83 | 21 October 2008 to 20 October 2014 |
| | | 37,500 | 37,500 | 0.90 | 19 April 2006 to 18 April 2015 |
| | | 37,500 | 37,500 | 0.90 | 19 April 2007 to 18 April 2015 |
| | | 37,500 | 37,500 | 0.90 | 19 April 2008 to 18 April 2015 |
| | | 37,500 | 37,500 | 0.90 | 19 April 2009 to 18 April 2015 |
| | | | | <u>710,000</u> | <u>710,000</u> |

| Name of director | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|---------------------------|------------------|------------------------------|-----------------------------|-----------------------|-----------------------------------|
| Tay Siew Choon | Beneficial owner | 5,000 | 5,000 | 0.50 | 23 April 2002 to 22 April 2011 |
| | | 5,000 | 5,000 | 0.50 | 23 April 2003 to 22 April 2011 |
| | | 5,000 | 5,000 | 0.50 | 23 April 2004 to 22 April 2011 |
| | | 5,000 | 5,000 | 0.50 | 23 April 2005 to 22 April 2011 |
| | | 50,000 | 50,000 | 0.69 | 17 April 2003 to 16 April 2007 |
| | | 50,000 | 50,000 | 0.59 | 15 April 2004 to 14 April 2008 |
| | | 70,000 | 70,000 | 1.19 | 21 April 2005 to 20 April 2009 |
| | | 77,000 | 77,000 | 0.90 | 19 April 2006 to 18 April 2010 |
| | | <u>267,000</u> | <u>267,000</u> | | |
| Cheng Wai Wing, Edmund | Beneficial owner | 30,000 | 30,000 | 0.59 | 15 April 2004 to 14 April 2008 |
| | | 50,000 | 50,000 | 1.19 | 21 April 2005 to 20 April 2009 |
| | | <u>80,000</u> | <u>80,000</u> | | |
| John Robert Walter | Beneficial owner | 30,000 | 30,000 | 0.50 | 23 April 2002 to 22 April 2006 |
| | | 30,000 | 30,000 | 0.69 | 17 April 2003 to 16 April 2007 |
| | | 30,000 | 30,000 | 0.59 | 15 April 2004 to 14 April 2008 |
| | | 50,000 | 50,000 | 1.19 | 21 April 2005 to 20 April 2009 |
| | | <u>140,000</u> | <u>140,000</u> | | |
| | | <u>1,233,000</u> | <u>1,233,000</u> | | |

(3) *Long positions in shares and underlying shares of other associated corporations of the Company*

(a) Shares

| Name of director and company in which interest is held | Capacity | Number of shares held | Percentage of issued share capital as at the Latest Practicable Date |
|---|------------------|------------------------------|---|
| (i) Interest in Singapore Technologies Engineering Ltd | | | |
| Ordinary shares of S\$0.10 each | | | |
| Yeo Chee Tong | Beneficial owner | 2,568 | 0.00% |
| (ii) Interest in CapitaLand Limited | | | |
| Ordinary share of S\$1.00 each | | | |
| Tay Siew Choon | Beneficial owner | 53,850 | 0.00% |
| (iii) Interest in Raffles Holdings Limited | | | |
| Ordinary shares of S\$0.50 each | | | |
| Tay Siew Choon | Beneficial owner | 10,000 | 0.00% |
| (iv) Interest in Vertex Investment (II) Ltd | | | |
| Ordinary shares of US\$1.00 each | | | |
| Tay Siew Choon | Beneficial owner | 2 | 0.03% |
| (v) Interest in Vertex Technology Fund Ltd | | | |
| Ordinary shares of US\$1.00 each | | | |
| Tay Siew Choon | Beneficial owner | 20 | 0.02% |

| Name of director and company in which interest is held | Capacity | Number of shares held | Percentage of issued share capital as at the Latest Practicable Date |
|--|------------------|-----------------------|--|
| (vi) Interest in Vertex Technology Fund (II) Ltd | | | |
| Ordinary shares of US\$1.00 each | | | |
| Tay Siew Choon | Beneficial owner | 500 | 0.33% |
| Redeemable preference shares of US\$0.01 each | | | |
| Tay Siew Choon | Beneficial owner | 500 | 0.33% |
| (vii) Interest in SembCorp Industries Ltd | | | |
| Ordinary shares of S\$0.25 each | | | |
| Tay Siew Choon | Held by spouse | 54,598 | 0.00% |
| Cheng Wai Wing, Edmund | Held by spouse | 5,000 | 0.00% |
| (viii) Interest in Singapore Food Industries Limited | | | |
| Ordinary shares of S\$0.05 each | | | |
| Tay Siew Choon | Held by spouse | 863,000 | 0.16% |
| (ix) Interest in Singapore Computer Systems Limited | | | |
| Ordinary shares of S\$0.25 each | | | |
| Tay Siew Choon | Held by spouse | 971,000 | 0.63% |

