

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK0.5 cent (2000: HK1.5 cents) per share for the six months ended 30 September 2001. The interim dividend will be payable to all shareholders of the Company whose names appear on the register of members of the Company on Friday, 11 January 2002. The interim dividend will be paid on or about Friday, 18 January 2002.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, 10 January 2002 to Friday, 11 January 2002 both days inclusive, during which period no transfers of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch registrars, Central Registration Hong Kong Limited at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:00 pm on Wednesday, 9 January 2002.

MANAGEMENT DISCUSSION AND ANALYSIS

The Economy

During the review period, the Hong Kong economy remained sluggish as a result of the spillover effect from the general global economic downturn. On the international front, exports further declined. Locally, consumption continued to slacken as public confidence weakened. The overall effect was a reduced level of business in a difficult business environment.

The Paper Industry

The general economic downturn has certain impact on the paper industry. Compared to the same period last year, imports of paper products have decreased by 27% in volume. This to a large extent reflected the demand conditions. Growth in the value of monthly orders on hand for the printing and publishing industries eased from 7% in April 2001 to 3% in August 2001. The paper prices remained at a low level. By the end of the six month period ended 30 September 2001, prices for book printing paper and packaging boards had fallen by approximately 5% and 10% respectively as compared to the price levels in March 2001. Customers kept low inventories and were more cautious in placing orders in view of the uncertainties in the global economy. This in turn intensified market competition in the local paper industry with pressure on the margin of the business.

Operations Review

Amidst the difficult trading environment, the Group has managed to deliver above-benchmark results with only a slight drop of 3% in sales volume to 236,000 metric tonnes during the period. The Hong Kong market accounted for 80.5% of the Group's total turnover. This satisfactory performance was mainly attributable to the Group's efforts in enhancing customer services, by providing value added logistics services, and the broadening of product diversity at extremely competitive prices. In addition, increase in supplier channel and expansion in the Mainland China market have also helped to deliver the performance.

In terms of value, the Group's turnover has decreased by 18% over the previous period as a result of lower paper prices. Mounting competition has also placed additional pressure on overall business margins, resulting in a 67% decrease in net profit for the six months ended 30 September 2001 to HK\$10,108,000. Gross margin as a percentage of total sales narrowed from 10.6% to 10.1%. Notwithstanding this situation, the adoption of stringent cost controls has helped to curb selling and administrative expenses which fell in absolute terms. However, due to the reduction in turnover, selling and administrative expenses as a percentage of total sales increased slightly from 3.19% to 3.73% and 2.12% to 2.53% respectively.

The Group's solid financial position has enabled it to negotiate very competitive interest rates with its major bankers. At the same time, a series of rate cuts and tight inventory controls have contributed to a substantial fall in interest expenses which decreased from 2.93% of total sales to 2.07%.

The Group's proactive effort to diversify the customer base have helped to counteract the existing market environment. In view of the general economic downturn and with its prudent credit policies, the Group has made a general provision of 0.2% of sales. Nevertheless, the Group has successfully expanded business among its major customers whose contribution to total sales increased from 31% to 33%.

The Group continues to maintain an optimal level of inventory, aiming to maintain levels at less than one month. Apart from savings on interest expenses, the management regards tight inventory controls as crucial to maintaining overall flexibility as the market slowly recovers.

Despite the sluggish local economy, Mainland China's economy continued to have sustained growth. During the period, the Group actively explored business in this market, successfully achieving an impressive 137% rise in sales volumes and a 70% rise in sales value against the previous period. In terms of value, Mainland China's market contribution to turnover increased from 9.4% last year to 19.5% this year. This encouraging performance was attributable to the Group's strategies in diversifying the customer and product bases as well as to its provision of value-added logistics services. Active expansion of this market has not only helped to offset the impact of the slow Hong Kong economy, but has also strengthened foundations for the Group's future growth.

Prospects

Despite the setbacks in the local economy, the management believes that the difficulties experienced are only temporary within the industry. In addition, the burgeoning Mainland market, combined with the Group's established strengths, is expected to create a favorable environment for improvements in the Group's performance.

Supported by low stock levels, rigorous consolidation among paper manufacturers and their ongoing production curtailment, it is expected that paper prices will generally be stabilized at the present level, without much room to decline further. Barring unforeseen circumstances, the management remain cautiously optimistic on the outlook of the paper industry.

Upon entry to the World Trade Organization, Mainland China is expected to rally, further stimulating business developments. Demand for paper products are expected to be robust. The Group will therefore further expand its established representative office network with a strong focus on cities where the printing and packaging industries are fast expanding.

To sharpen its competitive edge, the Group will continue to streamline its operations and is committed to offering the best value-added logistics services to customers. At the same time, the Group will also place great emphasis on sharpening its established strengths in close customer relationship and solid financial position. The management regards these strategies crucial in maintaining the Group's leading position against a backdrop of intense competition.

