

REVIEW OF OPERATION

BUSINESS REVIEW

For the period under review, the Group recorded a total revenue of approximately HK\$320 million and a profit attributable to equity holders of approximately HK\$24.1 million, which represented a decline of about 8.2% and 17.7% to that of the last corresponding period respectively. For the last corresponding period ended 30 September 2005, the total revenue of the Group was approximately HK\$348.4 million and the profit attributable to equity holders was approximately HK\$29.3 million. Gross profit margin of the Group has also slightly declined to 26.3% for the six months ended 30 September 2006 from that of the six months ended 30 September 2005 of 26.8%.

Printing and manufacture of packaging boxes, including accompanying brochures, manuals and catalogues, together with the manufacture of children novelty books continued to be the Group's major business. For the period under review, the total revenue from this major business category has dropped by about 11.5% when compared to that of the corresponding period. This was mainly due to a more cautious approach was seen taken by customers in placing orders for packaging boxes in the first quarter of the period amidst an uncertain global economy at the time than their improved orders for the second quarter as well as a more tighten credit control and appraisal to ensure collections was adopted by the Group in allowing credit to existing and new overseas customers for children novelty books throughout the period. For the six months ended 30 September 2006, the Group recorded a total revenue of approximately HK\$250.6 million from this major business category, which accounted for about 78.3% of the Group's total revenue. The decrease in revenue has impacted the contribution of this major business category towards the overall performance of the Group for the period under review. For the corresponding six months ended 30 September 2005, the total revenue from this major business category was approximately HK\$283.2 million and which was about 81.3% of the Group's total revenue.

The Group's business in the manufacture of hangtags, labels, shirt paper boards and plastic bags continued to grow within the highly competitive operating environment. The Group's production base in Shanghai to manufacture labels and hangtags has also been progressing satisfactorily. For the six months ended 30 September 2006, the Group's total revenue for the manufacture of hangtags, labels, shirt paper boards and plastic bags was approximately HK\$28.1 million, which represented an increase of about 2.6% over that of the corresponding period last year and accounted for about 8.8% of the Group's total revenue for the period under review. For the corresponding six months ended 30 September 2005, the revenue for the manufacture of hangtags, labels, shirt paper boards and plastic bags was approximately HK\$27.4 million and which accounted for about 7.9% of the Group's total revenue.

REVIEW OF OPERATION (Continued)

The Group has also benefited from an active and improved investment market for its business in commercial printing for the period under review. For the six months ended 30 September 2006, the Group has recorded an increase of about 9.2% in the total revenue of its commercial printing business when compared to that of last corresponding period. For the period under review, the total revenue of the Group's commercial printing business was approximately HK\$41.3 million and which accounted for about 12.9% of the Group's total revenue. For the corresponding six months ended 30 September 2005, the total revenue of the Group's commercial printing business was approximately HK\$37.8 million and accounted for about 10.8% of the Group's total revenue. Both the commercial printing and the manufacture of hangtags, labels, shirt paper boards and plastic bags have continued to make a satisfactory contribution towards the overall performance of the Group for the period under review.

The Group continued to remain cost conscious through stringent cost control measures. For the period under review, the selling and distribution costs have decreased by about 1.9% to approximately HK\$13.4 million and the administrative expenses have decreased by about 2.5% to approximately HK\$43.4 million respectively when compared to that of last corresponding year. For the corresponding six months ended 30 September 2005, the selling and distribution costs were approximately HK\$13.6 million and the administrative expenses were approximately HK\$44.5 million.

The Group's production base in Shanghai to manufacture labels and hangtags has been progressing satisfactorily for the period under review. It is yet to make a profit but it is anticipated that the Shanghai production base will be making encouraging contributions to the Group by its being capable of supplying quality products and services to the eastern and northern China markets, which are areas with growth potentials.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in Hong Kong. The Group is financially sound. The Group's cash and bank balances and short term bank deposits as at 30 September 2006 amounted to approximately HK\$107 million. The Group's gearing ratio as at 30 September 2006 was 11.2% (31 March 2006: 9.9%), basing on the short term and long term interest bearing bank borrowings of HK\$44 million (31 March 2006: HK\$38 million) and the shareholders' fund of HK\$391.4 million (31 March 2006: HK\$381.7 million).

PROSPECTS

It is expected that the operating environment within the printing industry will continue to be tough and difficult as intensive pricing competition as well as increasing operating costs within the mainland China continue. To stay competitive for the enlarged market share that the Group has developed in recent years, especially the innovative children books in the overseas markets and lately the eastern and northern China markets for hangtags and labels through its production base in Shanghai, every effort will continue to be made by the Group to enhance its production flexibility and value added services. Endeavour will be focused on streamlined operation procedures, continuing professional training, implementation of effective internal controls, well planned logistics, abreast production technology and sourcing of new raw materials for more variety of quality products mix and product ranges development. Greater marketing efforts will also be made and strengthened for closer relationship with the broadened quality customers.