| Name of director and company in which interest is held | Capacity | Number of shares held | Percentage of issued share capital as at the Latest Practicable Date |
|--|------------------|-----------------------|--|
| (x) Interest in Singapore Telecommunications Ltd | | | |
| Ordinary shares of S\$0.15 each | | | |
| Tay Siew Choon | Beneficial owner | 1,560 | 0.00% |
| | Held by spouse | 1,430 | 0.00% |
| | | 2,990 | 0.00% |
| Yeo Chee Tong | Beneficial owner | 5,590 | 0.00% |
| | Held by spouse | 1,616 | 0.00% |
| | | 7,206 | 0.00% |
| (xi) Interest in SMRT Corporation Ltd | | | |
| Ordinary shares of S\$0.10 each | | | |
| Tay Siew Choon | Beneficial owner | 30,000 | 0.02% |
| (xii) Interest in Telechoice International Limited | | | |
| Ordinary shares of S\$0.02 each | | | |
| Tay Siew Choon | Beneficial owner | 60,000 | 0.01% |
| Yeo Chee Tong | Beneficial owner | 9,000 | 0.00% |
| (xiii) Interest in Neptune Orient Lines Limited | | | |
| Ordinary shares of S\$1.00 each | | | |
| Tay Siew Choon | Held by spouse | 50,000 | 0.00% |

