

MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL RESULTS

2003 is a transition year for the Group. After recovery from a difficult spell, the Group concentrated on regaining our global valuable customers' confidence through our commitment towards quality product and service. At the same time, the Group continued its ongoing comprehensive cost streamlining process in order to enhance our competitiveness. The final results of the Group reflect our effort gradually. The Group's turnover climbed up to HK\$370,576,000, representing a remarkable increase of 15% as compared with 2002. Administrative expenses kept constant at HK\$46,521,000, just a 1% increase from 2002. Finance interest costs were cut more than half to HK\$1,139,000 versus HK\$2,404,000 in 2002. However, much of our effort was erased by the unavoidable paper price increment in raw material during the year. The cost of paper and PVC, which are the main raw materials in our production, rised up by 5% to 10% during the year. As a result, audited net profit for the year dropped by 85% to HK\$1,773,000 versus HK\$12,150,000 in 2002.

OPERATION PERFORMANCE REVIEW

Paper product business remained the Group's principal activity. The Group concentrated on 2 product lines, namely stationery item and photo album. The former contributed 60% of the Group's turnover while the latter contributed 25%. The remaining 15% mainly came from gift items and other various products.

OEM paper product manufacturing is still the major business of the Group and represents 94% of the total turnover. The remaining 6% is contributed by house brand stationery distribution. Characterized by steady order amount and reliable cashflow, OEM business proved to be the correct direction in the current volatile market situation. On the other hand, the potential of Mainland China market cannot be ignored. The Group's own brands including "Easyfil", "Topics" and "Greenery" had built up reputation in Mainland China in terms of attractive design and excellent quality. The Group believes that there is plenty of room for the Group to expand its market share and market penetration in the Mainland China market. Strong foundation in the overseas OEM market provides necessary resources for the move. The Group will carefully allocate its resources to capture business opportunities in Mainland China.

OEM Paper Product Manufacturing

Performance of OEM business was outstanding in 2003. USA remained our major export market during the year and accounted for 58% of the Group's total turnover. It represented a 32% increase as compared with 2002.

Performance of the Europe market dropped slightly by 4% only from HK\$76,657,000 in 2002 to HK\$73,332,000 in 2003. During the fiscal year, the Group made every effort to rebuild the market segment and regain trust from customers after the decision to terminate the exclusive sales agreement with Filex Paper Converter Limited last year. The Group rejoined "Paperworld" held at Frankfurt, Germany in January 2003. The Group received excellent feedback from both existing and potential customers. Over HK\$3,000,000 orders were received as a result of our effort. This is only one example of our success in the strategy of direct sales and marketing in Europe. In view of the upward trend in Euro Dollar which increases the competitiveness of the Group, the Group will strengthen the sales and market team in order to capture this opportunity. The Group believes performance in the Europe market will rebound in the coming fiscal year.

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House Brand Stationery Distribution

Despite the fact that the Group faced keen competition from a number of small to medium size competitors in Hong Kong and Mainland China, performance of this business segment remained quite stable. Turnover of the segment amounted to HK\$22,869,000 which decreased by less than 1% as compared with 2002 turnover of HK\$22,998,000. Most of the segment turnover arose from Mainland China which represented 64% of the segment turnover. The remaining portions were shared by the Hong Kong and South East Asia respectively.

Turnover from Mainland China market amounted to HK\$14,647,000, versus HK\$14,817,000 last year. Although the market is not out-performed at this moment, the potential is great.

Turnover from Hong Kong amounted to HK\$4,529,000, a decrease of 20% as compared with last year. Hong Kong market in fact was the comparatively profitable market for the house brand stationery distribution business. The Group will carry out business in Hong Kong in a much prudent approach in order to minimize the risk.

Sales to South East Asia market amounted to HK\$3,693,000, which was increased by 44% as compared with HK\$2,495,000 in the previous year. In the coming year, the Group will take effort to further develop this potential market.

