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Samson group

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Samson Paper Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 0731)



Interim Report 2008/2009

The board of directors (the “Board”) of Samson Paper Holdings Limited (the “Company”) is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2008 together with comparative figures for the corresponding period in 2007, and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2008 with audited comparative figures as at 31 March 2008 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		Six months ended 30 September	
		2008	2007
		HK\$'000	HK\$'000
Revenue	2	2,336,434	1,949,218
Cost of sales		(2,094,219)	(1,769,233)
Gross profit		242,215	179,985
Other gains and income, net		9,202	10,775
Selling expenses		(78,023)	(60,856)
Administrative expenses		(69,030)	(55,195)
Other operating expenses		(27,777)	(4,142)
Operating profit	3	76,587	70,567
Finance costs		(25,883)	(27,575)
Share of result of an associated company		(365)	618
Profit before taxation		50,339	43,610
Taxation	4	(11,937)	(7,734)
Profit for the period		38,402	35,876
Attributable to:			
Equity holders of the Company		37,410	35,766
Minority interests		992	110
		38,402	35,876
Earnings per share for profit attributable to the equity holders of the Company — Basic	5	HK8.7 cents	HK8.3 cents
Interim dividend per share		HK1 cent	HK2.5 cents
Interim dividends	6	5,723	10,731

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2008

		Unaudited	Audited
		30 September	31 March
		2008	2008
	Notes	HK\$'000	HK\$'000
Non-current assets			
Property, plant and equipment	7	334,451	226,230
Prepaid premium for land leases	7	64,028	64,146
Investment properties		117,000	117,000
Non-current deposits		123,741	110,700
Intangible asset	8	35,654	36,932
Interest in associated companies		63,728	69,670
Deferred tax assets		4,812	5,023
Finance lease receivables		29	45
		743,443	629,746
Current assets			
Inventories		626,976	523,044
Accounts receivable, deposits and prepayments	9	1,554,220	1,378,073
Financial assets at fair value through profit or loss		12,552	17,817
Taxation recoverable		829	1,615
Restricted bank deposits		76,829	60,235
Bank balances and cash		417,316	281,068
		2,688,722	2,261,852
Current liabilities			
Accounts payable and accrued charges	10	973,178	1,014,536
Trust receipt loans	11	670,050	442,823
Taxation payable		18,492	11,150
Financial liabilities at fair value through profit or loss		1,924	4,715
Borrowings	11	558,533	367,685
		2,222,177	1,840,909
Net current assets		466,545	420,943
Total assets less current liabilities		1,209,988	1,050,689

CONDENSED CONSOLIDATED BALANCE SHEET (continued)

As at 30 September 2008

		Unaudited	Audited
		30 September	31 March
		2008	2008
	<i>Notes</i>	HK\$'000	HK\$'000
Financed by:			
Share capital	12	42,926	42,926
Reserves		795,881	760,301
Proposed dividend		5,723	10,731
		<hr/>	<hr/>
Shareholders' funds		844,530	813,958
Minority interests		9,453	9,031
		<hr/>	<hr/>
Total equity		853,983	822,989
		<hr/>	<hr/>
Non-current liabilities			
Borrowings	11	106,388	213,294
Other payables	13	232,234	—
Deferred tax liabilities		17,383	14,406
		<hr/>	<hr/>
		356,005	227,700
		<hr/>	<hr/>
		1,209,988	1,050,689
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2008

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Net cash outflow from operating activities	(31,877)	(139,319)
Net cash outflow from investing activities	(124,376)	(15,127)
Net cash inflow from financing activities	<u>289,202</u>	<u>173,735</u>
Net increase in cash and cash equivalents	132,949	19,289
Cash and cash equivalents at 1 April	281,068	336,562
Effect of change in exchange rate on cash and cash equivalents	<u>620</u>	<u>3,011</u>
Cash and cash equivalents at 30 September	<u><u>414,637</u></u>	<u><u>358,862</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	417,316	362,477
Bank overdrafts	<u>(2,679)</u>	<u>(3,615)</u>
	<u><u>414,637</u></u>	<u><u>358,862</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008