(b) Share options

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|---|------------------|------------------------------|-----------------------------|--------------------|--------------------------------------|
| (i) Interest in Chartered Semiconductor Manufacturing Ltd | | | | | |
| Tay Siew Choon | Beneficial owner | 23,443 | 23,443 | 4.26 | 15 August 2002 to 15 August 2006 |
| | | 29,304 | 29,304 | 3.46 | 22 February 2003 to 22 February 2007 |
| | | 234,439 | 234,439 | 3.88 | 1 May 2002 to 1 May 2007 |
| | | 46,887 | 46,887 | 1.86 | 30 August 2003 to 30 August 2007 |
| | | 25,000 | 25,000 | 0.72 | 28 February 2004 to 28 February 2008 |
| | | 35,000 | 35,000 | 1.10 | 29 August 2004 to 29 August 2008 |
| | | 60,000 | 60,000 | 1.70 | 27 February 2005 to 27 February 2009 |
| | | <u>454,073</u> | <u>454,073</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price \$ | Exercisable period |
|--|------------------|------------------------------|-----------------------------|----------------------|----------------------------------|
| (ii) Interest in CapitaLand Limited | | | | | |
| Tay Siew Choon | Beneficial owner | 12,500 | 12,500 | 1.85 | 19 June 2002 to 18 June 2006 |
| | | 12,500 | 12,500 | 1.85 | 19 June 2003 to 18 June 2006 |
| | | 12,500 | 12,500 | 1.85 | 19 June 2004 to 18 June 2006 |
| | | 12,500 | 12,500 | 1.85 | 19 June 2005 to 18 June 2006 |
| | | 10,000 | 10,000 | 1.19 | 11 May 2003 to 10 May 2007 |
| | | 10,000 | 10,000 | 1.19 | 11 May 2004 to 10 May 2007 |
| | | 10,000 | 10,000 | 1.19 | 11 May 2005 to 10 May 2007 |
| | | 10,000 | 10,000 | 1.19 | 11 May 2006 to 10 May 2007 |
| | | 5,985 | 5,985 | 1.00 | 1 March 2004 to 28 February 2013 |
| | | 5,985 | 5,985 | 1.00 | 1 March 2005 to 28 February 2013 |
| | | 5,985 | 5,985 | 1.00 | 1 March 2006 to 28 February 2013 |
| | | 5,985 | 5,985 | 1.00 | 1 March 2007 to 28 February 2013 |
| | | <u>113,940</u> | <u>113,940</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period | | |
|--|------------------|------------------------------|-----------------------------|-----------------------|--------------------------------------|--|--|
| (iii) Interest in The Ascott Group Limited | | | | | | | |
| Tay Siew Choon | Beneficial owner | 2,500 | 2,500 | 0.37 | 21 December 2001 to 20 December 2010 | | |
| | | 2,500 | 2,500 | 0.37 | 21 December 2002 to 20 December 2010 | | |
| | | 2,500 | 2,500 | 0.37 | 21 December 2003 to 20 December 2010 | | |
| | | 2,500 | 2,500 | 0.37 | 21 December 2004 to 20 December 2010 | | |
| | | 3,000 | 3,000 | 0.32 | 30 June 2002 to 29 June 2011 | | |
| | | 3,000 | 3,000 | 0.32 | 30 June 2003 to 29 June 2011 | | |
| | | 3,000 | 3,000 | 0.32 | 30 June 2004 to 29 June 2011 | | |
| | | 3,000 | 3,000 | 0.32 | 30 June 2005 to 29 June 2011 | | |
| | | 3,000 | 3,000 | 0.35 | 5 May 2003 to 4 May 2012 | | |
| | | 3,000 | 3,000 | 0.35 | 5 May 2004 to 4 May 2012 | | |
| | | 3,000 | 3,000 | 0.35 | 5 May 2005 to 4 May 2012 | | |
| | | 3,000 | 3,000 | 0.35 | 5 May 2006 to 4 May 2012 | | |
| | | 5,750 | 5,750 | 0.32 | 10 May 2004 to 9 May 2013 | | |
| | | 5,750 | 5,750 | 0.32 | 10 May 2005 to 9 May 2013 | | |
| | | 5,750 | 5,750 | 0.32 | 10 May 2006 to 9 May 2013 | | |
| | | 5,750 | 5,750 | 0.32 | 10 May 2007 to 9 May 2013 | | |
| | | | | <u>57,000</u> | <u>57,000</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price \$ | Exercisable period |
|--|------------------|------------------------------|-----------------------------|----------------------|--|
| (iv) Interest in STT Communication Limited | | | | | |
| Tay Siew Choon | Beneficial owner | 25,000 | 25,000 | 1.42 | 19 September 2001 to 18 September 2010 |
| | | 25,000 | 25,000 | 1.42 | 19 September 2002 to 18 September 2010 |
| | | 25,000 | 25,000 | 1.42 | 19 September 2003 to 18 September 2010 |
| | | 25,000 | 25,000 | 1.42 | 19 September 2004 to 18 September 2010 |
| | | 3,750 | 3,750 | 0.92 | 28 April 2005 to 27 April 2011 |
| | | 7,500 | 7,500 | 0.50 | 24 November 2005 to 23 November 2011 |
| | | 20,000 | 20,000 | 0.50 | 29 June 2005 to 28 June 2012 |
| | | 20,000 | 20,000 | 0.50 | 29 June 2006 to 28 June 2012 |
| | | 25,000 | 25,000 | 0.57 | 30 July 2005 to 29 July 2013 |
| | | 25,000 | 25,000 | 0.57 | 30 July 2006 to 29 July 2013 |
| | | 25,000 | 25,000 | 0.57 | 30 July 2007 to 29 July 2013 |
| | | 50,000 | 50,000 | 1.08 | 29 July 2005 to 28 July 2014 |
| | | 50,000 | 50,000 | 1.08 | 29 July 2006 to 28 July 2014 |
| | | 50,000 | 50,000 | 1.08 | 29 July 2007 to 28 July 2014 |
| | | 50,000 | 50,000 | 1.08 | 29 July 2008 to 28 July 2014 |
| | | <u>426,250</u> | <u>426,250</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|--|------------------|------------------------------|-----------------------------|--------------------|--------------------------------------|
| (v) Interest in SembCorp Industries Ltd | | | | | |
| Tay Siew Choon | Beneficial owner | 500,000 | 500,000 | 2.26 | 20 May 2001 to 19 May 2009 |
| | | 125,000 | 125,000 | 1.99 | 27 June 2001 to 26 June 2010 |
| | | 125,000 | 125,000 | 1.99 | 27 June 2002 to 26 June 2010 |
| | | 125,000 | 125,000 | 1.99 | 27 June 2003 to 26 June 2010 |
| | | 125,000 | 125,000 | 1.99 | 27 June 2004 to 26 June 2010 |
| | | 12,500 | 12,500 | 1.55 | 20 April 2002 to 19 April 2006 |
| | | 12,500 | 12,500 | 1.55 | 20 April 2003 to 19 April 2006 |
| | | 12,500 | 12,500 | 1.55 | 20 April 2004 to 19 April 2006 |
| | | 12,500 | 12,500 | 1.55 | 20 April 2005 to 19 April 2006 |
| | | 6,250 | 6,250 | 1.59 | 8 May 2003 to 7 May 2007 |
| | | 6,250 | 6,250 | 1.59 | 8 May 2004 to 7 May 2007 |
| | | 6,250 | 6,250 | 1.59 | 8 May 2005 to 7 May 2007 |
| | | 6,250 | 6,250 | 1.59 | 8 May 2006 to 7 May 2007 |
| | | 6,250 | 6,250 | 0.98 | 18 October 2003 to 17 October 2007 |
| | | 6,250 | 6,250 | 0.98 | 18 October 2004 to 17 October 2007 |
| | | 6,250 | 6,250 | 0.98 | 18 October 2005 to 17 October 2007 |
| | | 6,250 | 6,250 | 0.98 | 18 October 2006 to 17 October 2007 |
| | | 6,250 | 6,250 | 1.14 | 3 June 2004 to 2 June 2008 |
| | | 6,250 | 6,250 | 1.14 | 3 June 2005 to 2 June 2008 |
| | | 6,250 | 6,250 | 1.14 | 3 June 2006 to 2 June 2008 |
| | | 6,250 | 6,250 | 1.14 | 3 June 2007 to 2 June 2008 |
| | | 6,250 | 6,250 | 1.29 | 19 November 2004 to 18 November 2008 |
| | | 6,250 | 6,250 | 1.29 | 19 November 2005 to 18 November 2008 |
| | | 6,250 | 6,250 | 1.29 | 19 November 2006 to 18 November 2008 |
| | | 6,250 | 6,250 | 1.29 | 19 November 2007 to 18 November 2008 |
| | | <u>1,150,000</u> | <u>1,150,000</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|--|------------------|------------------------------|-----------------------------|-----------------------|--------------------------------------|
| (vi) Interest in Singapore Computer Systems Limited | | | | | |
| Tay Siew Choon | Beneficial owner | 20,000 | 20,000 | 2.20 | 19 October 2001 to 18 October 2005 |
| | | 20,000 | 20,000 | 2.20 | 19 October 2002 to 18 October 2005 |
| | | 20,000 | 20,000 | 2.20 | 19 October 2003 to 18 October 2005 |
| | | 20,000 | 20,000 | 2.20 | 19 October 2004 to 18 October 2005 |
| | | 25,000 | 25,000 | 2.08 | 15 March 2002 to 14 March 2006 |
| | | 25,000 | 25,000 | 2.08 | 15 March 2003 to 14 March 2006 |
| | | 25,000 | 25,000 | 2.08 | 15 March 2004 to 14 March 2006 |
| | | 25,000 | 25,000 | 2.08 | 15 March 2005 to 14 March 2006 |
| | | 18,750 | 18,750 | 1.55 | 8 March 2003 to 7 March 2007 |
| | | 18,750 | 18,750 | 1.55 | 8 March 2004 to 7 March 2007 |
| | | 18,750 | 18,750 | 1.55 | 8 March 2005 to 7 March 2007 |
| | | 18,750 | 18,750 | 1.55 | 8 March 2006 to 7 March 2007 |
| | | 18,750 | 18,750 | 0.86 | 22 February 2004 to 21 February 2008 |
| | | 18,750 | 18,750 | 0.86 | 22 February 2005 to 21 February 2008 |
| | | 18,750 | 18,750 | 0.86 | 22 February 2006 to 21 February 2008 |
| | | 18,750 | 18,750 | 0.86 | 22 February 2007 to 21 February 2008 |
| | | 18,750 | 18,750 | 0.84 | 30 April 2005 to 29 April 2009 |
| | | 18,750 | 18,750 | 0.84 | 30 April 2006 to 29 April 2009 |
| | | 18,750 | 18,750 | 0.84 | 30 April 2007 to 29 April 2009 |
| | | 18,750 | 18,750 | 0.84 | 30 April 2008 to 29 April 2009 |
| | | <u>405,000</u> | <u>405,000</u> | | |

