Sales by geographical area

In the second half of the year under review, the impact of rigorous consolidation among paper manufacturers and adherence to production curtailment became more significant. Towards the last quarter of the financial year, demand for paper began to pick up. As a result, the paper market experienced a turnaround towards the end of the reporting period. Against the persistent drop of 22% in imports of paper to Hong Kong for the financial year, the Group's sales volume only went down by 2% from 426,000 metric tons to 417,000 metric tons. However, due to the low level of paper price, turnover for the year dropped 17% from HK$2,538 million to HK$2,118 million.

Management Discussion

The Hong Kong market and the Mainland China market accounted for 75% and 25% of sales in value term respectively. During the financial year, sales in Mainland China rose 50% in value and 102% in volume as compared to the previous financial year. This was mainly attributable to the committed efforts of the Group's marketing division in broadening both the sales network and customers base. Enhanced capabilities in fulfilling the diversified needs of customers also contributed significantly to the strong performance.

Following her entry to WTO, China is expected to become an increasingly important manufacturing and commercial base for enterprises. This will further stimulate the demand for both printing and packaging paper, creating many opportunities for paper trading activities.

Sales by geographical area (continued)

	2002 HK$'000	2001 HK$'000
Sales to Hong Kong customers	1,595,602	2,189,671
Sales to Mainland China customers	521,990	348,393
	2,117,592	2,538,064

Hong Kong Paper and Board Import/Re-export Statistics

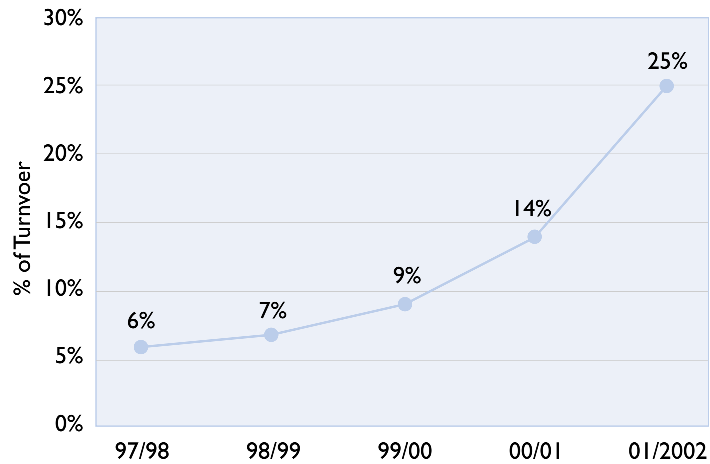
(in '000 Metric Tons)	4/2001-3/2002	4/2000-3/2001	+/-
Import	2,115	2,719	-22%
Re-export	1,305	1,860	-30%
Local Consumption	810	859	-6%

and Analysis

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

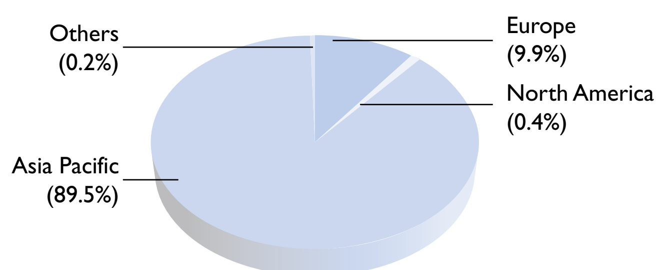
(in '000 Metric Tons)	2001	2000	+/-
Newsprint	154	211	-27%
Woodfree	244	239	2%
Lightweight Coated Paper	24	21	14%
Coated Paper	977	1,071	-9%
Kraft Paper	670	714	-6%
Kraftliner	863	1,117	-23%
Duplex Board	987	1,045	-6%
Corrugating Medium	1,179	1,039	13%
Others	489	514	-5%
	5,587	5,971	-6%

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



Purchases by geographical location for 2001/2002

Europe	9.9%
North America	0.4%
Asia Pacific	89.5%
Others	0.2%



Major product analysis

The Group continued to maintain a diversity of paper products of over 100 paper brands. For the financial year, the major product lines for book printing papers and packaging boards accounted for 39% and 52% of total sales value respectively. With the lower paper prices, sales of book printing papers and packaging boards for the financial year recorded a drop of 22% and 10% in value respectively compared to the previous financial year.