	Share capital	Share premium	Assets revaluation reserve	Capital reserve	Unaudited Exchange fluctuation reserve	Retained earnings	Sub-total	Minority interests	Total
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
At 1 April 2007	42,926	96,293	38,528	33,311	15,424	473,509	699,991	6,872	706,863
Profit for the period	—	—	—	—	—	35,766	35,766	110	35,876
2006–2007 final dividend payable	—	—	—	—	—	(10,731)	(10,731)	—	(10,731)
Currency translation difference	—	—	—	—	1,314	—	1,314	217	1,531
Capital injection by a minority shareholder	—	—	—	—	—	—	—	680	680
Proposed 2007–2008 interim dividend	42,926	96,293	38,528	33,311	16,738	487,813	715,609	7,879	723,488
	—	—	—	—	—	10,731	10,731	—	10,731
At 30 September 2007	<u>42,926</u>	<u>96,293</u>	<u>38,528</u>	<u>33,311</u>	<u>16,738</u>	<u>498,544</u>	<u>726,340</u>	<u>7,879</u>	<u>734,219</u>
At 1 April 2008	42,926	96,293	51,007	33,311	66,810	523,611	813,958	9,031	822,989
Profit for the period	—	—	—	—	—	37,410	37,410	992	38,402
2007–2008 final dividend payable	—	—	—	—	—	(10,731)	(10,731)	—	(10,731)
Asset revaluation reserve transferred to deferred tax liabilities	—	—	(2,928)	—	—	—	(2,928)	—	(2,928)
Currency translation difference	—	—	—	—	6,821	—	6,821	(570)	6,251
Proposed 2008–2009 interim dividend	42,926	96,293	48,079	33,311	73,631	544,567	838,807	9,453	848,260
	—	—	—	—	—	5,723	5,723	—	5,723
At 30 September 2008	<u>42,926</u>	<u>96,293</u>	<u>48,079</u>	<u>33,311</u>	<u>73,631</u>	<u>550,290</u>	<u>844,530</u>	<u>9,453</u>	<u>853,983</u>

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2008 which are mandatory for the year ending 31 March 2009 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKAS and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants, and the applicable requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2008.

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 March 2008, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 April 2008 but are not currently relevant for the Group.

HK(IFRIC) — Int 12	Service concession arrangements
HK(IFRIC) — Int 14	HKAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction
Amendments to HKAS 39 and HKFRS 7	Reclassification of financial assets

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 April 2008 and have not been early adopted:

HKAS 1 (revised)	Presentation of financial statements
HKAS 23 (revised)	Borrowing costs
HKAS 27 (revised)	Consolidated and separate financial statements
HKAS 32 (amendment)	Financial instruments: presentation
HKAS 39 (amendment)	Eligible hedged items
HKFRS 2 (amendment)	Share-based payment
HKFRS 3 (revised)	Business combinations
HKFRS 8 (amendment)	Operating segments
HK(IFRIC) — Int 13	Customer loyalty programmes
HK(IFRIC) — Int 15	Agreements for the construction of real estate
HK(IFRIC) — Int 16	Hedges of a net investment in a foreign operation

2. SEGMENT INFORMATION

(a) Primary reporting format — Business Segments

As 30 September 2008, the Group is organised on a worldwide basis into four main business segments:

- (1) Manufacturing, trading and marketing of paper products;
- (2) Provision of logistics services;
- (3) Trading and marketing of aeronautic parts and provision of services;
- (4) Provision of marine services to marine, oil and gas industries.

The segment results for the period ended 30 September 2008 are as follows:

	Unaudited					Group HK\$'000
	Paper HK\$'000	Logistics services HK\$'000	Aeronautic parts and services HK\$'000	Marine services HK\$'000	Unallocated HK\$'000	
Total segment revenue	2,213,446	47,409	52,834	47,390	—	2,361,079
Inter-segment revenue	—	(24,645)	—	—	—	(24,645)
Revenue	2,213,446	22,764	52,834	47,390	—	2,336,434
Segment result	72,183	(214)	5,931	1,327	(2,640)	76,587
Finance costs	—	—	—	—	—	(25,883)
Share of loss of an associate	(365)	—	—	—	—	(365)
Profit before taxation	—	—	—	—	—	50,339
Taxation	—	—	—	—	—	(11,937)
Profit for the period	—	—	—	—	—	38,402

