

Management Discussion and Analysis

Sales by Geographical Area

Amid the encouraging economic environment and continuous expansion of sales network in the PRC, the Group's turnover increased by 11.3% to HK\$2,944,408,000. In terms of sales volume, the Group's sales rose by 4% to 527,000 metric tonnes. Growth of the PRC business has continued to be an important driver in the growth of the Group's business, with the share of turnover rising from 41% last year to 47% of the Group's total turnover this year. In volume terms, the PRC market recorded a 21% growth.

	2005 HK\$'000	2004 HK\$'000
Sales to Hong Kong customers	1,538,822	1,566,699
Sales to the PRC customers	1,385,533	1,077,920
Others	20,053	–
	<u>2,944,408</u>	<u>2,644,619</u>

Hong Kong Paper and Board Import/Re-export Statistics

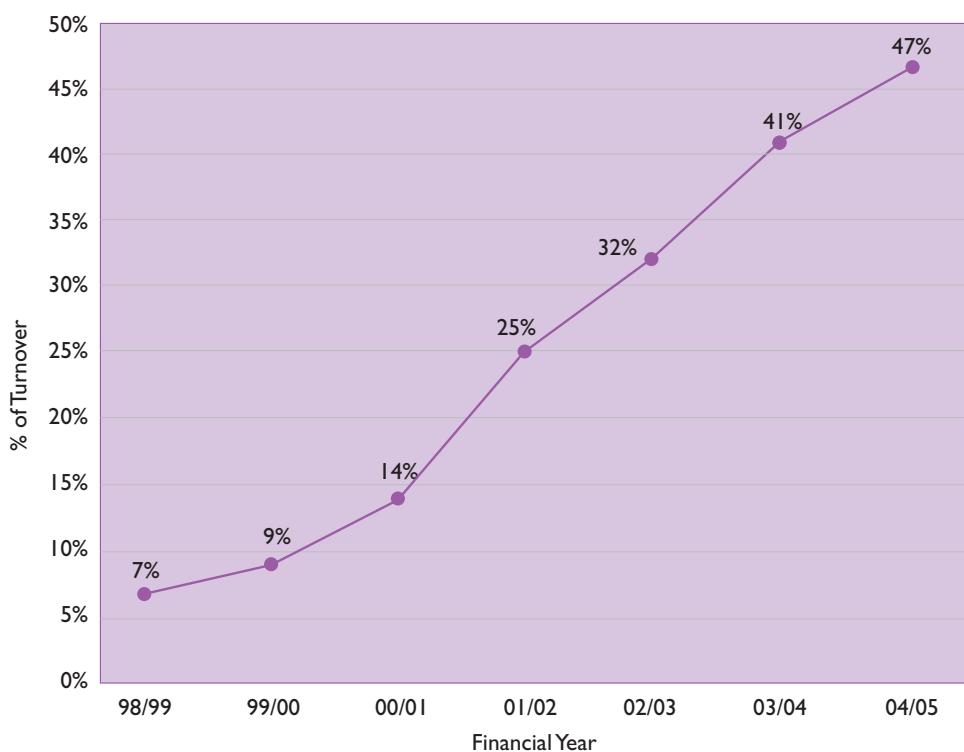
(In'000 Metric Tons)	4/2004-3/2005	4/2003-3/2004	+/-
Import	1,675	1,933	-13.3%
Re-export	800	1,003	-20.2%
Local Consumption	875	930	-5.9%

Sales by Geographical Area (continued)

