Economic review

GDP growth in the Hong Kong economy was reported at a strong 10.5% in 2000. Mainland China has also exhibited sustained growth with GDP reaching 8% in 2000, with the momentum continuing into the first quarter of 2001. However, having dragged down by the sharp moderation in the US economy and the stagnation in other markets, Hong Kong's economic growth in the first quarter of 2001 was reduced to 2.5%.

The paper industry

Paper prices were volatile during the financial year under review. After a substantial improvement in the first half of 2000, paper prices began to decline in the third quarter due to an influx of paper supplies from Asian paper manufacturers. As these paper manufacturers are able to fetch more favorable prices in Hong Kong than in their own domestic markets, they continued to sell their products in the Hong Kong market. At the same time, mounting financial pressure has driven these manufacturers to sell at very competitive prices in order to generate cash flow. As a result, the local paper market quickly became flooded, with profit margins under severe pressure.

Chairman's Statement

In the first quarter of 2001, the US economy began to show a downturn. Local printers and publishers reduced their buying activities as their end-customers were reluctant to place large quantity forward orders or even place orders at competitive prices. The growth in the value of monthly orders on hand in the printing and publishing industries in Hong Kong slowed down from 11% to 5% during the period from December 2000 to March 2001. This has caused a further imbalance in the supply and demand situation and further dampened the prices as well as margins in the already competitive local paper industry. By the end of the financial year, the prices of book printing papers and packaging boards had fallen at the rates of approximately 12% and 20% respectively as compared with the levels in August 2000.

Operations review

Against this slowing economic climate with abundant paper supplies and price volatility prevailing in the local market, Samson Group (the "Group") experienced severe competition in the second half of the financial year. Turnover rose approximately 7% to HK$2,538 million with a 1% drop in volume to 425,814 metric tons, despite a 22% fall in volume of total paper and board imports to Hong Kong for the financial year under review. The satisfactory business performance of the Group was supported by enhancements to its service capabilities and strong business growth in the Mainland China. As a result of more personalized service contacts and the ability to offer a wider range of product brands at very competitive prices, the Group was able to maintain its competitive edge in the market.

Decreasing paper prices as a result of the influx of paper supplies in the second half of the financial year has put adverse pressure on growth as well as the margins of the business. Despite the difficult trading conditions in the second half of the financial year, the Group remained profitable and recorded an audited consolidated profit attributable to shareholders of HK$21.5 million, although this represented a drop of 65.5% when compared with the financial year ended 31 March 2000. The fall in profit was mainly attributable to the drop in gross margins from 11.6% to 10.14% and the significant increase in interest expenses from 2.42% to 3.18% of total sales. The increase in interest expenses resulted from financing higher levels of working capital for business growth. However, owing to the supply conditions in the market during the second half of the financial year, the rate of business growth did not turn out as expected. Additionally, the relatively high market interest rate in the first half of the year also pushed up interest expenses.

The directors of the Company (the "Directors") have resolved not to recommend the payment of a final dividend for the year ended 31 March 2001 in order to reserve resources for business development (2000: HK1.5 cents per share). An interim dividend of HK1.5 cents per share was paid on 17 January 2001.

Notwithstanding the situation, the Group's debt provision for the year has decreased from 0.33% to 0.25% of sales and efficient cost controls effected a reduction in selling and administrative expenses on the Group's turnover. With its strong financial position, the Group has recently successfully negotiated with bankers to lower the interest rates regarding the existing banking facilities of the Group. Together with the gradual reduction of market interest rates, the Group's borrowing costs are expected to be lowered in the future. In addition, the Group's financial strengths were further enhanced following the injection of HK$23.2 million in new working capital from Vickers Capital Limited who became a new shareholder in November 2000.

Operations review (continued)

In view of the change in market situation, the Group has adopted appropriate sales and purchase strategies since early September to reduce inventory levels. The levels of inventory was successfully reduced from 14.1% (as at 31 March 2000) to 9% (as at 31 March 2001) of sales. the Group will continue to cautiously maintain the level of inventory under present market conditions in order to further reduced financing costs.

The Group achieved significant growth in its business in the Mainland China despite severe competition in the Mainland Chinese market which was also flooded with an abundant supply of paper. During the financial year ended 31 March 2001, sales in the Mainland China rose 58% in value, accounting for approximately 13.7% of the Group's sales. This encouraging growth was attributable to the enlarged sales network and customer base, as well as additional value-added delivery services to meet the different needs of individual customers. The Mainland Chinese market will be a key market for the future. As such, the Group will allocate more resources in developing this market.

Prospects

Paper price remains soft in the present market situation. Globally, major paper manufacturers are initiating production curtailment in the hope of improving the over-supply condition and this will have a positive bearing on paper prices in the long term.

The Directors expect the current level of price competition to persist. However, the Group will meet the challenge with stringent cost controls, flexible inventory policy and prudent financial management. At the same time, the Group is committed to the planned expansion in its customer base and supplier channels, and will continue to seek further operational efficiencies.

The Directors are confident that the Group's business development plans are on the right track. The Group first entered the Mainland Chinese market in 1994, and has since built up a significant presence with four representative offices located in Beijing, Shenzhen, Chongqing and Foshan. With strong domestic demand in the Mainland Chinese economy and China's imminent accession into the World Trade Organization, the Group has identified Mainland China as a key market for the Group's business growth. The Group will certainly benefit from the continuous strong growth expected in the Mainland Chinese economy.

Prospects (continued)

With the slowdown of the economy in Hong Kong, the Group, with its strong financial position, will maintain an open attitude to secure any positive investment opportunities that may arise. The management believes that this will optimize the utilization of the Group's resources, and will help to diversify the Group's existing business and improve profitability.

Finally, on behalf of the board of Directors (the "Board"), I would like to thank the Group's management and staff members for their hard work and dedication during the year.

SHAM Kit Ying
Chairman
Hong Kong, 19 July 2001