

## RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the six months ended 30 September 2003 was HK\$798.6 million and HK\$137.9 million, representing an increase of 106% and 51%, as compared to HK\$387.0 million and HK\$91.6 million, respectively, for the corresponding period last year. The earnings per share for the period was HK24.30 cents when compared with HK16.29 cents for the corresponding period last year.

The increase in turnover and net profit were mainly attributable to the significant increase in the Group's sales of containerboard mainly due to the result of the commenced commercial operation of the paper machine IV in October 2002.

## DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Group's distribution costs and administrative expenses increased by approximately 202% and 116% from HK\$4.4 million and HK\$14.9 million for the six months ended 30 September 2002 to HK\$13.3 million and HK\$32.5 million for the six months ended 30 September 2003 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period. As part of our marketing and growth strategy, sales to customers in the Yantze River Delta region by the Dongguan mill was increased during the period and, accordingly, additional transportation cost has to be incurred.

## INTEREST EXPENSES

The Group's interest expenses increased by approximately 17% from HK\$7.3 million for the six months ended 30 September 2002 to HK\$8.5 million for the six months ended 30 September 2003. The increase in interest expenses was mainly due to the increase in the average amount of outstanding bank loans during the period.

## INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products decreased from 104 days and 27 days, respectively, for the year ended 31 March 2003 to 82 days and 4 days, respectively, for the six months ended 30 September 2003. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 45 days for the six months ended 30 September 2003 as compared to 55 days for the year ended 31 March 2003. This is in line with the credit terms of 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days decreased from 31 days for the year ended 31 March 2003 to 16 days for the six months ended 30 September 2003 as the Group settled part of its creditor balance with surplus cash near the period end.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 30 September 2003 was HK\$1,382 million (31 March 2003: HK\$495 million). As at 30 September 2003, the Group had current assets of HK\$832 million (31 March 2003: HK\$458 million) and current liabilities of HK\$1,200 million (31 March 2003: HK\$631 million). The current ratio was 0.69 as at 30 September 2003 as compared to 0.73 at 31 March 2003.

The Group generally finances its operations with internally generated cashflow and credit facilities provided by its principal bankers in Hong Kong and the PRC. During the six months ended 30 September 2003, all shareholders' loan was settled by way of bank borrowings. As at 30 September 2003, the Group had outstanding bank borrowings of HK\$1,008 million (31 March, 2003: outstanding bank borrowings of HK\$441 million and shareholders' loan of HK\$795 million). These bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's net debt-to-equity ratio (total borrowings net of cash and cash equivalents over shareholders' equity) decreased from 2.45 as at 31 March 2003 to 0.48 as at 30 September 2003 as a result of the net proceeds raised from the Global Offering.

Subsequent to 30 September 2003, the Company raised an additional fund of HK\$368.7 million as a result of the exercise of over-allotment option and share options.

The Group liquidity position remains strong and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion.

The Group's transactions and the monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the six months ended 30 September 2003. During the six months ended 30 September 2003, the Group do not employ any financial instrument for hedging purposes.

### USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Global Offering, after deduction of related expenses, of HK\$749 million will be applied as follows:

- as to HK\$340 million for capital expenditure in relation to the first phase of the Changshu Project;
- as to HK\$60 million for working capital in relation to the first phase of the Changshu Project;
- as to HK\$200 million for the repayment of debts; and
- the balance as general working capital of the Group.

### EMPLOYEES

As at 30 September 2003, the Group had a workforce of more than 1,800 people. Salaries of employees are maintained at competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. The Group also provides internal training to staff and provides bonuses based upon staff performance and profits of the Company.

The Group has not experience any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees.

The Group has a Pre-IPO Share Option Scheme whereby employees of the Group are granted options to acquire shares in the Company.