Working capital and inventory management

The difficult economic conditions which persisted over 2001 have affected enterprises in almost every industry. During the financial year, the Group's doubtful accounts have increased. In line with its prudent working capital management strategy, the Group made a full provision on these doubtful accounts, resulting in an increase of debt provision from 0.15% of total sales to 0.56%. In addition, a general provision of 0.1% of total sales is made. Despite the rise in specific provision, the increase in the level of business activities since the last quarter of the financial year, combined with the Group's stringent credit policy, are expected to improve the situation. To further minimize the Group's credit risk exposure, the Group has pursued the policy of boosting sales to its major customers. For the financial year, sales to these major customers increased from 25% of total sales to 28%.

The Group has continued to retain tight control over the inventory level with an aim to keep the stock at a level of around one month. During the financial year, the average stock turnover day based upon the sales volume was reduced from 45 days in the last financial year to 39 days in this financial year which has allowed substantial savings on interest expenses. However, in order to cater for the growth in Mainland China business and in view of the gradual pick up in paper demand from the last quarter of the financial year, the Group increased its stock level in March 2002. Inventory was at a higher level of HK$279.9 million as compared to HK$228.6 million year-on-year, or 13.2% of total sales as at 31 March 2002 as opposed to 9% as at 31 March 2001 on the same basis.

Foreign exchange risk

The Group's borrowings are principally denominated in US and Hong Kong dollars. This arrangement allowed the Group to better contain its currency exchange risks. The Group also hedged its position with foreign exchange contracts and options if considered necessary. To meet the financing needs of the Group's rapidly growing Mainland China business and to further minimize currency exposure, the Group has continued to obtain Renminbi loans which provided a natural hedge against currency risks. As at 31 March 2002, the bank borrowings in Renminbi amounted to HK$51 million.

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. The Group uses cash flow generated from its operations and shareholders' equity for the financing of long-term assets and investments. As at 31 March 2002, short term deposits plus bank balances and bank borrowings amounted to HK$93 million and HK$595 million respectively, representing a decrease of HK$59 million and HK$41 million respectively when compared with the previous financial year.

As at 31 March 2002, current ratio (current assets divided by current liabilities) stood at 1.56 times, (31 March 2001: 1.49 times). Gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Group's shareholders' funds was maintained at 0.98 times (31 March 2001: 0.98 times).

Total banking facilities of the Group amounted to approximately HK$1,487 million (excluding foreign exchange contracts limits) and interest bearing trade facilities from suppliers were approximately HK$359 million. The management considers the current working capital sufficient based on the Group's present capital base and banking and trade facilities available.

Contingent liabilities and charge of assets

As at 31 March 2002, the Company provided corporate guarantees on the banking facilities granted to three subsidiaries. The amount of facilities utilized by the subsidiaries as at 31 March 2002 amounted to HK$595 million.

The leasehold land and buildings in Hong Kong of the Group with a total net book value of HK$135 million as at 31 March 2002 were pledged to banks as securities for bank loans of HK$35 million and trust receipt loans of HK$175 million granted to the Group.

Employees and remuneration policies

As at 31 March 2002, the Group employs 246 staff members, 209 of whom are based in Hong Kong and 37 based in Mainland China. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and the individual concerned. In addition to salary payments, other staff benefits including performance bonuses, education subsidies, provident fund, medical insurance and the use of a share option scheme reward high-calibre staff. Training at various levels of staff is undertaken on a regular basis, consisting of development in the strategic, implementation, sales and marketing disciplines.

Audit committee

The Audit Committee (the "Committee") consists of two independent non-executive directors, 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 financial year, the Committee met the Company's senior management and the Company's external auditors twice to review the interim and annual financial statements before recommending them to the Board for approval.