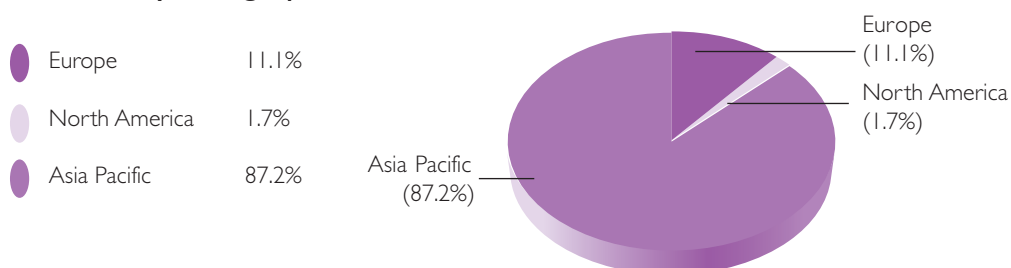
Import Statistics of Paper & Board to the PRC (January to December)

(In'000 Metric Tons)	2004	2003	+/-
Newsprint	117	351	-66.7%
Woodfree	470	394	19.3%
Coated Paper	1,020	1,010	1.0%
Kraft Paper	292	279	4.7%
Corrugated Board	1,280	1,172	9.2%
Duplex Board	1,080	1,043	3.5%
Corrugating Medium	1,140	1,349	-15.5%
Others	741	749	-1.1%
	<u>6,140</u>	<u>6,347</u>	-3.3%

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



Purchases by Geographical Location for 2004/2005



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. The Group's two main product categories, book printing papers and packaging boards, accounted for 48% and 43% of the Group's total turnover respectively. Sales of book printing papers for the financial year rose by 24% while sales of packaging boards dropped by 3% compared with the previous financial year.

Working Capital and Inventory Management

The Group has continued to maintain prudent working capital management. In view of the implementation of the macroeconomic control policy by the central government to correct imbalances in the PRC economy, the Group has adopted tight credit policies to contain the credit risk exposure. Doubtful debt provision before the write back of the previous year's doubtful debts of HK\$4.2 million was at a level of 0.45% of the sales as compared to 0.61% for the previous year.

As the Group is further penetrating the PRC market, more stocks are kept at the respective sales locations. To cater for the demand from customers, a relative higher level of stock as compared to that of last year was maintained at the end of the financial year. During the year under review, the average stock turnover day stood at 41 days compared with 37 days in the previous year.



Foreign Exchange Risk

The Group's borrowings are principally denominated in United States 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 2005, bank borrowings in Renminbi amounted to HK\$140 million (31 March 2004: HK\$ 53 million). The majority of the Group's borrowings bear interest costs which are based on floating interest rates. As at 31 March 2005, the Group has outstanding interest rate swap contracts amounting to HK\$370 million in total.



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 bankers. The Group uses cash flow generated from operations and shareholders' equity for the financing of long-term assets and investments. As at 31 March 2005, short term deposits plus bank balances and bank borrowings amounted to HK\$297.3 million and HK\$868.6 million respectively.

As at 31 March 2005, the Group's current ratio (current assets divided by current liabilities) stood at 1.33 times, (31 March 2004: 1.40 times). The gearing ratio, measured on the basis of the Group's long term loans over the Group's shareholders' funds, was 6% (31 March 2004: 15%).

With bank balances and other current assets of HK\$1,752 million as well as available banking and trade facilities, the directors of the Company (the "Directors") believe the Group has sufficient working capital for its present requirement.





Contingent Liabilities and Charge of Assets

As at 31 March 2005, the Company continued to provide corporate guarantees on banking facilities granted to four subsidiaries. The amounts of facilities utilized by the subsidiaries as at 31 March 2005 amounted to HK\$869 million (31 March 2004: HK\$831 million).

The leasehold land and buildings in Hong Kong of the Company's subsidiaries, with a total net book value of HK\$120 million (31 March 2004: HK\$125 million) as at 31 March 2005 were pledged to banks as securities for bank loans of HK\$41 million (31 March 2004: HK\$39 million) and trust receipt loans of HK\$174 million (31 March 2004: HK\$195 million) granted to the Group.



Employees and Remuneration Policies

As at 31 March 2005, the Group employed 479 staff members, 200 of whom are based in Hong Kong and 279 are based in the PRC and others. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and of 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.