

Management Discussion and Analysis

Sales by Geographical Area

After the passage of SARS, the economy was gradually recovered. On the back of picking up of global demand of papers and expansion of sales network in the Mainland China, the Group's turnover increased by 5.3% to HK\$2,644,619,000. In terms of sales volume, this represented a rise of 6.1% to 506,000 metric tonnes. Growth of Mainland China business has continued to be an important element in fueling the Group's business, with the share of turnover rising from 32% last year to 41% of the Group's total turnover this year. In tonnage terms, the Mainland China market recorded a 31% growth.

	2004 HK\$'000	2003 HK\$'000
Sales to Hong Kong customers	1,566,699	1,711,461
Sales to Mainland China customers	1,077,920	800,902
	2,644,619	2,512,363

Hong Kong Paper and Board Import/Re-export Statistics

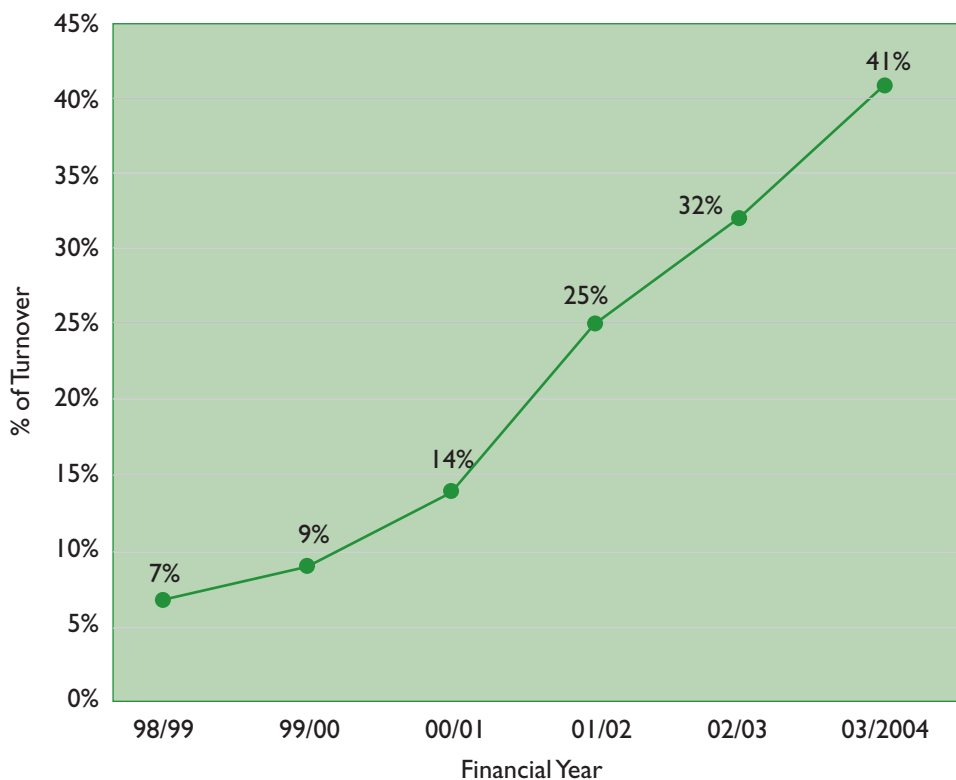
(In'000 Metric Tons)	4/2003-3/2004	4/2002-3/2003	+/-
Import	1,933	2,120	-8.8%
Re-export	1,003	1,176	-14.7%
Local Consumption	930	944	-1.5%

Sales by Geographical Area (continued)

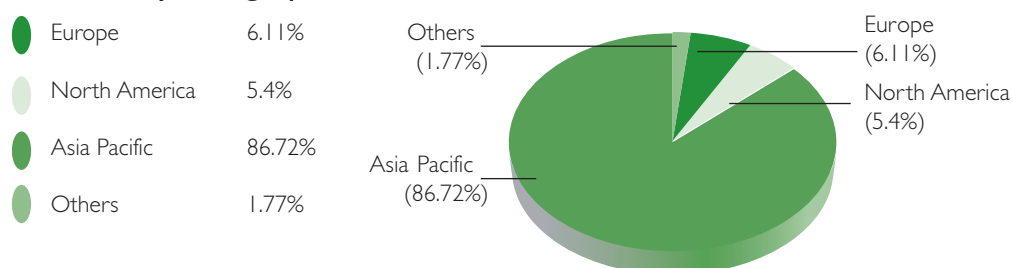
Import Statistics of Paper & Board to the Mainland China (January to December)

