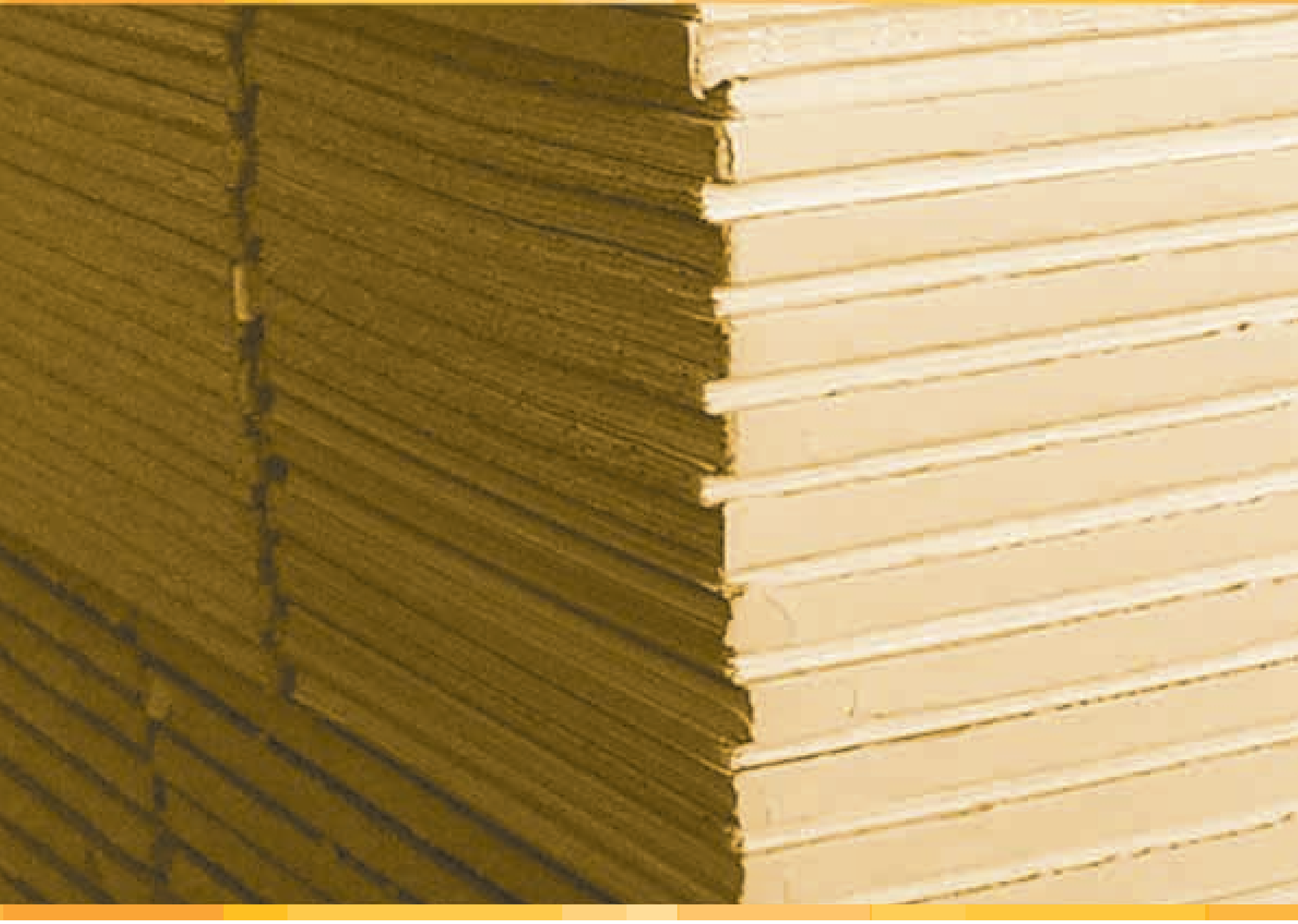
MANAGEMENT DISCUSSION & ANALYSIS



BUSINESS AND FINANCIAL REVIEW

2004 was a challenging year for SNP Leefung. In September 2004, the Company acquired from its holding company, SNP Corporation Ltd ("SNP"), the entire issued share capital of SNP Excel (Hong Kong) Company Limited (formerly known as SNP Excel United Company Limited) ("Excel (HK)") and an equivalent of approximately 99.95% of issued voting share capital of SNP Excel (Thailand) Co., Ltd. (formerly known as SNP SPrint (Thailand) Co., Ltd.) ("Excel (Thai)") for a total consideration of approximately HK$409 million. Both Excel (HK) and Excel (Thai) are engaged in the production of pop-up and touch-and-feel books. Excel (HK) and Excel (Thai) in total contributed a net income of HK$12.1 million for the period post acquisition till the year end date before the amortization of goodwill and interest costs.

BUSINESS AND FINANCIAL REVIEW *(continued)*

During the year under review, we were able to attain sound operating and financial results under a very competitive market environment. The Group recorded a turnover of HK$974 million, up from HK$735 million, representing an increase of HK$239 million, approximately 33% over last year. The reason for the increase was attributed to the inclusion of the turnover contributed from the pop-up business which amounted to approximately HK$187 million. Our core printing businesses continue to provide positive contributions in terms of operating profits and cashflows, the net operating profit before capital items amounted to HK$48 million as compared to HK$36 million for the year of 2003.

