

## Sales by geographical area

Decreasing paper prices resulting from abundant paper supplies in the second half of the financial year created intense competition in the local paper industry and discouraged customers' buying activities. The economic downturn in the US in the first quarter of 2001 also slowed down the business of both printers and publishers. Customers were more cautious in their purchases and inventory policy. Against this background, demand for paper and board dropped and the volume of imports of paper and board fell by 22% for the financial year under review. Despite these stiff market conditions, the Group maintained its leading position with sales volume in Hong Kong decreasing by only 6% with turnover recording a growth of 1% to HK\$2,190 million. This was mainly attributable to the Group's distinct competitive advantages in offering a wider range of product brands at very competitive prices, extensive customer network and source of supplies, excellent customer service capabilities and solid financial strengths.

# Management Discussion

For the calendar year 2000, paper and board imports to the Mainland China fell by 8% in volume against 1999. This was directly associated with the commencement of production by foreign owned mills during 2000 which caused an abundant supply of paper. Despite the tough market conditions, the Group's business in Mainland China continued to register strong growth with sales turnover and volume rising by 58% and 43% respectively. The value-added delivery services introduced during the financial year, additional supplier channels and increasing product brands enhanced the growth in the business for the financial year. Sales to Mainland customers reached HK\$348 million, representing 13.7% (2000:9.2%) of the Group's total sales.

Compared with countries such as the US with paper consumption of 347.2 kg per head in 1999, the level of paper consumption in Mainland China at 28.3 kg per head is still very low. With strong domestic demand in the Mainland economy and China's entry into the World Trade Organization, there will be strong demand for quality imported papers and boards. The potential of the market is therefore huge in the foreseeable future.

## Sales by geographical area (continued)

	2001 HK\$'000	2000 HK\$'000
Sales to Hong Kong customers	2,189,671	2,159,293
Sales to Mainland customers	348,393	219,839
	<u>2,538,064</u>	<u>2,379,132</u>

## Hong Kong Paper and Board Import/Re-export Statistics

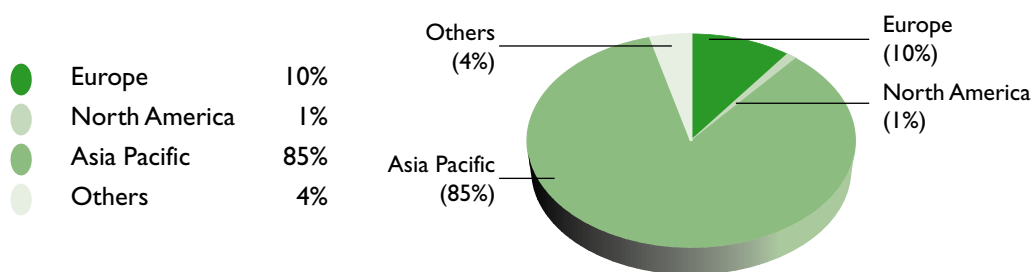
(in'000 Metric Tons)	4/2000-3/2001	4/1999-3/2000	+/-
Import	2,719	3,498	-22%
Re-export	1,860	2,360	-21%
Local Consumption	859	1,138	-25%

# and Analysis

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

(in'000 Metric Tons)	2000	1999	+/-
Newsprint	211	248	-15%
Woodfree	239	348	-31%
Lightweight Coated Paper	21	38	-45%
Coated Paper	1,071	1,039	3%
Kraft Paper	714	699	2%
Kraftliner	1,117	1,291	-13%
Duplex Board	1,045	1,244	-16%
Corrugating Medium	1,039	1,124	-8%
Others	514	492	4%
	<u>5,971</u>	<u>6,523</u>	<u>-8%</u>

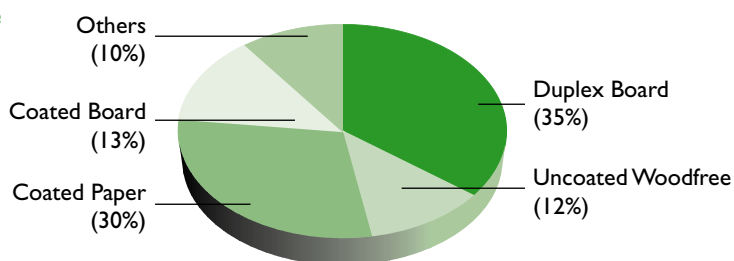
## Purchases by geographical location for 2000/2001



## Major product analysis

The major product lines for book printing papers and packaging boards represented approximately 42% and 48% of total sales value respectively. Despite volatile paper prices during the year, sales of duplex board, coated paper and coated board all recorded positive growth with a value of over 4% compared to the previous year while sales of uncoated woodfree paper dropped in value by 5% for the financial year ended 31 March 2001. Sales of office papers increased 15% in value even under the keen competition. Direct sales of kraftliner also reported an increase of 21% in value for the financial year under review.

