MANAGEMENT DISCUSSION AND ANALYSIS

ANNUAL RESULTS

The Group recorded a stable turnover of HK$382,470,000 representing a moderate growth of 3% as compared with last year. Despite a drop in gross margin to 15% due to the upsurge in raw material prices, distribution costs and administrative expenses were under control and recorded an encouraging reduction by 14% and 12% respectively. Our effort on productivity enhancements and cost reductions leads to a double on net profit for the year from HK$1,773,000 to HK$3,714,000.

PERFORMANCE REVIEW

Business of the Group is predominated by sales of paper products to our OEM customers. Sales to OEM customers recorded a continuous growth of 5% from HK$348,000,000 to HK$366,000,000 in 2004. It contributed to 96% of the Group's turnover, representing a 2% increase as compared with last year. The remaining 4% (2003: 6%) of the Group's turnover come from our sales of paper products under our house brands. Thanks for the support from our loyal customers, OEM paper product segment remained our most important business generator. The Group believes our customer base is an invaluable asset and will carry on its commitment by delivering quality product and service.

Among the OEM paper product segment, HK$222,000,000 or 61% of our paper products were distributed to United States. The performance of this geographical segment is steady. Turnover from Europe segment increases dramatically to HK$92,000,000 or 25% of total turnover, representing a 26% improvement as compared last year. This rearticulates the Group's decision of termination of the distribution agreement with our previous exclusive sales agent Filex Paper Converter, Ltd. Asia Pacific market contributed mainly to the remaining 13% (2003: 18%) of the Group's turnover. The Group will continue to explore opportunities in Asia Pacific area especially in China and Japan.

Stationeries remain the most popular product especially in United States. Sales of stationeries accounted for 65% of the Group's turnover and 81% of the sales in United States. On the other hand, photo albums are comparatively popular in Europe. Sales of photo albums accounted for 28% of the Group's turnover and 47% of the sales in Europe. The trend is stable over the two years.

The gross profit margin of the Group was 15%. Competition is keen in the industry and customers are becoming much sensitive to price. Selling price is being squeezed. At the same time, the Group faces the worldwide boost in material costs after the Iraq war including paper, plastic parts and metallic parts. Paper prices rose up at least 5% during the fiscal year. The Group continues to streamline its production logistics and strictly manage raw material consumption in order to enhance its efficiency and at the same time reduce wastage. Together with the Group's resistance in price war, effort in consolidation of workforce and proper control over overhead costs, the Group was able to minimize the decrease in gross profit margin by 1.2% only. The Group's strategy is to gradually increase the portion of higher margin photo album business in order to improve the overall margin of the Group.

The Group put a lot of effort in control of indirect costs and it is glad to see that administrative expenses further decreased from HK$46,521,000 to HK$40,768,000 during the fiscal year. The Group will continue this strategy and expect to see an even better picture.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group's financial position showed significant improvement especially reflected by its improved liquidity. The Group had net assets of HK$109,449,000 as at year end, representing a 5% improvement over last year. Trade debtors reduced by 16% to HK$37,074,000 despite the increase in turnover. Average collection period remained stable at a level of less than 40 days. Inventory level improved significantly by reducing from HK$121,077,000 to HK$81,367,000 this fiscal year. Creditors and accrued charges reduced by 39% to HK$61,107,000. Current ratio, being a factor of current assets over current liabilities, further increased from 1.19 to 1.24 this fiscal year.

Cash and cash equivalents were around HK$10,469,000, representing a great improvement of 56% as compared with last year. Net cash generated from operating activities increased tremendously and contributed most for the increment. Bank loans except for finance leases reduced by 15% to HK$43,829,000 after the Group's strict control over raw material consumption. In order to move towards productivity enhancement, the Group invested about HK$32,185,000 on advanced machinery and equipments and upgrade of existing facilities this year, resulting to an increase in obligation under finance leases as at year end. Around 70% of the leases is repayable over 1 year. As a result, gearing ratio, being a percentage of interest bearing debts over net assets of the Group, increased from 55% to 64%. The Group is confident that gearing ratio will gradually decrease when the enhancement comes into effect on our profitability in the coming couple of months.

Interests on the Group's banking facilities were charged at certain percentage over HIBOR. Except for certain machinery being financed under medium term lease, the Group's banking facilities are granted without any charge of security on any assets of the Group in Mainland China or Hong Kong of the PRC.

FOREIGN EXCHANGE EXPOSURE

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

HUMAN RESOURCES MANAGEMENT

The Group employed 80 staffs in Hong Kong and over 2,800 workers in Mainland China. The number of workers reduced by 30% which was the result of the Group's workforce consolidation effort.

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 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 will continue to enhance the caliber of its workforce in order to maintain its competitiveness.

CONTINGENT LIABILITIES

Except for HK$966,000 bills discounted to bank, the Group has no significant contingent liabilities as at the balance sheet date.