

Sales by geographical area

Paper prices started to pick up in 2002, stabilizing gradually towards the end of the financial year. This has to some extent boosted the Group's turnover during the financial year. The importance of the Mainland China market to the Group has continued to escalate, with the share of turnover rising from 25% last year to 32% of the Group's total turnover this year. In terms of sales volume, both the Hong Kong and the Mainland China markets recorded satisfactory growth, growing by 7% and 53% respectively during the year.

Management Discussion

| | 2003 HK\$'000 | 2002 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Sales to Hong Kong customers | 1,711,461 | 1,595,602 |
| Sales to Mainland China customers | 800,902 | 521,990 |
| | <hr/> | <hr/> |
| | 2,512,363 | 2,117,592 |
| | <hr/> | <hr/> |

Hong Kong Paper and Board Import/Re-export Statistics

| (in '000 Metric Tons) | 4/2002-3/2003 | 4/2001-3/2002 | +/- |
|-----------------------|---------------|---------------|------|
| Import | 2,120 | 2,115 | 0.2% |
| Re-export | 1,176 | 1,305 | -10% |
| Local Consumption | 944 | 810 | -17% |

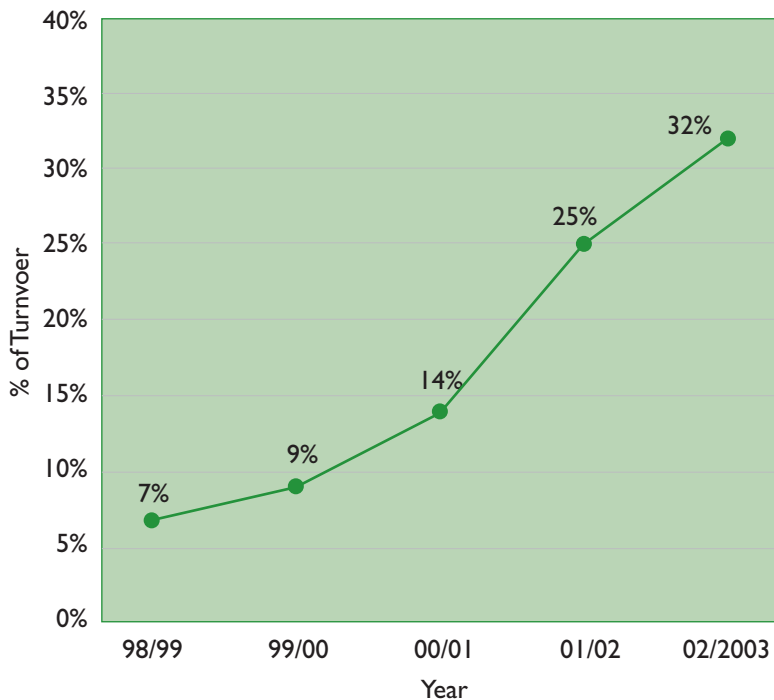
Sales by geographical area (continued)

Import Statistics of Paper & Board to the Mainland China (January to December)

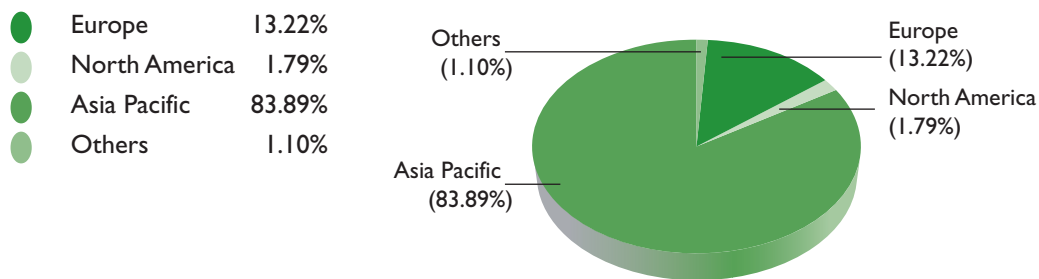
| (in '000 Metric Tons) | 2002 | 2001 | +/- |
|-----------------------|-------|-------|------|
| Newsprint | 199 | 154 | 29% |
| Woodfree | 365 | 258 | 41% |
| Coated Paper | 1,218 | 994 | 23% |
| Kraft Paper | 314 | 278 | 13% |
| Corrugated Board | 1,254 | 1,265 | -1% |
| Duplex Board | 815 | 978 | -17% |
| Corrugating Medium | 1,335 | 1,179 | 13% |
| Others | 870 | 516 | 69% |
| | 6,370 | 5,622 | 13% |

and Analysis

Analysis of Mainland China's Contribution to the Group's Turnover (%)



