

# Chairman's Statement

## The Economy

The financial year under review was extraordinary for Hong Kong. The effect of the outbreak of Severe Acute Respiratory Syndrome ("SARS") swept the territory, impacting almost all business sectors. Fortunately, the SARS scare was brief and with support of the central government, Hong Kong soon found itself on the track of recovery. The economy of Mainland China remained extremely strong, creating an environment conducive to the growth of business of Samson Group (the "Group").

## The Paper Industry

In the early half of the year, prices of paper saw a mild general downward adjustment. However, as suppliers began to exhaust their inventories, prices surged again. Compared with the level at the end of September 2003, prices of book printing papers and packaging boards were approximately 15% and 5% higher at the end of the financial year. Much of the rise was recorded in the first quarter of 2004, when global demand of paper as well as pulp costs started to escalate.

## Operations Review

The Group reported turnover of HK\$2,644,619,000 for the financial year ended 31 March 2004, 5.3% higher than that of the previous financial year. This was matched by a rise of 6.1% in sales volume to 506,000 metric tonnes.

The Group is pleased to report that its profit levels have also improved. Gross profit climbed 2.8% to reach HK\$271,397,000, giving a gross profit margin of 10.3%. Profit attributable to shareholders rose significantly by 32.5% to HK\$52,781,000, translating into net margin of 2.0% as opposed to 1.6% in the previous financial year. The level of net profit was also very encouraging despite increase in doubtful debt provision, which itself was resulted from a prudent provision policy. Basic earnings per share were HK 12.3 cents, 32.3% above the level the year before.

The board of directors (the “Board”) resolved to pay a final dividend of HK 3.0 cents per share. Together with interim dividend of HK 1.0 cent per share paid, total dividend for the financial year amounted to HK 4.0 cents.

Expansion of the Mainland China market continued to be one of the key reasons behind these pleasing results. It was particularly important in driving turnover growth. The Group was also able to achieve higher gross margin in the latter half of the financial year. In addition, effective control on operation costs and inventory management also brought important contributions.

Hong Kong remained the Group’s main market with a share of HK\$1,566,699,000, approximately 59% of the total turnover, and the Mainland China market accounted for the remaining 41%. The Group has also continued to forge ahead in the Mainland China market where sales formally surpassed the billion mark to reach HK\$1,077,920,000, 35% higher than the previous financial year’s figure. The sequential turnover increase in Mainland China was the result of various factors, including expansion of sales network and the Group’s ability to offer value added logistics services. The Group will strive to push further in this market and expects to see further growth in the years ahead.

By product types, packaging boards and book printing papers accounted for 50% and 44% of the total turnover respectively.

The Board is delighted to see improving performance from its paper manufacturing arm, the Singapore-listed United Pulp & Paper Company Limited (“UPP”), an associated company of the Group. UPP will continue to be our vehicle in exploring opportunities within the paper industry and we shall render our full support to its business development.

Despite higher turnover, the Group was able to lower its selling expenses from 3.94% to 3.72%. Administrative expenses were lower at 2.59% of turnover, whilst finance costs were also down to 1.22%.

Average stock turnover for the year under review stood at 37 days, compared with 43 days a year ago. The Group's policy has always been to maintain an average inventory level of approximately one month whilst having close regard to the prevailing and expected market conditions.

Under the shadow of SARS, market environment in the early half of the financial year was extremely tough. Therefore, the Group decided to exercise a more stringent credit policy which helped to contain its doubtful debt exposure. However, in line with its prudent provision policy, the Group's provision for the year stood at 0.61% of turnover, as compared to 0.41% in the year before. This included a general provision of 0.1% of total sales.

## Prospects

The influx of Mainland tourists and the introduction of the Closer Economic Partnership Arrangement ("CEPA") in the latter half of 2003 have helped to boost the overall market sentiment, sending the local market onto the recovery path. It is widely believed that they will remain important stimuli to maintain Hong Kong's growth momentum. The economy of Mainland China is expected to continue to flourish, despite the recent austerity measures instituted by the central government. As demand for paper products correlates closely with economic development, we see a favorable market environment for the Group business.

Demand for paper products is expected to be keen given the continual pick up of business activities globally. In view of the time required for supply to adjust, the industry expects prices of paper, in particular book printing papers, to rise mildly.

Notwithstanding the price development, the Group will continue to commit itself to boosting its core paper trading business. Sounding a positive note is the expansion of our Mainland China business, from which the Group anticipates higher contribution. As for the Hong Kong market, steady development is expected as the Group further strengthened its leading position.

The Group will be entering its 40th anniversary. It is a testimony to our past achievements and at the same time a strong impetus for us to bring better products and services to our customers. We will continue to work hard and maintain the Group's position as an industry leader in the years to come.

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, 19 July 2004