To warrant long term sustained growth, the Group is actively pursuing a diversified business strategy. This will not only facilitate growth, but will also help to improve profitability. With the Group's established financial strengths, its proactive sales and marketing approach and its customer-oriented business philosophy, the management will remain committed to improving the Group's performance.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2001, the total number of the Group's employees was 237. Remuneration policies are reviewed regularly by the directors of the Company to ensure that the Group is offering competitive employment packages. In addition to salary payment, other staff benefits including performance bonus, education subsidies, provident fund, medical insurance and share option scheme are offered to reward our high-calibre staff. Training encompassing strategic, implementation, sales and marketing disciplines are offered to various levels of management on a regular basis.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's short term deposits and bank balances as at 30 September 2001 amounted to approximately HK\$153.2 million. To meet the demand of the Group's activities additional bank borrowings were drawn and their aggregate balance increased by HK\$64 million to HK\$700 million in the financial period ended 30 September 2001. At 30 September 2001, its gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Company's shareholders funds was 1.09 times (31 March 2001: 0.98 times). With bank balances and other current assets of HK\$1,274.7 million as well as available bank and trade facilities, the directors of the Company believe the Group has sufficient working capital to meet its present requirement.

The Group's foreign currency purchases were mainly denominated in United States dollars. Foreign exchange contracts and options were used, if necessary, to hedge the Group's foreign currency exposure.

DIRECTORS' INTEREST

As at 30 September 2001, the interest of the directors and chief executive of the Company in the shares of the Company (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as recorded in the register maintained under Section 29 of the SDI Ordinance were as follows:

| Name | Note | Number of shares |
|--|-------------|-------------------------|
| SHAM Kit Ying | 1 and 3 | 284,480,000 |
| SHAM Yee Ching, Judy and SHAM Yee Lan, Peggy | 1 and 2 | 284,480,000 |
| LEE Seng Jin | 4 | 3,000,000 |
| SHAM Yee Ching, Judy | 4 | 159,043 |
| SHAM Yee Lan, Peggy | 4 | 572,556 |
| CHOW Wing Yuen | 4 | 540,000 |

Notes:

- (1) Of the 284,480,000 shares, 16,140,000 shares were held by Morpeth Investments Limited, the entire issued share capital of which is owned by Barclays Private Bank & Trust Limited, acting in its capacity as the trustee of The Chan Wai Hing Family Trust, a discretionary trust whose objects include Mr Sham Kit Ying, Ms Sham Yee Ching, Judy, Ms Sham Yee Lan, Peggy and another child of Mr Sham Kit Ying, who is over 18 years of age. The interests of Mr Sham Kit Ying, Ms Sham Yee Ching, Judy and Ms Sham Yee Lan, Peggy are accordingly "other interests" as described in Practice Note 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").
- (2) Of the 284,480,000 shares, 268,340,000 shares were held by Caewern Holdings Limited, the entire issued share capital of which is owned by Barclays Private Bank & Trust Limited, acting in its capacity as the trustee of The Sham Kit Ying Family Trust, a discretionary trust whose objects include Ms Chan Wai Hing, Ms Sham Yee Ching, Judy, Ms Sham Yee Lan, Peggy and another child of Mr Sham Kit Ying, who is over 18 years of age. The interests of Ms Sham Yee Ching, Judy and Ms Sham Yee Lan, Peggy are accordingly "other interests" as described in Practice Note 5 of the Listing Rules.
- (3) Of the 284,480,000 shares, Mr Sham Kit Ying is taken to have an interest in 268,340,000 shares by virtue of the interest of his wife, Ms Chan Wai Hing, who is one of the objects under The Sham Kit Ying Family Trust.
- (4) All the shares which were held by each of Mr Chow Wing Yuen and Ms Sham Yee Lan, Peggy were owned beneficially by each of them and were registered in his or her name. All the shares which were held by each of Mr Lee Seng Jin and Ms Sham Yee Ching, Judy were owned beneficially by each of them and were registered in his or her nominee's name. The interests of each of Mr Lee Seng Jin, Mr Chow Wing Yuen, Ms Sham Yee Ching, Judy and Ms Sham Yee Lan, Peggy are accordingly "personal interests" as described in Practice Note 5 of the Listing Rules.

Save as disclosed herein, none of the directors or chief executive of the Company including their respective spouses, infant children, related trusts and companies which they control, had interest either beneficially or non-beneficially in the securities of the Company or any of its subsidiaries and associated corporations within the meaning of the SDI Ordinance as at 30 September 2001 and at no time during the six months ended 30 September 2001 was the Company, or any of its subsidiaries a