OTHER INFORMATION

Cost control

The Group continued the stringent cost control program this year and the result was satisfactory. Gross profit margin had only reduced by 1% as a whole despite the keen price competition in the paper product market. The cost cutting effect in the second half of the year was even better than the first half. Disregard the incidental legal fee for the litigation against certain customers, administrative expenses only increase slightly in 2003. With the Group's effort to utilize banking facilities in caution and the downward trend in interest rate, finance costs dropped tremendously by over 52%. The Group is satisfied with the result but is not going to end the program. Market competition remains severe in the coming year. If production and operation cost are not strictly controlled, the Group is unable to compete with existing and potential competitors. Several cost cutting programs have been formulated and carried out now and the Group aims at increasing its profit margin in the coming year.

Factory audit

During the fiscal year, the Group successfully passed factory audits carried out by our main OEM customers. Factory audit is an indicator of compliance to the labour, environmental and safety rules and regulations and is a pre-requisite in doing business with worldwide big giant. The unqualified audit result shows clearly that the Group is a social responsible enterprise. The Group is embedded with all necessary components to do worldwide business and is ready to compete globally.

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Enterprise Resources Planning (ERP) System

After the launch of the second phase of the ERP system, the implementation of the ERP system was completed in this year. The adoption of the ERP system is an important milestone of the Group. This year is a transition period. The Group believes it will completely benefit from the ERP system in the coming year.

Financial Position

In July 2002, the Group early settled all the rescheduled bank debts carried from the past and was able to start freshly since then. After the successful bank debt restructuring exercise, the Group received support from our valuable bankers and obtained around HK\$93,000,000 trading facilities to finance our normal business. Among them, 66% of the facilities had been utilized as at year end. As a result, the interest bearing debt was increased by 39% as compared with 2002. Gearing ratio (calculated by dividing interest bearing debt to net assets of the Group) increased from 41% to 55%. Net cash balance decreased by HK\$1,903,000 to HK\$6,717,000 as at year end. In view of the rebound of the Group and the current low interest rate environment, the gearing is still acceptable. Management always takes a prudent approach towards debt financing. The Group will closely monitor the finance market and will continue to utilize debt finance in caution.

The Group's banking facilities are offered by Hong Kong banks and beared interest at premium over cost of fund per annum.

Pledge of Assets

Other than a machinery being financed under medium term lease, the Group does not pledge any of its assets to secure any banking facilities as at the balance sheet date.

Exposure to Fluctuation in Exchanges Rates and Related Hedges

The Group's bank loans are denominated in Hong Kong Dollars. While most of the Group's foreign currency receipts are dominated in US Dollar, we are of the view that the existing currency peg with US Dollar in Hong Kong SAR will remain unchanged in the foreseeable future. The significant upward movement of Euro Dollar in the second half of 2003 does not have significant effect on the Group's operation and financial position.

Employees and Remuneration Policies

As at the balance sheet date, the Group employed a total of approximately 4,100 employees and workers in both Hong Kong and Mainland China which represented approximately 36% increase from 2002. In order to enhance production efficiency, the Group implemented the 3-shift working arrangement during this year. Additional workers were employed in Mainland China to cope with the new arrangement. The remuneration policies remained unchanged during the year. On 29th August, 2002, the Company adopted a new share option scheme under which the Directors may offer share options to directors and employees of the Group to subscribe for shares in the Company.

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Contingent Liabilities

The Group has no significant contingent liabilities as at the balance sheet date.

MANAGEMENT OUTLOOK

Global market sentiment remains low. Price war occurs again and again among our competitors in the paper product business. Instead of following the same unhealthy strategy, the Group has put much effort to improve our design, quality and service standard. Only these 3 components can lead the Group towards final success in the long run. At the same time, the Group will continue to streamline its operation to enhance efficiency and effectiveness. The Group believes that combination of these two directions will result in high profit margin. With our concentration on the core business and development of potential strength through a team of high quality staff, the Group is full of confidence to see a much brighter prospect in the coming years.