Despite the increasing paper prices early this year, we were able to maintain our gross profit margin at 23%, which was comparable with that of last year. Cost savings were achieved through effective reduction in overheads expenses. We continue to strive for stringent cost control, low bad debt level and the enhancement of cost efficiency across the Group.

Finance costs has increased slightly from HK$3.5 million to HK$4.1 million despite the additional interest costs incurred for the additional loans drawn for the acquisition of Excel (HK) and Excel (Thai). This resulted from the reduction in interest rates during the first half of the year together with the improvement in treasury management activities.

BUSINESS AND FINANCIAL REVIEW *(continued)*

China Division

Being a well-known printing group in Mainland China, we are focusing on providing high-quality magazines and hardcover books. As our sales volume has almost utilized our full production capacity, our sales level remained at approximately HK$352 million for the year. The Group had already acquired new machineries to increase our capacity in end 2004. With our continuous proactive marketing efforts, we expect that our PRC sales will grow in 2005.

Export Division

The turnover has increased by 6% over the year. In 2004, we have restructured our overseas sales team which will become fully functional in 2005. Further, we will benefit from the integration with the SNP Excel companies by having better opportunities in cross selling to existing customers.

Packaging Division

The loss incurred for this division has reduced significantly by 41% as a result of the effectiveness of the new management team in increasing the sales volume and implementing cost control measures. We are optimistic that the division may turnaround in 2005.

Shenzhen factory

Dongguan factory

Panyu factory

BUSINESS AND FINANCIAL REVIEW *(continued)*

Pop-up Division

Upon the acquisition of Excel (HK) and Excel (Thai), the Pop-up Division has contributed a total revenue of HK$187 million and a net income of HK$12.1 million in 2004. Other than benefitting from the synergistic opportunities in the areas of marketing and production, the profitability of the Group is expected to improve upon the diversification of its product offerings into pop-up books business.

Capital Investments

During the year, we have invested approximately HK$60.4 million in upgrading our existing facilities and increasing our production capacities. This indicates our determination in reinforcing our production capability and commitment to offer high-quality services. It is contemplated that further investments in advanced printing machines will be made in coming years in order to ensure our prompt responsiveness to the increasing demands from our valuable customers. We are confident that we are well-equipped to consolidate our position as one of the leading printers in the printing industry.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2004, the Group's cash and bank balances amounted to HK$152 million, increased from HK$81 million in prior year, while the total assets and the net assets were approximately HK$1,743.7 million and HK$754.9 million respectively.

The current ratio at year end decreased slightly from 2.04 to 1.81 and the total bank borrowings had increased by HK$486.9 million, including the term loan borrowing for the acquisition of Excel (HK) and Excel (Thai). The net gearing ratio based on total borrowings less cash and bank balances to equity has increased from 13% to 67% as at year end as a result of the increase in bank borrowing from financing the acquisition of Excel (HK) and Excel (Thai). In view of the Group's ability to generate cash from its operations, together with approximately HK$603 million unutilised bank facilities at the balance sheet date, the Board considers that the Group has sufficient financial resources to finance future capital expenditure plans.

CAPITAL STRUCTURE

As at 31 December 2004, total equity attributable to shareholders was HK$754.9 million, which had increased by HK$33.2 million as compared to HK$721.7 million as at 31 December 2003.

As at 31 December 2004, the Group's total borrowings (including bank borrowings and obligation under finance leases) amounted to HK$661.5 million (31 December 2003: HK$172 million) which represents 88% (31 December 2003: 24%) of the shareholders' equity. HK$160.2 million, HK$101 million, HK$275.3 million and HK$125 million will be repayable within one year, the second year, the third to fifth years and over five years respectively. Of the total borrowings, HK$644.2 million are denominated in Hong Kong dollars and HK$2.4 million and HK$14.9 million, respectively are denominated in United States Dollars and Thai Baht.

TREASURY POLICIES

The Group maintains a conservative approach on foreign exchange exposure management. The majority of the Group's borrowings, approximately 97% of the total borrowings at the year end date, was in Hong Kong dollars while the remaining balance was in other currencies.

The Group's borrowings are principally on the floating rate basis. When appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps are used in managing the interest rate exposure.

PLEDGE OF ASSETS

As at 31 December 2004, the Group pledged its property, plant and equipment with an aggregate carrying value of approximately HK$10 million (31 December 2003: Nil) as securities for generating banking facilities granted to the Group.

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

At the end of 2004, the Group employed a total of approximately 200 employees in Hong Kong and a workforce of approximately 8,000 in the PRC and Thailand.

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff's provident fund, share options and discretionary training subsidies.

Discretionary bonuses are also available to employees of the Group depending upon the financial performance of the Group.

OUTLOOK

Following the acquisition of the new business lines in pop-up books printing, we continue to reinforce our prime focus on the development of the core printing business. With the full integration with SNP Excel companies, we are optimistic that we will have an encouraging growth in 2005.

In addition to organic growth, the Group will continually explore value-enhancing merger and acquisition opportunities. We will also look at possibilities of vertical or horizontal integration within the SNP Group, so as to enlarge and strengthen our size, capacity and more importantly, our market share in the industry.

We continue to place priority on staff development. There will be continual talent recruitment and training for our staff. Technical and inter-company posting within the Group will be provided to enrich the professional knowledge of our dedicated employees.