

MANAGEMENT DISCUSSION AND ANALYSIS, FINANCIAL AND CAPITAL RESOURCES

MANAGEMENT DISCUSSION AND ANALYSIS

The Group reported a turnover of approximately HK\$455 million (2000: HK\$380 million) for the year under review. This represents an increase of approximately 20% when compared to the corresponding period last year. Profit from ordinary activities before taxation and profit attributable to shareholders amounted to approximately HK\$26.0 million and approximately HK\$18.6 million respectively (2000: HK\$20.7 million and HK\$18.5 million).

Due mainly to the strong demand from the Group's overseas customers, the Group continued to achieve steady growth in revenue during the year under review. The strong demand from the Group's overseas customers reflects the substantial marketing efforts of the Group in recent years to develop the overseas market in order to diversify and expand its income and customer base. Meanwhile, the Group also achieved improvements in revenue in the local and PRC markets notwithstanding the competitive environment of the packaging printing industry.

To meet the increasing demand particularly from its overseas customers, the Group acquired and installed two new six-colour offset printing machines, which became fully operational following successful test runs during the latter part of the year under review. Because of the increase in production capacity, the Group has been able to reduce the amount of sub-contracting works that were previously carried out by its sub-contractors.

During the year under review, the gross profit margin of the Group was under pressure due to keen competition within the packaging printing industry. On the other hand, despite the increase in sales, the Group managed to contain its selling and distribution costs at a level similar to those of last year. The administrative expenses of the Group, however, increased by approximately 10% over those of last year. The increase in the Group's administrative expenses was due in part to an increase in the salaries of the employees of the Group which had largely been frozen since the outbreak of the Asian financial crisis in 1997. Nevertheless, because of the operating leverage, coupled with the absence of the loss of approximately HK\$2 million on sale of fixed assets during the corresponding period last year, the Group recorded an increase of approximately 19% in profit from operations, in line with the increase in revenue as compared to the corresponding period last year.

During the year under review, the finance cost of the Group increased by approximately 9% over that of last year. The increase in the Group's finance cost was due to an increase in interest expenses arising from the financing requirements associated with the acquisition of the two six-colour offset printing machines and the increased working capital funding requirements associated with the increase in sales. Despite the increase in its finance cost, the Group achieved an increase of approximately 25% in profit before taxation as compared to the corresponding period last year.

Following the expiry of the tax free period previously enjoyed by Shanghai New Island Packaging Printing Company Limited, the taxation provided by the Group increased to approximately HK\$7.4 million during the year under review from approximately HK\$2.2 million during the corresponding period last year. As a result, the Group only achieved a marginal increase in profit attributable to shareholders during the year under review.

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During the year under review, the Group has invested a total of approximately HK\$51 million in acquiring fixed assets, including the two six-colour offset printing machines. The acquisition of these fixed assets was financed by retained profit, leasing and bank loans. The daily operating activities of the Group was funded by cashflow generated from operations and banking facilities.

The financial position of the Group is sound and the Group has adequate resources to meet its financial commitments in the foreseeable future. The gearing ratio (as defined as total interest-bearing borrowings divided by total assets) of the Group as at balance sheet date was approximately 41% (2000: 35%). The increase in the gearing ratio of the Group was due to the financing requirements associated with the acquisition of the two six-colour offset printing machines and the increased working capital funding requirements associated with the increase in sales during the year under review.