MANAGEMENT'S DISCUSSION AND ANALYSIS

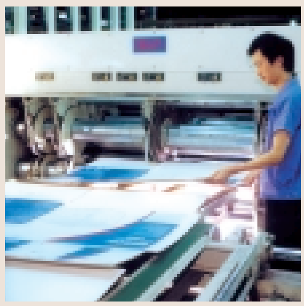
BUSINESS REVIEW

With the world economy improving and more foreign enterprises establishing new production bases in the PRC, the corrugated paper-ware industry in the PRC grew substantially in 2004.

The Group continued to focus its business on manufacture and sale of corrugated paper boards and carton boxes. Benefited from improved machinery utilization and operation of the newly established wholly-owned Foreign Investment Enterprise ("FIE") in Dongguan, Guangdong Province during the year, the Group recorded an overall increase of about 30% in production capacities.

The Group continued to maintain and gain market share in the corrugated paper-ware industry. Many of its existing renowned export-oriented customers started to explore the domestic market which gave rise to the increase in the PRC domestic sales of the Group. Besides, the increasing investment in corrugating production lines, advanced flexo printing machines and other automated ancillary equipments ensure timely delivery and provide high value-added and high quality product mix to satisfy customers' needs.

The effective sales strategies and cost management of the Group mitigated the impacts of increasing cost of raw materials. The efficient sales mix of corrugated paper boards and carton boxes minimized the impact of accelerating paper prices. In addition, the increase in sales enhanced the Group's ability in negotiating with suppliers to keep the procurement cost stable. The stringent cost control and effective internal control had also minimized the impact of cost increase. As a result, the group's gross profit margin only slightly decreased by 1.4% during the year.



The Group's turnover increased by 28.4% as compared to that of last year. Distribution costs increased in line with the increase in turnover by 27.5% and administrative expenses increased by 13%, mainly due to cost incurred by the new FIE subsidiary and the adjustment of salary to match market level. As a result, the net profit of the Group soared 20.6% to approximately HK$67.2 million (2003: HK$55.7 million). The debts collection period of the Group remained stable compared to that of last year and we only recorded bad debts at a level of less than 0.02% of turnover. This further proved our effort on receivable management.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROSPECTS

In the past years, different industries had been fully developed in Guangdong Province, associated with the increased level of production technologies as well as scale of production. Despite that the rising oil prices have pushed up raw material costs, aggregate domestic and foreign demand for products in these industries remain steady. To thrive in the competitive market, these industries will inevitably increase their level of production to lower the cost of manufacturing. This will be favourable to the packaging industry, as demand for corrugated paper-ware products will continue to grow.

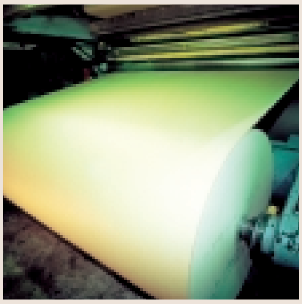
The Group will continue to invest in its production facilities to enhance the production capacity. It is anticipated that its aggregate production will further increase upon completion of the new investment in the second half of 2005.

The Group believes that with the operation of the new medium paper production facilities at Qingyuan in the latter part of 2005, we can diversify our product mix as well as stabilize the production costs. The Group is confident of sustaining steady growth in sales in the year to come, and looks forward to providing quality corrugated paper-ware products to its customers to fulfill the growing demand in the market.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

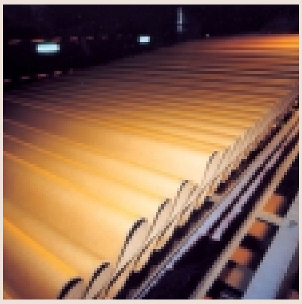
The Group's share capital amounted to approximately HK$36.8 million (2003: HK$36.5 million). The increase was mainly due to the net proceeds received from the exercise of the share option for approximately HK$0.3 million during the year.

The Group generally finances its operations with internally generated cash flow and credit facilities from the principal bankers. The Group liquidity position as at 31st December, 2004 remains strong. The Group was in a net cash position and had a negative gearing ratio (defined as total bank borrowings less all cash and bank balances and deposits divided by shareholders' funds).



The consolidated net current assets and current ratio (calculated by dividing the total current assets by the total current liabilities) as at 31st December, 2004 were approximately HK$139.4 million (2003: HK$147.2 million) and 1.92 (2003: 2.47). The bank balances and cash which were mainly denominated in Hong Kong dollars and United States dollars less bank overdraft amounted to HK$133.1 million (2003: HK$79.3 million).

As at 31st December, 2004, the Group's total borrowings (subject to floating interest rates) increased from approximately HK$68.2 million as at 31st December, 2003 to approximately HK$86.2 million. The increase of HK$18 million was mainly due to the increased trust receipt loans for procurement.

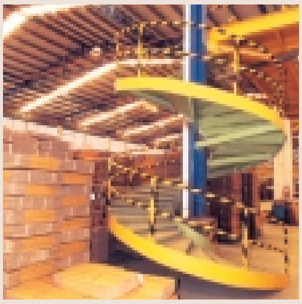


The ratio of long-term borrowings to short-term borrowings was 41:59 (2003: 61:39).

CONTINGENT LIABILITIES

Tax audit has been conducted by the Inland Revenue Department in December 2004. The Inland Revenue Department issued protective assessments for the year of assessment 1998/1999 to certain subsidiaries of the Group after the year end date. As the tax audit is still in progress, in the opinion of the Directors, the outcome and impact of this matter cannot be determined with reasonable certainty at this stage.

EMPLOYEES AND REMUNERATION POLICIES



As at 31st December, 2004, the Group and the processing factories had a total workforce of 850 staff. As the Group's success is dependent on the efforts of workforce, the Group offers competitive remuneration packages including payment of discretionary bonuses to employees based on individual's performance as well as the Group's performance. In addition, share options may also be granted in accordance with the terms of the Company's approved share option scheme to provide additional incentives and rewards to the employees.