

## The Global Economy

Hit by the dampened U.S. market, developments in most of the global economies were restrained. As for the local economy, demand conditions remained weak which severely hindered growth. Against this background, Mainland China nevertheless continued to prosper with a registered GDP growth of 7.3% for 2001.

## The Paper Industry

The price of paper continued to stay at a relatively low level for most of 2001 as supply remained plentiful. However, the level of business activities started to pick up from the beginning of 2002. This stimulated the demand for paper, putting paper price back on an upward cycle. Towards the last quarter of the financial year, demand and supply of paper began to converge. This has had a positive impact on the price of paper products. By the end of the financial year, the prices of book printing papers and packaging boards had risen by 5% and 15% respectively as compared with the levels in September 2001.

# Chairman's Statement

## Operations Review

Confronted by this difficult market situation, we were committed to reviewing our strategies and rationalizing our operations. Our focus was to carefully strike a balance between boosting sales to maintain growth and streamlining structures to minimize expenses. At the same time, we continued to concentrate on customer needs, to provide more product choice and shorter delivery time – all being major factors in securing our market position.

## Operations Review (continued)

Faced with sluggish demand in the general economy, the volume of paper product imports to Hong Kong fell by a further 22% compared with the last financial year. Mirroring this drop, monthly orders on hand in the printing and publishing industries declined by 2% to 4% in value during the second half of the financial year. On the back of this, the sales volume of Samson Group (the “Group”) recorded a marginal drop of 2% to 417,000 metric tons. This marginal drop was the direct result of the Group’s efforts in expanding its Mainland China market. Furthermore, the Group’s strategy in enhancing value added logistics services and product range has also contributed to the satisfactory performance. During the year, the Mainland China operations recorded a double-digit growth which has helped to alleviate the external pressure. However, due to lower paper prices, turnover for the year inevitably decreased by 17% from HK\$2,538 million to HK\$2,118 million.

Despite the lower turnover, the Group has delivered a rise in profitability. Profit attributable to shareholders for the year was 11% higher at HK\$23.9 million as compared to HK\$21.5 million for the last financial year. This encouraging growth further acknowledged the Group’s multi-fold business strategies. On one hand, we actively sought to adjust to the changing market situation; on the other hand, we continued to strengthen our business in readiness for the rising opportunities.

At the forthcoming annual general meeting, the directors of the Company (the “Directors”) will recommend a final dividend of HK1 cent per share. This, added to the interim dividend of HK0.5 cent per share paid on 18 January 2002, will bring the total dividend for the year to HK1.5 cents per share.

On the external front, we have long identified Mainland China as our future growth driver. We have undertaken active expansion strategy to boost sales through our strategically located representative offices in Beijing, Chongqing, Foshan and Shenzhen. This strategy goes hand in hand with our ongoing introduction of value added benchmarks. These initiatives were all designed to enhance customer stickiness, and have all been met with pleasing responses.

To support our proactive development plans, we have tailored specific internal measures to streamline operation procedures whilst instituting improvements in logistic controls. In addition to the existing network of warehouses, the Group further added a 100,000 sq. ft. warehouse in Shenzhen where our paper cutting operation has been relocated. At present, the Group’s warehousing network is located in many important cities in the Mainland China including Shenzhen, Foshan, Chongqing, Beijing and Tianjin. The establishment of a strategically located warehouse network is aimed at minimizing the delivery time, which is instrumental in shortening the overall trading cycle.

Leveraging our 37 year experience in the paper industry, we fully understand the importance of active inventory management. During the year, we continued to maintain tight control over our inventory with an aim to keep the stock level at the most optimal level of about one month. Our average stock turnover day has been shortened significantly.

## Operations Review (continued)

Active inventory management, together with effective financial management have significantly improved the bottom line of our business. Together with the general low interest rate environment, we concluded the year with substantial reductions in interest expenses. Taken as a percentage of total sales, interest expenses went down from 3.18% to 1.91% year on year. These measures have multiplied, resulting in an increase in net profit margin of 33%. However, due to the adjustment in turnover, our selling and administrative expenses have gone up as a percentage of sales from 3.5% to 3.76% and 2.47% to 2.93% respectively though there have been reductions in absolute term.

## Prospects

Globally, the level of commercial activities started to pick up in early 2002 which stimulated the demand for paper. For the first half of 2002, paper price continued to go upward. It is expected that it will take off further from the existing level along with rising global demand.

Enhancements to internal controls will continue to be one of the Group's focus. To this end, the Group will constantly review our operations to ensure process optimization. Equally important, we will continue to apply stringent cost containment policies and advance the physical management of our sales and warehouse network in both Hong Kong and the Mainland China.

Looking ahead, the directions we have set over the years have placed us on the track to progress. In line with our expectation, the paper market started picking up from the beginning of 2002. In anticipation of this recovery, we started to increase our inventory level in March 2002. In addition, the burgeoning economic activities between the Mainland China and Hong Kong following China's entry to WTO are opening up new breadth and depth of trading links. Eyeing on these opportunities, we are committed to improving our logistics chain to make the Group the preferred paper merchant for customers in Hong Kong and the Mainland China.

In view of increasing competition, the Group will also place greater emphasis on widening our business margins. To achieve this, we will actively improve our diversity in the industry. Our initiatives in this respect will be conditional upon significant benefits to our existing business infrastructure. The management will remain vigilant to changes in market situation.

## Prospects (continued)

With the strengths we built over the past 37 years in the paper industry, combined with the visions of our management, we are confident that the Group's future prospects will remain promising. The management is determined to improving returns and taking the business to a new phase of growth.

Finally, on behalf of the board of Directors (the "Board"), I would like to thank the Group's management and staff members for their hard work and dedication during the year.

SHAM Kit Ying  
Chairman  
Hong Kong, 22 July 2002

