

The Economy

For the financial year under review, the Hong Kong economy was generally weak. Internal demand remained sluggish, casting a shadow over the domestic economy. However, on the external front, total exports reported a turnaround with a rise of 5.4% in 2002. This created a conducive background for both the printing and publishing industries, which experienced a continuous increase of orders-on-hand in the second half of the financial year. Across the border, the Mainland Chinese economy continued to grow, providing important support to the local economy.

The Paper Industry

Paper prices generally saw an upward trend during the course of the financial year. Increased orders-on-hand in the printing and publishing sectors stimulated demand for paper. Compared to the levels in March 2002, prices for book printing paper and packaging boards as at the end of the financial year have risen by approximately 5% and 10% respectively.

Chairman's Statement

Operations Review

The financial year under review was a year of progress for Samson Group (the "Group"). Not only did we attain encouraging operating results, but we also made an important step in our diversification into the industrial paper manufacturing business through the acquisition of a stake interest in the Singapore listed company United Pulp & Paper Company Limited ("UPP"). In addition to strengthening our trading business through constant operational reviews, our search for other paper manufacturing investment opportunities continued. This reflected the Group's two-pronged expansion strategy to pursue better performances.



Operations Review (continued)

Despite mixed conditions in the economy, the board of directors (the “Board”) is pleased to announce that the Group has achieved a turnover of HK\$2,512 million, 18.6% higher than the previous financial year. In geographical terms, the Hong Kong and the Mainland China market accounted for 68% and 32% of the turnover respectively. In particular, sales in the Mainland China market were 53% higher year-on-year, providing a stamp of recognition that the Group’s strategy in promoting the Mainland China market is an effective means of sustaining growth. In volume terms, the Group sold 477,000 metric tonnes of paper products, representing an increase of 14% as compared with the previous financial year.

Favorable pricing and stringent cost control measures were the two fundamental drivers behind the Group’s better profitability this year. Gross profit increased from 10.43% last year to 10.51% this year. The Group also initiated a series of operation enhancements, to directly lower both administration and finance costs as a share of turnover. For the financial year ended 31 March 2003, the Group reported profit attributable to shareholders of HK\$39.1 million, representing a surge of 64% over last year. Earnings per share were HK9.1 cents. The Board will, at the forthcoming Annual General Meeting recommend a final dividend of HK2.0 cents per share. Together with the interim dividend of HK1.0 cent per share, total dividend for the financial year will be HK3.0 cents per share.

The Group continued to boast one of the largest customer bases in Hong Kong. Despite our focus in developing the Mainland China market, our position in the local market remained solid. Our presence in the Mainland China market was also enhanced with the establishment of a marketing base in Shanghai, a base through which we will develop the fast growing Jiangsu area. With a market presence of over eight years in Mainland China, the Group’s network currently covers major cities including Beijing, Chongqing, Foshan and Shenzhen.

Marking our determination to expand our business, we diversified into the industrial paper manufacturing business through acquiring 19.18% interest in UPP at a cash consideration of HK\$67,334,000 (S\$15,208,000). UPP is engaged in the manufacturing of paper boards and packaging products. As an associated company, financial contribution from UPP during the financial year ended 31 March 2003 was limited since the acquisition was only completed in November 2002. The contribution was also partial due to the difference in accounting year end date. However, the significance of this acquisition is multi-fold. From a medium to long term perspective, it allows the Group to tap opportunities in the Asia Pacific region. More importantly, the acquisition will furnish us with knowledge and expertise in paper manufacturing, enabling us to progress further in this specialized business segment.

Disciplined operation controls have always formed an integral part of our corporate strategies. During the financial year, we continued to adopt a flexible inventory policy, maintaining an average stock turnover of approximately 43 days. Despite a higher level of turnover, finance costs and administration costs have declined from 1.91% to 1.57% and 2.93% to 2.86% respectively, helping to deliver improved profits during the year. Our ongoing enhancements to our value-added services have also proven to be effective, not only in maintaining customer loyalty, but also in soliciting new business.

Operations Review (continued)

Subsequent to the financial year, the Group successfully obtained a 3-year HK\$260 million revolving credit and term loan facility. This is seen as a testimonial of the confidence shared among banking institutions for the potential and financial strengths of the Group.

Prospects

Going forward, the global economy is expected to remain challenging. The strong Euro is expected to help local printers and publishers to stay competitive. Locally, conditions in the Hong Kong economy have yet to improve, though the Mainland China market is expected to maintain its growth momentum.

The recent outbreak of SARS has hindered activities in many sectors both locally and regionally. In this respect, the Group's operations were largely uninterrupted in the first quarter of 2003 and our results during the year under review have therefore been unaffected. However, the stress of SARS is expected to become more apparent in the second half of 2003. Therefore, the directors of the Company (the "Directors") remain conservative with regard to the real impact of the epidemic. Challenges for the Group in the 2003/2004 financial year also include integration with UPP as we take over management controls. These elements, combined with the seasonal factor in our industry, may affect the Group's performance in the 2003/2004 financial year.

The rally in prices in the past 12 months has stimulated general paper supply. In view of the existing demand conditions, prices are expected to stabilize in the course of the 2003/2004 financial year.

The Group will adhere to its established strategy to pursue packaging paper manufacturing business with a clear focus on the Mainland China market. With shareholder interest as a priority, the Group is actively seeking to identify the best opportunities in Mainland China. We expect to make significant progress within the 2003/2004 financial year, paving the way for our sustained growth into the future.

Meanwhile, the Directors are committed to consolidating the existing business. We will seek to maximize synergies with UPP through cross-selling opportunities and network enhancements to reap long term benefits. In addition, we will also further review our operations with a prime focus on identifying suitable opportunities to enhance margins.

Prospects (continued)

Having been in the paper business for over 38 years, the Group has always aspired to maintain our lead in the local market whilst diversifying into other potential areas to promote growth. With a committed management team, the Board is confident that the Group will continue to deliver solid returns to its shareholders.

Finally, on behalf of the Board, I would like to thank our customers, suppliers, bankers and staff for their support and efforts during the past year.

SHAM Kit Ying
Chairman
Hong Kong, 17 July 2003