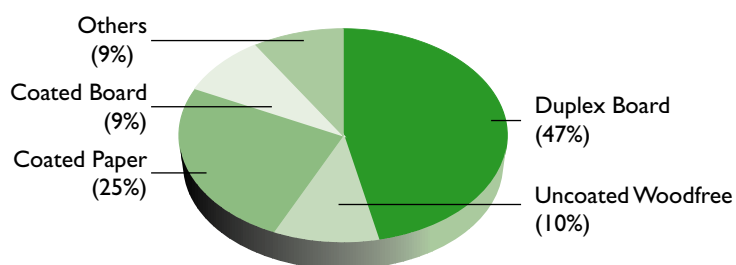
### Turnover in value



	2001 HK\$'000	2000 HK\$'000
Duplex Board	895,866	776,327
Uncoated Woodfree	300,749	318,241
Coated Paper	753,529	685,672
Coated Board	331,610	318,005
Others	256,310	280,887
	<b>2,538,064</b>	<b>2,379,132</b>

## Major product analysis (continued)

### Turnover in volume



	2001	2000
	Metric Tons	Metric Tons
● Duplex Board	198,266	186,251
● Uncoated Woodfree	44,382	54,098
● Coated Paper	107,592	102,429
● Coated Board	37,633	40,184
● Others	37,941	47,529
	<hr/>	<hr/>
	425,814	430,491
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## Working capital and inventory management

The Group continued to adopt a prudent financial management strategy in the management of working capital and inventory during the financial year. Debt provision has been lowered from 0.33% to 0.25% of total sales. This improvement is mainly due to a tightening of credit policy. Despite the difficult market conditions, the level of trade receivables as at 31 March 2001 declined to 28% of sales from 31% a year earlier. In view of the downturn in the US economy which in turn affects the economy of Hong Kong, the Group continues to adopt tight credit policies to minimize the credit risk exposure.

At the beginning of the financial year, to meet the needs of customers and the growth in business, a relatively higher level of inventory was maintained. In light of the change in market conditions, the Group has taken appropriate steps to reduce the level of inventory. At year end, inventory level had decreased by 32% in value against the previous year.

## Foreign exchange risk

To contain currency exchange risk, the Group confined its borrowings to principally US and Hong Kong dollars. The Group also hedged its position with foreign exchange contracts and options if considered necessary. During the year, to cater for the Group's development in the Mainland Chinese market and further minimize currency exposure, the Group managed to raise Renminbi loans to finance the operation in Mainland China. With the growth of business in Mainland China, the Group will continue to arrange more Renminbi loans that will provide a natural hedge against currency risks of its operation in Mainland China.

## Liquidity and financial resources

The Group normally finances its short term funding requirements with cash generated from operations, credit facilities available from suppliers and banking facilities (both secured and unsecured) provided by its bankers. For the financing of the Group's long term assets and investments, the Group relies on cashflow generated from its operations and shareholders' equity. As at 31 March 2001, the Group's short term deposits and bank balances and bank borrowings amounted to HK\$152 million and HK\$636 million respectively, representing a decrease of HK\$4.5 million and HK\$19 million respectively when compared with the previous year.

During the financial year under review, the Group maintained a conservative and strong capital structure. In November 2000, 29 million shares totaling HK\$23.2 million were issued to enlarge the capital base. In addition, the Group successfully refinanced a portion of its short term trust receipt loans with loan facilities of HK\$70 million bearing longer maturity periods and competitive interest rates. As at 31 March 2001, the current ratio, being current assets divided by current liabilities, was 1.49 times (at 31 March 2000: 1.3 times). Its gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Company's shareholders' funds was 0.98 times (at 31 March 2000: 1.1 times).

As at 31 March 2001, the total banking facilities of the Group amounted to approximately HK\$1,481 million (excluding foreign exchange contracts limits) and interest bearing trade facilities from suppliers were approximately HK\$359 million. With its present capital base and available banking and trade facilities, the Group has sufficient working capital for its present requirements.

## Contingent liabilities and charge of assets

At 31 March 2001, the Company provided corporate guarantees on the banking facilities granted to two subsidiaries. The amount of facilities utilized by the subsidiaries as at 31 March 2001 amounted to HK\$636 million.

The leasehold land and buildings in Hong Kong of the Group's subsidiaries with a total net book value of HK\$139 million as at 31 March 2001 were pledged to banks as securities for bank loans of HK\$40 million and trust receipt loans of HK\$225 million granted to the Group.

## Employees and remuneration policies

As at 31 March 2001, the total number of the Group's employees is 234, of which 221 are based in Hong Kong and 13 are based in Mainland China. Remuneration policies are reviewed regularly by the Directors of the Company to ensure that the Group is offering competitive employment packages. In addition to salary payment, other staff benefits including performance bonus, education subsidies, provident fund, medical insurance and share option scheme help to reward high-calibre staff. Training at various levels of staff is undertaken on a regular basis which comprises each of strategic, implementation, sales and marketing disciplines.

## Audit committee

The Audit Committee (the "Committee") comprises two independent non-executive Directors of the Company, namely 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 process and internal controls. During the year, the Committee has met twice to review with senior management and the Company's external auditors the interim and annual financial statement before recommending them to the Board for approval.