MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The first half of the year was a tough period. Worldwide market was full of uncertainties with weak sentiment. Customers delayed purchase decisions and reduced size of orders. Instead of committing medium to long-term order with substantial quantity, more customers placed thin margin tiny orders with short delivery request. Worsened by continuing rise in oil price, paper and plastic material costs upsurged irrationally. Having moved towards preserving profit margin at the expense of turnover, the Group not only succeeds in minimizing these adverse effects, but also makes a turnaround on the situation and maintains its absolute gross profit level. Despite a decrease in turnover by 21.7% to HK$195 million, the Group was able to maintain gross profit at HK$35 million, a level similar with last interim period.

The Group has put great effort in preserving the margin, especially when the Group has been burdened by rapid hike in paper, plastic and chemical material prices in recent months. Supported by warmhearted communication and mutual trust built up for years, the Group is able to persuade our customers and resist price reduction. In addition, the Group has focused on relatively high margin market and product instead of chasing turnover. Europe market performed steadily accordingly. Sales in Europe maintained at around HK$52 million despite the general decrease in turnover. Sales of photo album, the traditional high margin product, rose up by 8% to HK$55 million.

Internally, the Group has further strengthened the streamline of production logistics. Workflows were reviewed in details with unnecessary procedures being removed. Workforce was further slimmed with more processes now being automated. Production techniques were studied and improved continuously in order to reduce material wastage. With the introduction of the new plant in Dongguan in May 2004, the Group will be further benefited by the state-of-the-art production facility, resulting in a much competitive production environment and cost structure.

The result of our effort on price maintenance and stringent production cost control is reflected in an improvement on gross profit margin. The margin has increased satisfactorily from 14.4% to 17.9%. With reduction in turnover, selling expenses decreased tremendously by 35.3% to HK$7 million. Administrative expenses have been further cut down by another 4.4% to HK$20 million resulting from the continuing cost control measures the Group always stresses. Having consolidated all the works being done, net profit for the period has increased by over 70% from HK$4.7 million to HK$8.1 million. Profitability of the Group shows great improvement.

Financial and Capital Resources

Financial position of the Group was further strengthened with rebound in profitability. Shareholders' funds reached HK$118 million, representing an increment of 8% as compared with March 2004. With enhancement on procurement process and strict control on material consumption, inventory balance was further reduced by 18.8% to HK$66 million as compared with March 2004. Creditor and accrued charges reduced by 7% to HK$57 million. Despite further HK$12 million of finance leases incepted during the period to finance the capital investment in the new plant, gearing ratio, being a percentage of interest bearing debts over net assets of the Group, receded to around 54% after trade debts gradually fell due. Under the current uncertain environment and the expected upward trend in interest rate, the Group will continue to follow a prudent approach towards finance planning.

As all the borrowings are in Hong Kong dollar and all businesses are carried out in United States dollars, Hong Kong dollars and Renminbi, foreign exchange risk is relatively low under the current currency peg arrangement between Hong Kong and United States of America.

Human Resources

As at balance sheet date, the Group employed 78 staff in Hong Kong and around 2,600 workers in Mainland China. The number of workers has been further reduced by over 7% resulting from the workforce consolidation and production automation.

The Group always reviews and provides remuneration packages to employees according to current market level. Well-performed employees are rewarded by promotion, discretionary bonuses and share options of the Company. The Group encourages our employees to equip themselves through continuing study. Suitable trainings have been provided for our employees to improve their technical and managerial skills. As our workforce is a valuable intangible asset, the Group will continue in improving the quality of our employees and building up an energetic team.

Contingent Liabilities

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

Outlook

General raw material prices are still going upward as a result of boost in oil price and worldwide over-demand; not to mention the hike of operation costs including electricity. Price competition at the expense of quality still proceeds in paper product market. Coming quarters are still full of uncertainties. Having decided to follow strategy of margin preservation, the Group will conduct its business in caution, focusing on orders characterized by high margin. Capital investment will continue under our automation direction, with time and amount being carefully structured to match with the market situation and currency trend. The Group will continue to focus on product development, provide professional advice and add value to our customers. Production logistic enhancement and cost control will remain our attention. Although turnover will be inevitably adjusted, the Group believes we are choosing the right direction and this direction will finally lead us toward ultimate success.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30th September, 2004, the directors had interests in the shares and underlying shares of the Company as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO") as follows:

(i) Shares

Name of director	Capacity	Number of shares held Personal interest	Percentage of issued share capital
Kan Shiu Cheong, Frederick	Beneficial owner	92,858,000	2.36%
Chan Hoi Lam	Beneficial owner	20,684,000	0.53%
Yau Kang Nam	Beneficial owner	28,000,000	0.71%