(In'000 Metric Tons)	2003	2002	+/-
Newsprint	351	199	+76.38%
Woodfree	394	365	+7.95%
Coated Paper	1,010	1,218	-17.08%
Kraft Paper	279	314	-11.15%
Corrugated Board	1,172	1,254	-6.54%
Duplex Board	1,043	815	+27.98%
Corrugating Medium	1,349	1,335	+1.05%
Others	749	870	-13.91%
	<u>6,347</u>	<u>6,370</u>	-0.36%

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



Purchases by Geographical Location for 2003/2004



Major Product Analysis

As one of the largest paper product traders in Hong Kong, the Group currently maintains a stock of over 100 paper brands. Our two main product categories, book printing papers and packaging boards, accounted for 44% and 50% of our total turnover respectively. Sales of book printing papers for the financial year rose by 17% while sales of packaging boards dropped slightly by 2% compared with the previous year.

Working Capital and Inventory Management

The Group has continued to maintain prudent working capital management. In view of the tough market condition experienced in the first half of the year, the Group has adopted tight credit policies to minimize the credit risk exposure. Doubtful debt provision before the write back of the previous year's doubtful debts of HK\$2 million was at a level of 0.61% of the sales as compared to 0.41% for the previous year.

To meet the demand of the improved market in the last quarter of the financial year and the robust situation in the Mainland China market, a relative higher level of stock as compared to that of last year was maintained at the end of the financial year. At the outbreak of SARS, faced with the challenging market environment, the Group's strategy was to step up its sales efforts to stimulate stock turnover. At the same time, the Group exercised a more prudent inventory policy in view of soft demand. During the year under review, the average stock turnover day decreased from 43 days to 37 days.

Foreign Exchange Risk

The Group's borrowings are principally denominated in US and Hong Kong dollars. This arrangement allows the Group to better contain its currency exchange risks. The Group also hedged its position with foreign exchange contracts and options when considered necessary. The Group has continued to obtain Renminbi loans which provide a natural hedge against currency risks. As at 31 March 2004, bank borrowings in Renminbi amounted to HK\$53 million.

Liquidity and Financial Resources

The Group normally finances short-term funding requirements with cash generated from operations, credit facilities available from suppliers and banking facilities (both secured and unsecured) provided by our bankers. The Group uses cash flow generated from operations and shareholders' equity for the financing of long-term assets and investments. As at 31 March 2004, short-term deposits plus bank balances and bank borrowings amounted to HK\$282 million and HK\$831 million respectively.

As at 31 March 2004, the Group's current ratio (current assets divided by current liabilities) stood at 1.40 times, (31 March 2003: 1.39 times). The gearing ratio, measured on the basis of the Group's total bank loans net of cash balances over the Group's shareholders' funds stood at 0.95 time (31 March 2003 : 1.0 time).

With bank balances and other current assets of HK\$1,597 million as well as available banking and trade facilities, the directors of the Company (the "Directors") believe the Group has sufficient working capital for its present requirement.

Contingent Liabilities and Charge of Assets

As at 31 March 2004, the Company continued to provide corporate guarantees on banking facilities granted to three subsidiaries. The amounts of facilities utilised by the subsidiaries as at 31 March 2004 amounted to HK\$831 million.

The leasehold land and buildings in Hong Kong of the Group, with a total net book value of HK\$125 million as at 31 March 2004 were pledged to banks as securities for bank loans of HK\$39 million and trust receipt loans of HK\$195 million granted to the Group.

Employees and Remuneration Policies

As at 31 March 2004, the Group employed 410 staff members, 204 of whom are based in Hong Kong and 206 are based in Mainland China. The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and of the individuals concerned. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages. In addition to salary payments, other staff benefits include performance bonuses, education subsidies, provident fund, medical insurance and the use of a share option scheme to reward high-caliber staff. Training for various levels of staff is undertaken on a regular basis, consisting of development in the strategic, implementation, sales and marketing disciplines.