| Name of director and company in which interest is held | Capacity | Number of share options held | Number of underlying shares | Exercise price S\$ | Exercisable period |
|--|------------------|------------------------------|-----------------------------|--------------------|-------------------------------------|
| (vii) Interest in Green Dot Internet Services Pte Ltd | | | | | |
| Tay Siew Choon | Beneficial owner | 4,156 | 4,156 | 1.00 | 12 March 2003 to 11 March 2013 |
| | | 4,157 | 4,157 | 1.00 | 12 March 2004 to 11 March 2013 |
| | | 4,157 | 4,157 | 1.00 | 12 March 2005 to 11 March 2013 |
| | | 4,157 | 4,157 | 1.00 | 12 March 2006 to 11 March 2013 |
| | | 2,616 | 2,616 | 1.00 | 1 April 2004 to 31 March 2014 |
| | | 2,616 | 2,616 | 1.00 | 1 April 2005 to 31 March 2014 |
| | | 2,617 | 2,617 | 1.00 | 1 April 2006 to 31 March 2014 |
| | | 2,617 | 2,617 | 1.00 | 1 April 2007 to 31 March 2014 |
| | | <u>27,093</u> | <u>27,093</u> | | |
| (viii) Interest in Global Crossing Ltd | | | | | |
| | | | | US\$ | |
| Tay Siew Choon | Beneficial owner | 4,400 | 4,400 | 10.16 | 12 January 2005 to 11 November 2014 |
| | | 3,300 | 3,300 | 10.16 | 12 January 2006 to 11 November 2014 |
| | | 3,300 | 3,300 | 10.16 | 12 January 2007 to 11 November 2014 |
| | | <u>11,000</u> | <u>11,000</u> | | |