The segment results for the period ended 30 September 2007 are as follows:

	Unaudited					Group HK\$'000
	Paper HK\$'000	Logistics services HK\$'000	Aeronautic parts and services HK\$'000	Marine services HK\$'000	Unallocated HK\$'000	
Total segment revenue	1,841,543	51,347	42,000	36,792	—	1,971,682
Inter-segment revenue	—	(22,464)	—	—	—	(22,464)
Revenue	1,841,543	28,883	42,000	36,792	—	1,949,218
Segment result	68,510	(1,479)	4,116	1,309	(1,889)	70,567
Finance costs	—	—	—	—	—	(27,575)
Share of profit of an associate	618	—	—	—	—	618
Profit before taxation	—	—	—	—	—	43,610
Taxation	—	—	—	—	—	(7,734)
Profit for the period	—	—	—	—	—	35,876

(b) **Secondary reporting format — geographical segments**

The Group's four business segments operate in three main geographical areas, even though they are managed on a worldwide basis.

An analysis of the Group's turnover for the period by geographical segment is as follows:

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong	891,884	788,496
Mainland China	1,222,429	956,527
Others	222,121	204,195
	<u>2,336,434</u>	<u>1,949,218</u>

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Crediting		
Interest income	3,765	4,606
Provision for impairment on receivables written back	4,568	1,023
Net dilution gain on interest in an associated company	—	3,719
	<u>—</u>	<u>—</u>
Charging		
Depreciation of property, plant and equipment	9,951	7,491
Amortisation of prepaid premium for land leases	695	649
Provision for impairment on inventory	3,654	3,275
Provision for impairment on receivables	28,094	3,317
Net dilution loss on interest in an associated company	1,004	—
	<u>1,004</u>	<u>—</u>

4. TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2007:17.5%) on the estimated assessable profit for the period. Taxation on overseas profit has been calculated on the estimated assessable profit at the applicable rates of taxation prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong profits tax	5,261	4,235
Overseas taxation	6,416	2,580
Deferred taxation	260	919
	<u>11,937</u>	<u>7,734</u>

5. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

	Unaudited	
	Six months ended 30 September	
	2008	2007
Profit attributable to equity holders of the Company (HK\$'000)	<u>37,410</u>	<u>35,766</u>
Weighted average number of ordinary shares in issue ('000 shares)	<u>429,258</u>	<u>429,258</u>
Basic earnings per share (HK cents)	<u>8.7</u>	<u>8.3</u>

6. INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
Proposed, of HK\$0.01 (2007: HK\$0.025) per share	<u>5,723</u>	<u>10,731</u>

The amount is calculated based on 429,258,039 ordinary shares and 143,086,013 convertible non-voting preference shares (note 12) of par value of HK\$0.1 each and proposed dividend of HK1 cent per share.

This proposed interim dividend is not reflected as a dividend payable in these condensed financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2009.

7. CAPITAL EXPENDITURE

	Property, plant and equipment	Unaudited Prepaid premium for land leases	Construction in progress
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 September 2007			
Opening net book amount at 1 April 2007	118,411	48,785	—
Currency translation differences	1,280	56	—
Additions	17,069	—	1,886
Disposals	(493)	—	—
Depreciation / amortisation	<u>(7,491)</u>	<u>(649)</u>	<u>—</u>
Closing net book amount at 30 September 2007	<u>128,776</u>	<u>48,192</u>	<u>1,886</u>
Six months ended 30 September 2008			
Opening net book amount at 1 April 2008	125,001	64,146	101,229
Additions	89,225	—	29,976
Currency translation differences	(1,670)	577	1,107
Disposals	(466)	—	—
Depreciation / amortisation	<u>(9,951)</u>	<u>(695)</u>	<u>—</u>
Closing net book amount at 30 September 2008	<u>202,139</u>	<u>64,028</u>	<u>132,312</u>

8. INTANGIBLE ASSETS

	Unaudited <i>HK\$'000</i>
Six months ended 30 September 2007	
Opening net book amount at 1 April 2007	32,414
Currency translation differences	2,052
Additions	<u>7,496</u>
Closing net book amount at 30 September 2007	<u><u>41,962</u></u>
Six months ended 30 September 2008	
Opening net book amount at 1 April 2008	36,932
Currency translation differences	<u>(1,278)</u>
Closing net book amount at 30 September 2008	<u><u>35,654</u></u>

9. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
Trade receivables, net of provision	1,300,769	1,169,897
Other receivables, deposits and prepayments	252,895	206,563
Finance lease receivables	585	1,658
	<u>1,554,249</u>	<u>1,378,118</u>
Finance lease receivables — non current portion	(29)	(45)
	<u>1,554,220</u>	<u>1,378,073</u>

The carrying values of the Group's trade and other receivables approximated their fair values.