The Directors believe that, leveraged on its solid foundation and committed focus, the Group is well positioned to maintain its competitiveness and meet the increasing challenges within the marketplace.

INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1 cent per share (2005: HK1 cent per share) for the six months ended 30 September 2006 payable on or before Wednesday, 31 January 2007 to shareholders whose names appear on the Register of Members of the Company on Friday, 26 January 2007.

CLOSURE OF THE REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 24 January 2007 to Friday, 26 January 2007 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Tuesday, 23 January 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2006, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance "SFO") as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

(i) Directors' interests in shares

(A) Long position in the shares of the Company

Name of director	Personal interests			Total interests	Total interests as % of the issued share capital
	(held as beneficial owner)	Family interests	Other interests		
Mr. Lui Chi	-	250,409,029 (Note 1)	250,409,029 (Note 1)	250,409,029	51.45%
Mr. Lui Shing Ming, Brian	4,375,000	-	250,409,029 (Note 2)	254,784,029	52.35%
Mr. Lui Shing Cheong	3,125,000	-	250,409,029 (Note 2)	253,534,029	52.09%
Mr. Lui Shing Chung, Victor	3,125,000	625,000 (Note 3)	250,409,029 (Note 2)	254,159,029	52.22%
Mr. Lung Wai Kee	1,250,000	2,500,000 (Note 4)	-	3,750,000	0.77%

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

(i) Directors' interests in shares (Continued)

(A) Long position in the shares of the Company

Notes:

- (1) Mr. Lui Chi is interested in 250,409,029 shares of the Company by virtue of (i) his being a founder of a discretionary trust, the discretionary objects of which include Messrs. Lui Shing Ming Brian, Lui Shing Chung Victor, Lui Shing Cheong and other family members of Mr. Lui Chi; and (ii) his spouse is also a founder of the discretionary trust.
- (2) The 250,409,029 shares are owned by Harmony Link Corporation, a company incorporated in the British Virgin Islands. Approximately 48.4% of the issued share capital of Harmony Link Corporation is held by The Lui Family Company Limited as trustee of The Lui Unit Trust. All units (except 1 unit which is owned by Mr. Lui Shing Ming Brian) of The Lui Unit Trust are held by Trident Trust Company (B.V.I.) Limited (formerly known as "Trident Corporate Services (B.V.I.) Limited") as trustee of a discretionary trust, the discretionary objects of which have been disclosed in Note (1) above. Mr. Lui Chi and his spouse, Madam Ng Sze Mui are the founders of the discretionary trust. Each of Messrs. Lui Shing Ming Brian, Lui Shing Chung Victor and Lui Shing Cheong further owns approximately 24.13%, 14.59% and 12.88% of the issued share capital of Harmony Link Corporation respectively.
- (3) The 625,000 shares are owned by the spouse of Mr. Lui Shing Chung, Victor.
- (4) The 2,500,000 shares are owned by the spouse of Mr. Lung Wai Kee.

All the interests stated above represent long positions in the shares of the Company and exclude those in the underlying shares through share options or equity derivatives. Interests of the respective directors set out in this subsection (A) need to be aggregated with their interests in the underlying shares through share options or equity derivatives of the Company set out in subsection (B) below in order to give the total interests of the respective directors in the Company pursuant to the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

In addition to the above, certain directors have non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

(i) Directors' interests in shares (Continued)

(B) Long position in the underlying shares of the Company through share options or equity derivatives

Share options are granted to the directors under the Share Option Scheme adopted by the Company on 27 December 1996 (the "Old Scheme"). Details of the share options outstanding as at 30 September 2006 under the Old Scheme are as follows:

Name of director	Nature of interest	Number of share options held	Date of grant of share options	Exercise price of share options HK\$	Exercisable period
Mr. Lui Shing Chung, Victor	Family (Note)	625,000	31 December 1999	0.2240	31 December 1999 to 26 December 2006

Note: 625,000 share options are owned by the spouse of Mr. Lui Shing Chung, Victor.

The share options are exercisable up to 26 December 2006 and were granted at nil cash consideration. The above share option prices and the corresponding number of share options held by the above director was adjusted as a result of bonus issue on 31 August 2001.

Save as disclosed herein, as at 30 September 2006, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation or any interests which are required to be entered into the register kept by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(ii) Directors' rights to acquire shares or debentures

Save as disclosed herein, at no time during the period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them or was the Company or any of its subsidiaries a party to any arrangement to enable the directors or their associates to acquire such rights in the Company or any other body corporate.