(c) Conditional Awards under the Restricted Stock Plan

| Name of director and company in which interest is held | Capacity | Number of shares held | Number of underlying shares |
|--|------------------|-----------------------|-----------------------------|
| Award under Green Dot Capital Restricted Stock Plan | | | |
| Interest in Singapore Computer Systems Limited | | | |
| Tay Siew Choon | Beneficial owner | <u>200,000</u> | <u>200,000</u> |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

(b) Interests of substantial shareholders

Save as disclosed in the paragraph headed “Shareholding structure of Yau Yue” in the “Letter from the Board” of this circular, as at the Latest Practicable Date, so far as is known to any Director or chief executive of the Company, the following persons (not being a Director or chief executive of the Company) had, or were deemed or taken to have, an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Enlarged Group or had any option in respect of such capital:

Long positions in the ordinary shares of HK\$0.10 each in the capital of the Company

| Name of shareholder | Capacity | Number of Shares | Approximate percentage of the issued share capital of the Company |
|------------------------------------|--|------------------|---|
| SNP Corporation | Beneficial owner | 282,343,988 | 70.11% |
| Green Dot Capital Pte Ltd | Held by controlled corporation (<i>Note</i>) | 282,343,988 | 70.11% |
| Temasek Capital (Private) Limited | Held by controlled corporation (<i>Note</i>) | 282,343,988 | 70.11% |
| Temasek Holdings (Private) Limited | Held by controlled corporation (<i>Note</i>) | 282,343,988 | 70.11% |

Note: These shares were held through SNP Corporation, a company in which Green Dot Capital Pte Ltd, a wholly owned subsidiary of Temasek Capital (Private) Limited, has an approximately 55% shareholding. Temasek Capital (Private) Limited is a wholly owned subsidiary of Temasek Holdings (Private) Limited.

Save as disclosed herein and other than disclosed in the paragraph headed “Shareholding structure of Yau Yue” in the “Letter from the Board” of this circular, according to the register of interests kept by the Company under section 336 of the SFO and so far as is known to the Directors, as at the Latest Practicable Date, there was no other person (other than a Director or chief executive of the Company) who had any interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Enlarged Group or in any options in respect of such capital.

SERVICE CONTRACTS

Yau Yue will on Completion enter into service contracts with each of Mr. Kwong Chi Kin and Mr. Kwong Chi Keung, the material terms of which are as follows:

| | |
|--------------|---|
| Term: | 3 years |
| Salary: | HK\$43,000 per month plus a year end double pay equivalent to one month of basic salary |
| Termination: | Each contract is not terminable within the first 3 years unless the relevant director ceases to hold shares in Yau Yue. |

Save as disclosed above, as at the Latest Practicable Date, none of the directors or proposed directors of the Enlarged Group had any existing or proposed service contracts with any member of the Enlarged Group (excluding contracts expiring or determinable by the employing company within one year without payment of compensation (other than statutory compensation)).