Purchases by geographical location for 2002/2003



Major product analysis

As the one of the largest paper product traders in Hong Kong, the Group currently maintains a stock of over 100 paper brands. Our two main product categories, book printing papers and packaging boards, accounted for 39% and 54% of our total turnover respectively. With the increased paper prices, sales of book printing papers and packaging boards for the financial year rose approximately by 20% and 23% respectively compared with the previous year.

Working capital and inventory management

The Group has continued to maintain prudent working capital management policy. Despite higher sales, doubtful debt provision was kept at a low level of 0.26%, compared to 0.66% for the previous year. The lower level of doubtful debt provision made for the year was mainly attributable to the tightening up of credit policy and the recovery of the previous year's doubtful debts of HK\$3.7 million during the year.

In April 2003, the Group obtained a syndicated loan facility amounting to HK\$260 million. The proceeds will be used to refinance existing debts and meet new working capital requirements for the Group. Our working capital base has been further strengthened, laying solid foundations for our future expansion.

In view of the adjustment in paper prices and the increase in demand from our customers, we maintained an average stock turnover of 43 days during the financial year compared to 39 days last year. As at 31 March 2003, the Group maintained an inventory of HK\$250.5 million, equivalent to 10% of total sales (31 March 2002 : HK\$ 279.9 million).

Foreign exchange risk

The Group's borrowings are principally denominated in US and Hong Kong dollars. This arrangement allows the Group to better contain its currency exchange risks. The Group also hedged its position with foreign exchange contracts and options when considered necessary. The Group has continued to obtain Renminbi loans which provide a natural hedge against currency risks. As at 31 March 2003, bank borrowings in Renminbi amounted to approximately HK\$81 million.

Liquidity and financial resources

The Group normally finances short term funding requirements with cash generated from operations, credit facilities available from suppliers and banking facilities (both secured and unsecured) provided by our banks. The Group uses cash flow generated from operations and shareholders' equity for the financing of long-term assets and investments. As at 31 March 2003, short term deposits and bank balances amounted to HK\$242 million and bank borrowings totalled HK\$779 million.

As at 31 March 2003, the Group's current ratio (current assets divided by current liabilities) stood at 1.39 times (31 March 2002: 1.56 times). The gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Group's shareholders' funds stood at 0.99 times (31 March 2002 : 0.98 times).

Total banking facilities for the Group amounted to approximately HK\$1,502 million (excluding foreign exchange contract limits) and interest bearing trade facilities from suppliers were approximately HK\$359 million. Based on the Group's present capital base, the bank balances and other current assets of HK\$1,351 million and the banking and trade facilities available, the Directors believe the Group has sufficient working capital for its present requirements.

Contingent liabilities and charge of assets

As at 31 March 2003, the Company continued to provide corporate guarantees on banking facilities granted to three subsidiaries. The amounts of facilities utilized by the subsidiaries as at 31 March 2003 amounted to HK\$779 million.

The leasehold land and buildings in Hong Kong held by the Group's subsidiaries, with a total net book value of HK\$129 million as at 31 March 2003, were pledged to banks as securities for bank loans of HK\$63 million and trust receipt loans of HK\$175 million granted to the Group.

Employees and remuneration policies

As at 31 March 2003, the Group employed 342 staff members, 215 of whom are based in Hong Kong and 127 are based in Mainland China. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and the individuals concerned. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages. In addition to salary payments, other staff benefits include performance bonuses, education subsidies, provident fund, medical insurance and the use of a share option scheme to reward high-caliber staff. Training for various levels of staff is undertaken on a regular basis, consisting of development in the strategic, implementation, sales and marketing disciplines.

Audit committee

The Audit Committee (the "Committee") consists of two independent non-executive directors, Mr Pang Wing Kin, Patrick and Mr Lau Wang Yip, Eric. The principal activities of the Committee include the review and supervision of the Group's financial reporting processes and internal controls. During the financial year, the Committee has met twice to review with senior management and the Company's external auditors the interim and annual financial statements before recommending them to the Board for approval.