MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

This year was a crucible to the Group. The slack economy of United States and Europe made it hard for the Group to grow. After experienced a tough market in the first half of the year, the Group continued to fight for orders with reasonable margins in the second half. Together with our will of adamant to preserve margins at the expense of trade volume, turnover for the year was reduced by 19% to HK$311 million. 51% of our products were sold in United States while 28% were sold in Europe. Contribution from United States market diluted as a result of our margin preservation direction.

Paper, PP resins and metallic spare parts remain the major materials in our production of photo album, stationery and gift items. During the year, prices of raw materials and accessories have risen continuously by at least 10% to 50%. Despite boost in material prices inevitably eroded part of our margin, gross profit margin was only reduced from 15.2% to 14.9%. Having a foresight to the market situation, the Group has already adjusted its direction by emphasizing on orders with better margin. Customer mix and product mix have been revised and more capacities have been reserved for orders of better price. Our effort was proven after we counteracted most of the cost increase.

The new factory in Dongguan commenced normal production in August 2005. Powered with new production facilities, the factory improved the overall operating efficiency of the Group. Certain automated processes including production of PP album cover and report cover were shifted to the new factory.

The Group used to have two business lines, being the OEM business and the house brand and agency business. OEM business contributed over 96% of turnover to the Group for the year. As at 31 March 2005, the Group entered into an agreement with a third party whereas the Group disposed of the house brand business "Easyfil" to the third party at a consideration of HK$8 million. Since the contribution of house brand business to the Group was minimal in previous years, the Group believes that it is benefit for the Group to reallocate and concentrate its resources on OEM business with higher margin.

Financial and Capital Resources

As at 31 March 2005, shareholders' equity of the Group reached HK$114 million, representing a 4% increase over last year. Funds were released after inventory balance further reduced by HK$20 million this year. Despite the Group incepted HK$13 million machinery hire purchase loans to enhance production facilities, total bank borrowings decreased slightly by HK$4 million instead. Gearing ratio, being a percentage of interest bearing debts over net assets of the Group, dropped to 60% after shareholders' equity being strengthened.

Interests on the Group's banking facilities were charged at certain percentage over HIBOR or Prime rate. Except for certain machinery being financed under medium term lease, all banking facilities are granted clean of any security or charge on the Group's assets. The Group will take caution in negotiation of new facilities under the possible upward trend in interest rate.

As all borrowings are in Hong Kong dollar and all businesses are carried out in United States dollars, Hong Kong dollars, Euro dollars and Renminbi, foreign exchange risk is relatively low under the currency peg arrangement between Hong Kong and United States of America. The Group has not arranged any hedge of interest or currency risk. The Group always monitors closely on the performance of foreign currencies especially those directly related to our business and adjusts our operating decisions to minimize currency risk.

Human Resources

As at 31 March 2005, the Group employed 72 staff in Hong Kong and around 2,400 workers and staff in Mainland China. Thanks for the automation direction with modern production facilities, the addition of one more factory in Dongguan had not resulted in an expansion of the workforce; a 17% decrease is observed instead. The Group will keep close on technology development and explore opportunities to automate the production process gradually.

Staff costs remained at a level of around HK$67 million for the year. The increase in minimum wages and various social welfare charges counteracted part of the effect from reduction of number of employees. The slimming down effect of workforce will be much obvious in coming months after the Group had reinforced the action.

The Group reviews and provides remuneration packages to employees according to market level. Outperformed employees are rewarded by various means including bonus and promotion.

Contingent Liabilities

Except for the HK$2 million discounted to banks, the Group has no significant contingent liabilities as at the balance sheet date.