The Group normally grants credit to customers ranging from 30 to 90 days.

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
Current to 60 days	971,577	855,745
61 to 90 days	195,324	164,803
Over 90 days	133,868	149,349
	<u>1,300,769</u>	<u>1,169,897</u>

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers, which are widely dispersed within Hong Kong, the PRC and other countries.

Finance lease receivables

	Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
Non-current		
Finance leases — gross receivables	30	48
Unearned finance income	(1)	(3)
	<u>29</u>	<u>45</u>
Current		
Finance leases — gross receivables	574	1,679
Unearned finance income	(18)	(66)
	<u>556</u>	<u>1,613</u>
	Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
Gross receivables from finance leases:		
Not later than 1 year	574	1,679
Later than 1 year and not later than 5 years	30	48
	<u>604</u>	<u>1,727</u>
Unearned future finance income on finance leases	(19)	(69)
Net investment in finance leases	<u>585</u>	<u>1,658</u>
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	556	1,613
Later than 1 year and not later than 5 years	29	45
	<u>585</u>	<u>1,658</u>

10. ACCOUNTS PAYABLE AND ACCRUED CHARGES

	Unaudited 30 September 2008 <i>HK\$'000</i>	Audited 31 March 2008 <i>HK\$'000</i>
Trade and bills payables	813,616	903,381
Accrued expenses and other payables	135,432	94,153
Loan from a minority shareholder	1,563	1,563
Amount due to related companies	11,836	15,439
Dividend payable	10,731	—
	<u>973,178</u>	<u>1,014,536</u>

The carrying values of the gross accounts payable and accrued charges approximated their fair values.

The amounts due to a minority shareholder and associated companies were unsecured, interest free and repayable on demand.

The ageing analysis of trade payables and bills payables are as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Current to 60 days	600,312	766,492
61 to 90 days	87,599	48,915
Over 90 days	<u>125,705</u>	<u>87,974</u>
	<u>813,616</u>	<u>903,381</u>

II. BORROWINGS

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Non-current		
Bank loans — unsecured	40,000	131,515
Bank loans — secured	57,683	71,055
Finance lease liabilities	<u>8,705</u>	<u>10,724</u>
	<u>106,388</u>	<u>213,294</u>
Current		
Trust receipt loans — unsecured	439,863	215,659
Trust receipt loans — secured	<u>230,187</u>	<u>227,164</u>
	<u>670,050</u>	<u>442,823</u>
Bank loans — unsecured	522,761	339,007
Bank loans — secured	26,688	21,375
Bank overdrafts	2,679	—
Finance lease liabilities	<u>6,405</u>	<u>7,303</u>
	<u>558,533</u>	<u>367,685</u>
	<u>1,228,583</u>	<u>810,508</u>
Total borrowings	<u>1,334,971</u>	<u>1,023,802</u>

At 30 September 2008, the Group's bank loans and overdrafts and trust receipt loans were repayable as follows:

	Bank loans and overdrafts		Trust receipt loans	
	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Within one year	552,128	360,382	670,050	442,823
In the second year	64,808	159,945	—	—
In the third to fifth years inclusive	32,875	42,625	—	—
	<u>649,811</u>	<u>562,952</u>	<u>670,050</u>	<u>442,823</u>

The effective interest rate at the balance sheet date on bank loans, bank overdrafts and trust receipt loans was 4.8% per annum (31 March 2008: 3.0% per annum).

The carrying amounts of bank loans, bank overdrafts and trust receipt loans approximate their fair values.

