

RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the year ended 31 March 2004 was HK\$1,701.1 million and HK\$284.9 million, representing an increase of 65.4% and 33.7%, as compared to HK\$1,028.4 million and HK\$213.1 million, respectively, for last year. The earnings per share for the year was HK40.71 cents when compared with HK37.88 cents for 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 full year commercial operation of the paper machine IV which started in October 2002 and the commenced commercial operation of the paper machine V in January 2004.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

The Group's distribution costs and administrative expenses increased by approximately 82.8% and 63.8% from HK\$13.0 million and HK\$39.5 million for the year ended 31 March 2003 to HK\$23.7 million and HK\$64.7 million for the year ended 31 March 2004 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during the year. Following the operation of the Jiangsu mill, the transportation cost for sales to customers in the Yangtze River Delta region by the Dongguan mill previously can be saved.

INTEREST EXPENSES

The Group's interest expenses was HK\$15.0 million for the year ended 31 March 2004 and was comparable to HK\$15.2 million for the year ended 31 March 2003.

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products were 104 days and 27 days, respectively, for the year ended 31 March 2003 as compared to 113 days and 7 days, respectively, for the year ended 31 March 2004. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 62 days for the year ended 31 March 2004 as compared to 55 days for the year ended 31 March 2003. This is in line with the credit terms of around 45 days to 60 days granted by the Group to its customers.

The Group's creditors' turnover days were 31 days for the year ended 31 March 2003 as compared to 34 days for the year ended 31 March 2004.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total shareholders' fund of the Group as at 31 March 2004 was HK\$1,903 million (31 March 2003: HK\$495 million). As at 31 March 2004, the Group had current assets of HK\$1,270 million (31 March 2003: HK\$458 million) and current liabilities of HK\$838 million (31 March 2003: HK\$631 million). The current ratio was 1.51 as at 31 March 2004 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. As at 31 March 2004, the Group had outstanding bank borrowings of HK\$888 million (31 March, 2003: outstanding bank borrowings of HK\$441 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 0.47 as at 31 March 2004 as a result of the net proceeds raised from the Global Offering. The position had further been enhanced as a result of the completion of the Placement and Subscription in April 2004.

The Group's 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 year ended 31 March 2004. During the year ended 31 March 2004, the Group did not employ any financial instrument for hedging purposes.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND THE PLACEMENT AND SUBSCRIPTION

The net proceeds from the Global Offering, after deduction of related expenses, of HK\$749 million was 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.

USE OF PROCEEDS FROM THE GLOBAL OFFERING AND THE PLACEMENT AND SUBSCRIPTION

(Continued)

The net proceeds from the Placement and Subscription which was completed in April 2004, of approximately HK\$804 million, was earmarked as to approximately HK\$500 million for the acquisition cost of the main unit paper machine VII and costs of ancillary and support equipment such as preparation unit, pumps and cranes which are expected to be incurred over the next one and a half year. The proceeds from the Subscription not immediately applied towards the purchase of paper machine VII have been employed as general working capital.

EMPLOYEES

As at 31 March 2004, the Group had a workforce of more than 2,000 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 experienced 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.