

### RESULTS OF OPERATION

Turnover and net profit attributable to shareholders for the six months ended 30 September 2004 was HK\$1,257.7 million and HK\$194.3 million, representing an increase of 57.5% and 40.9%, as compared to HK\$798.6 million and HK\$137.9 million, respectively, for the corresponding period last year. The earnings per share for the period was HK20.31 cents when compared with HK24.30 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 with the commencement of the 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 65.1% and 52.8% from HK\$13.3 million and HK\$32.5 million for the six months ended 30 September 2003 to HK\$22.0 million and HK\$49.7 million for the six months ended 30 September 2004 respectively as a result of the expansion in the operation of the Group and the increase in the Group's turnover during this period.

### INTEREST EXPENSES

The Group's interest expenses decreased by approximately 52.7% from HK\$8.5 million for the six months ended 30 September 2003 to HK\$4.0 million for the six months ended 30 September 2004. The decrease in interest expenses was mainly due to the decrease in the average amount of outstanding bank loans as a result of the proceeds being received from the top-up placing and subscription during the period.

### INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

The inventory turnover of the Group's raw materials and finished products decreased from 113 days and 7 days, respectively, for the year ended 31 March 2004 to 79 days and 6 days, respectively, for the six months ended 30 September 2004. This exhibits continued strong demand from our customers.

The Group's debtors' turnover days were 47 days for the six months ended 30 September 2004 as compared to 62 days for the year ended 31 March 2004. 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 34 days for the year ended 31 March 2004 to 16 days for the six months ended 30 September 2004 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 2004 was HK\$2,816 million (31 March 2004: HK\$1,903 million). As at 30 September 2004, the Group had current assets of HK\$1,088 million (31 March 2004: HK\$1,270 million) and current liabilities of HK\$669 million (31 March 2004: HK\$838 million). The current ratio was 1.63 as at 30 September 2004 as compared to 1.51 at 31 March 2004.

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 30 September 2004, the Group had outstanding bank borrowings of HK\$632 million (31 March 2004: outstanding bank borrowings of HK\$888 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 0.47 as at 31 March 2004 to 0.20 as at 30 September 2004 as a result of the net proceeds raised from the top-up placing and subscription.

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 2004. During the six months ended 30 September 2004, the Group has not employed any financial instrument for hedging purposes.

### USE OF PROCEEDS FROM THE TOP-UP PLACING AND SUBSCRIPTION

The net proceeds from the Placement and Subscription which was completed in April 2004, were approximately HK\$804 million and were 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 year. The proceeds from the Placement and Subscription not immediately applied towards the purchase of paper machine VII have been employed as general working capital.

### EMPLOYEES

As at 30 September 2004, the Group had a workforce of more than 2,300 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.