Finance lease liabilities

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Gross finance lease liabilities — minimum lease payments:		
Not later than 1 year	6,832	7,978
Later than 1 year but not later than 5 years	9,365	11,831
Later than 5 years	—	—
	<u>16,197</u>	<u>19,809</u>
Future finance charges on finance leases	(1,087)	(1,782)
Present value of finance lease liabilities	<u>15,110</u>	<u>18,027</u>

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
The present value of finance lease liabilities is as follows:		
Not later than 1 year	6,405	7,303
Later than 1 year and no later than 5 years	8,705	10,724
Later than 5 years	—	—
	<u>15,110</u>	<u>18,027</u>

At the balance sheet date, the carrying amounts of finance lease liabilities approximate their fair value.

12. SHARE CAPITAL

	Number of shares of HK\$0.10 each		Share capital	
	Unaudited 30 September 2008	Audited 31 March 2008	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Authorised:				
At the beginning and the end of period/year	<u>800,000,000</u>	<u>800,000,000</u>	<u>80,000</u>	<u>80,000</u>
Issued and fully paid:				
At the beginning and the end of period/year	<u>429,258,039</u>	<u>429,258,039</u>	<u>42,926</u>	<u>42,926</u>

On 24 October 2008, special resolutions were passed at the Special General Meeting of the Company to increase the authorised share capital of the Company from HK\$80,000,000 to HK\$160,000,000 and to redesignate HK\$14,308,601.30 of the unissued share capital of the Company into convertible non-voting preference shares.

As a result of the open offer on 19 November 2008, the Company increased its issued share capital by HK\$14,308,601.30 by the issue of convertible non-voting preference shares of HK\$0.1 each.

The shareholders of the Company adopted a share option scheme to comply with the new requirements of Chapter 17 of the Listing Rules. As at 30 September 2008, no option was granted or outstanding.

13. OTHER PAYABLES

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Contribution from a controlling shareholder (note i)	95,300	—
Purchase financed by suppliers (note ii)	<u>136,934</u>	<u>—</u>
	<u>232,234</u>	<u>—</u>

Note

- (i) In September 2008, after the announcement of the open offer to issue convertible non-voting preference shares of the Company, the controlling shareholder, Quinselle Holdings Limited, paid HK\$95,300,000 to the Company as the application for part of the allotment and underwriting amount for the convertible non-voting preference shares of the Company.

The amount was interest free and did not need to be repaid in the foreseeable future.

On 19 November 2008, such amount was apply for subscription of the convertible non-voting preference shares of the Company issued to Quinselle Holdings Limited.

- (ii) The amount represents funding provided by suppliers for purchase of machinery parts for the mill in Shandong province, the PRC and trading stocks of the Group respectively.

The effective interest rate at the balance sheet date was 3.0 % and repayable in the financial year ending 31 March 2010.

The carrying values of other payables approximated their fair values.

14. BANK GUARANTEES

As at 30 September 2008, the Company provided corporate guarantees on the banking facilities granted to the Group's subsidiaries. The amount of such facilities utilised by the subsidiaries as at 30 September 2008 amounted to HK\$1,320,000,000 (31 March 2008: HK\$1,006,000,000).

15. COMMITMENTS

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
Property, plant and equipment, contracted but not provided for	535,626	492,438
Intangible assets, contracted but not provided for	<u>1,150</u>	<u>1,150</u>
	<u>536,776</u>	<u>493,588</u>

(b) As at 30 September 2008, the subsidiaries of the Company had commitment in respect of the injection of capital into certain subsidiaries in the PRC amounted to approximately HK\$186,626,000 (31 March 2008: HK\$156,696,000).

(c) Following a public auction held by the auctioneer in Shandong province, the PRC on 10 January 2008, the Group entered into an Assets Transfer Contract (the "Contract") with the receivers of Shandong Huacai Paper Co. Ltd. ("Huacai") and Shandong Huazhong Paper Co. Ltd. ("Huazhong") to acquire production assets of both Huacai and Huazhong at a consideration of RMB385 million (approximately HK\$437 million) on 20 February 2008. As at 30 September 2008, a security deposit of RMB100 million (approximately HK\$114 million) was paid to the auctioneer pursuant to the Contract. The remaining consideration of RMB285 million (approximately HK\$323 million) shall be settled upon the transfer of titles of all production assets.

