INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The Hong Kong economy has experienced a tough moment during the past six months. Being attacked by the Severe Acute Respiratory Syndrome ("SARS"), the economy reached downturn during the second quarter of 2003. Real GDP dropped by 5%, down from an increase of 5% from the first quarter. Fortunately, export market remained strong. The Group benefited from the strong overseas market demand. Total turnover reached HK$250,000,000 being the third consecutive upturn over the past 3 interim periods. With good business relationship with our customers and quality product and service, OEM paper product segment remained the driving force of our business. Turnover from this segment climbed up by 22% to HK$243,000,000 and contributed most to the Group's total turnover. Although net profit for the period decreased 34% to HK$5,000,000 on the face, our profitability was in fact increasing. Net profit generated from the current interim period was the result of our effort on concentration on principal activities. After elimination of non-trading income from the comparative figures, the Group in fact experienced an improvement of 35% in net profit as compared to last interim period. The Group has completely rebound from the bottom in spite of the continuous pressure of price competition.

Performance of house brand segment, which contributed less than 3% to total turnover currently, was affected by the outbreak of SARS. Both the domestic retail markets in Hong Kong and Mainland China were weak. Business activities slowed down and people tended to stay at home instead of shopping around outdoors. Turnover dropped by 43% to HK$6,000,000 with a slight loss of less than HK$200,000 resulted. Fortunately, the situation lasted for only a short period. Market situation has improved and everything is back to normal. Wholesalers in Hong Kong and big department stores in Mainland China are placing normal size orders again. The Group sees that performance from house brand segment is improving and believes the segment will get back to its profit generation road again.

The Group always emphasizes on stringent cost control and it is glad to see that the effort continues to receive reward. Administrative expenses reduced by 8% as compared to last interim period and the corresponding percentage to total turnover dropped from 11% to 8%. Distribution costs remained stable despite increase in turnover, so did the factory overhead costs. As a result of strict control over raw material purchase and usage, gross profit margins decreased by less than 3% only despite a general squeeze in selling price of around 5% and rise in paper prices of around 5 to 10%. Production logistic streamlining exercise is continuing and will remain one of the Group's main directions in the coming couples of months.

Liquidity and Financial Resources

The Group takes a prudent approach towards its treasury policies. Funds are carefully scheduled so as to match the short term routine operation and long term development of the Group. The Group finances its daily operation by internally generated funds and revolving bank facilities. On the other hand, the Group enters into medium term leases to finance acquisition of plant and machinery.

Cash and bank balances remained stable at a level of HK$11,000,000 while total interest borrowings reduced by 41% to HK$34,000,000 as at the balance sheet date. Among the interest borrowings, HK$3,000,000 is repayable over one year. Gearing ratio, being a percentage of interest bearing debts over net assets of the Group, reduced tremendously from 55% to 31% during the interim period. Shareholders' fund increased by 5% to HK$110,000,000 mainly as a result of profits generated in the interim period. With steady improvement in the performance, the Group believes the internal fund generated from operating profits, together with bank and trade facilities now available, will meet its present requirement.

Other than certain machinery being financed under medium term lease, the Group's bank facilities are granted under clean basis without any charge or security on the assets of the Group.

Foreign exchange exposure

The Group conducts its business mainly in United States dollars, Hong Kong dollars and Renminbi. As these currencies are comparatively stable, the Group's exposure to foreign exchange risk is low.

Human resources

The Group is now consolidating its workforce in its factories in Mainland China. As at the balance sheet date, about 3,800 employees and workers were employed by the Group, representing a reduction of over 7% as compared with last fiscal year end. The Group will continue to emphasize on the quality of staff and workers to facilitate development of the Group.

The Group provides competitive remuneration packages to its employees and workers with reference to the industry and market level. In addition to ordinary salary payment, employees and workers also enjoy other benefits provided by the Group including medical scheme and retirement benefit scheme. Discretionary bonuses and share options under a share option scheme are issued to reward high-caliber employees. The Group always provides training to various level of its staff including but not limited to business strategy, operation, sales, marketing, discipline and safety. The Group believes that bringing up the quality of its workforce is the right direction towards productivity enhancement instead of blindly increasing the number of workers.

Contingent liabilities

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

Outlook

Domestic and global markets are still full of challenges. Paper product markets recover basically but customers are still very sensitive to price level. Selling price is unlikely to move upwards significantly. The rally in paper prices adds another uncertainty to the market situation. In order to get a breakout among our competitors, the Group believes in three components what we always emphasize – quality design, quality product and quality service. The Group will continue to move towards these directions in the future. The Group will concentrate on adding values to our products based on the three quality commitments. Marketing effort will focus on customers who are willing to pay more for quality. With the continuous recovery of global economy and demand for higher living standard from customers, the Group believes paper product industry will ultimately consolidate and companies emphasizing on quality will survive. The Group's vision is to maintain its leadership in the market.