The aggregate of the remuneration payable to and benefits in kind receivable by the directors of Yau Yue will not be varied solely as a result of the Acquisition.

DIRECTORS' INTEREST IN CONTRACTS AND ASSETS

No contract or arrangement in which any of the Directors is materially interested and which is significant in relation to the business of the Enlarged Group subsisted as at the Latest Practicable Date.

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since 31 December 2004 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors and their respective associates had an interest in a business, apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the Group's business.

EXPERT AND CONSENT

The following is the qualification of the expert whose letter and report are contained in this circular:

| Name | Qualification |
|--------------------------|------------------------------|
| Deloitte Touche Tohmatsu | Certified Public Accountants |

Deloitte Touche Tohmatsu has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any shareholding in any member of the Group and did not have any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Deloitte Touche Tohmatsu did not have any direct or indirect interest in any assets which have been, since 31 December 2004 (the date to which the latest published audited consolidated accounts of the Group were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

LITIGATION

As at the Latest Practicable Date, no member of the Enlarged Group was engaged in any litigation or claims of material importance and no litigation or claims of material importance were known to the Directors to be pending or threatened against any member of the Enlarged Group.

MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Enlarged Group within the two years immediately preceding the date of this circular and are, or may be, material:

- (a) the conditional agreement dated 3 May 2004 entered into between SNP Corporation and the Company in relation to the acquisition by the Company from SNP Corporation of the entire issued share capital of Excel (HK) at a total consideration of S\$70,480,000;
- (b) the conditional agreement dated 3 May 2004 entered into between SNP Corporation and the Company in relation to the acquisition by the Company from SNP Corporation of approximately 94.93% of the total voting share capital of Excel (Thai) and approximately 98.93% of the total voting share capital of CTT at a total consideration of S\$17,520,000;
- (c) the deed of indemnity dated 14 August 2004 executed by SNP Corporation in favour of the Group in relation to property related issues relating to Excel (HK) and its subsidiaries;
- (d) the deed of indemnity dated 14 August 2004 executed by SNP Corporation in favour of the Group in relation to property related issues relating to Excel (Thai);
- (e) the deed of variation dated 14 August 2004 entered into between SNP Corporation and the Company in relation to the amendment of the non-competition undertakings in the agreements referred to in paragraphs (a) and (b) above;
- (f) the deed of indemnity dated 14 August 2004 executed by SNP Corporation in favour of the Group in relation to estate duty, taxation and the failure of Excel (HK), Excel (Thai) and CTT and their subsidiaries in obtaining the relevant permits, licences and certificates to carry on their respective businesses; and
- (g) the Acquisition Agreement.

GENERAL

- (a) The registered office of the Company is at Canon's Court, 22 Victoria Street, Hamilton, HM12, Bermuda. The head office of the Company is at 10th Floor, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong. The principal registrar and transfer agent of the Company is The Bank of Bermuda Limited at 6 Front Street, Hamilton HM 11, PO Box HM 1020, Hamilton HM DX, Bermuda. The branch registrar and transfer agent of the Company in Hong Kong is Tengis Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- (b) The secretary and qualified accountant of the Company is Mr. Lo Kin Cheung. Mr. Lo is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.
- (c) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the principal place of business in Hong Kong of the Company at 10th Floor, Wing On House, 71 Des Voeux Road Central, Central, Hong Kong during normal business hours on any weekday (public holidays excepted) from the date of this circular up to and including 13 May 2005:

- (a) the memorandum of association and bye-laws of the Company;
- (b) the annual reports of the Company for each of the two years ended 31 December 2004;
- (c) the accountants' report on Yau Yue, the text of which is set out in Appendix I to this circular;
- (d) the written statement of adjustments prepared by Deloitte Touche Tohmatsu;
- (e) the letter from Deloitte Touche Tohmatsu dated 29 April 2005, the text of which is set out in Appendix III to this circular;
- (f) the letter of consent referred to in the paragraph headed "Expert and consent" in this appendix;
- (g) the material contracts referred to in the paragraph headed "Material contracts" in this appendix; and
- (h) the draft service contracts referred to in the paragraph headed "Service contracts" in this appendix.