

Management Discussion and Analysis

Sales by Geographical Area

Along with the growing economy in Hong Kong and the PRC, and expansion of sales network to Malaysia and other countries in addition to the PRC, the Group's turnover increased by 6% to HK\$3,120,108,000. In terms of sales volume, the Group's sales rose by 11.4% to 587,000 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 47% last year to 48.3% of the Group's total turnover of paper products this year. In volume terms, the PRC market recorded a 8.1% growth. Apart from the Hong Kong and the PRC market, the sales to Malaysia and other countries accounted for approximately 3% of the Group's turnover of paper products.

	2006	2005
	HK\$'000	HK\$'000
Sales to Hong Kong customers	1,502,063	1,538,822
Sales to the PRC customers	1,490,137	1,385,533
Others	127,908	20,053
	<u>3,120,108</u>	<u>2,944,408</u>

In recent years, the Group has diversified into the distribution business of consumable aeronautic parts and transportation services. The two business segments together contributed approximately HK\$49 million, 1.6% of the Group's total turnover.

Hong Kong Paper and Board Import/Re-export Statistics

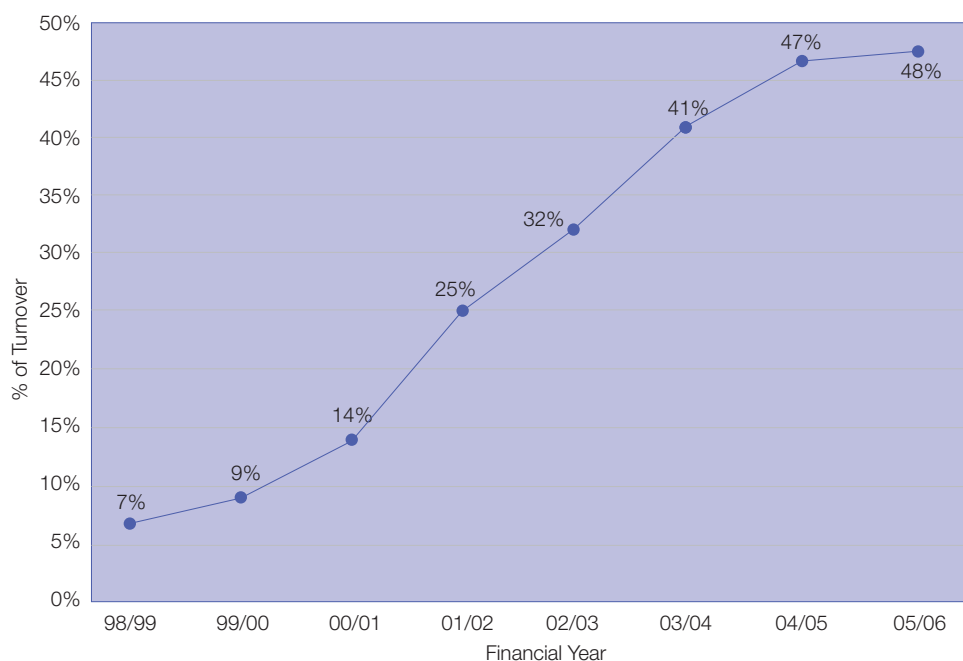
(In'000 Metric Tonnes)	4/2005-3/2006	4/2004-3/2005	+/-
Import	1,527	1,675	-8.8%
Re-export	652	800	-18.5%
Local Consumption	875	875	0%

Sales by Geographical Area (continued)

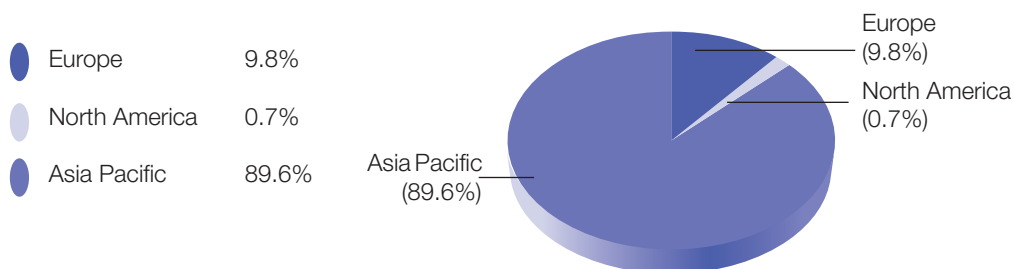
Import Statistics of Paper & Board to the PRC (January to December)

(In'000 Metric Tonnes)	2005	2004	+/-
Newsprint	136	117	16.2%
Woodfree	432	470	-8.1%
Coated Paper	729	1,020	-28.5%
Kraft Paper	451	292	54.5%
Corrugated Board	1,007	1,280	-21.3%
Duplex Board	908	1,080	-15.9%
Corrugating Medium	885	1,140	-22.4%
Others	698	741	-5.8%
	5,246	6,140	

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



Purchases by Geographical Location for 2005/2006



Major Product Analysis

As 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 50% and 41% of the Group's turnover of paper products respectively. Sales of book printing papers for the financial year rose by approximately 6.6% while sales of packaging boards dropped by 1% 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 that focused on the credit quality of the customers instead of the growth of sales to contain the credit risk exposure. Impaired receivable provision before write back of the previous year's impaired receivable of HK\$2.2 million was at a level of 0.29% of the sales as compared to 0.45% for the previous year.

As the Group is further penetrating the PRC and overseas market, more stocks are kept at the respective sales locations. Despite this, in view of the prevailing competitive market situation, a lower 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 39 days compared with 41 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 2006, bank borrowings in Renminbi amounted to HK\$87.9 million (31 March 2005: HK\$140 million). The majority of the Group's borrowings bear interest costs which are based on floating interest rates. As at 31 March 2006, the Group has outstanding interest rate swap contracts amounting to HK\$270 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 2006, short term deposits plus bank balances and bank borrowings amounted to HK\$341 million (including restricted bank deposits of HK\$33 million) and HK\$880 million respectively.

As at 31 March 2006, the Group's current ratio (current assets divided by current liabilities) stood at 1.55 times, (31 March 2005: 1.33 times). The gearing ratio, measured on the basis of the Group's long term loans over the Group's shareholders' funds, was 34.9% (31 March 2005: 6%) as a result of the syndicated loan of HK\$300 million raised during the year. The syndicated loan is to refinance the previous syndicated loan of HK\$260 million and also provides additional funds for the working capital needs of the Group.

With bank balances and other current assets of HK\$1,811 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 2006, the Company continued to provide corporate guarantees on banking facilities granted to the Group's subsidiaries. The amounts of facilities utilized by the subsidiaries as at 31 March 2006 amounted to HK\$880 million (31 March 2005: HK\$869 million).

Certain prepaid premium for land lease and buildings in Hong Kong of the Company's subsidiaries, with a total carrying value of HK\$120 million as at 31 March 2006 (31 March 2005: 120 million) were pledged to banks as securities for bank loans of HK\$43.6 million (31 March 2005: HK\$40.6 million) and trust receipt loans of HK\$154 million (31 March 2005: HK\$174 million) granted to the Group.

Employees and Remuneration Policies

As at 31 March 2006, the Group employed 496 staff members, 193 of whom are based in Hong Kong and 303 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.