(d) Operating lease commitments

As at 30 September 2008, the Group had total future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
No later than one year	21,551	34,147
Later than one year and not later than five years	12,544	24,907
Later than five years	<u>2,666</u>	<u>—</u>
	<u>36,761</u>	<u>59,054</u>

(e) Operating lease receivable

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Unaudited 30 September 2008 HK\$'000	Audited 31 March 2008 HK\$'000
No later than one year	46,675	45,931
Later than one year and not later than five years	<u>25,058</u>	<u>44,564</u>
	<u>71,733</u>	<u>90,495</u>

16. CHARGE OF ASSETS

As at 30 September 2008, trust receipt loans of HK\$230,187,000 (31 March 2008: HK\$277,164,000) and bank loans of HK\$80,313,000 (31 March 2008: HK\$87,563,000) were secured by legal charges on the Group's properties in Hong Kong with net book amount of approximately HK\$162,145,000 (31 March 2008: HK\$162,722,000).

17. RELATED PARTY TRANSACTIONS

Except as disclosed in note 13, significant related party transactions, which were carried out in the normal course of the Group's business at prices and terms no less than those charged and contracted with other third party suppliers and customers of the Group are as follows:

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
(a) Sale to and purchase from related parties		
(i) Rental income from an associated company	<u>561</u>	<u>631</u>
(ii) Rental expense paid to associated company	<u>154</u>	<u>931</u>
(iii) Purchase from associated companies	<u>20,858</u>	<u>26,934</u>

All the above transactions were carried out on the basis of the price lists in force with non-related parties.

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
(b) Period-end balances arising from sales/purchase of goods		
(i) Payables to associated companies	<u>11,836</u>	<u>14,040</u>
(ii) Receivables from associated companies	<u>35</u>	<u>730</u>

Balance of receivables from associated companies is included in trade receivables.

Amounts due are unsecured, interest free and repayable on demand.

	Unaudited	
	Six months ended 30 September	
	2008	2007
	HK\$'000	HK\$'000
(c) Key management compensation		
Key management compensation	<u>6,165</u>	<u>6,138</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Economy

Growth of the Hong Kong economy has slowed down notably since the third quarter of calendar year 2008, as the financial tsunami continued to gather strength suppressing global demand. The GDP of Hong Kong for the third quarter grew only by 1.7% year-on-year, notably less than the 4.2% growth in the second quarter. Also affected by the global economy downturn, the PRC reported a 9.0% GDP growth year-on-year for the third quarter versus 10.1% in the second quarter.

The Paper Industry

According to the Census and Statistics Department, Hong Kong exported HK\$11,112 million worth of printed matters during the review period, up 7.8%, and imported printed matters valued at HK\$6,993 million, up 11.2%, when compared with the same period last year.

Operations Review

Catering to growing customer demand and with paper prices rising driven by keen demand, the Group achieved satisfactory results during the review period. Its turnover increased by 19.9% to HK\$2,336 million as compared with the same period last year. Gross profit also increased, by 34.6%, to HK\$242 million, with gross profit margin improved to 10.4% (2007/08: 9.2%). Operating profit was up by 8.5% to HK\$76 million and profit attributable to shareholders rose by 4.6% to HK\$37 million even after taking into account the further general provision of doubtful debts of HK\$7 million which is made for prudent basis in view of the financial crisis. Before accounting for this additional provision of HK\$7 million, net profit margin also improved, from 1.8% in the corresponding period last year to 1.9% in this review period. Earnings per share were HK8.7 cents (2007/08: HK8.3 cents).

Amid the adverse market condition faced by customers during the review period, the Group has further tightened its credit policy on customers selection. As a result, the collection period has been shortened by 9 days as compared with that in the same period last year.

By business segment, paper trading, paper manufacturing, consumable aeronautic parts and services, marine services and logistic services accounted for 91.9%, 2.8%, 2.3%, 2.0%, and 1.0% of the Group's total turnover respectively.

Paper Trading Business

Continuous effort of the Group to enhance its sales network in the PRC has paid off. The effort and the Group focusing on selling higher quality products to quality customers brought about a 16.7% increase in paper trading sales to approximately HK\$2,148 million, with profit up 3.3% to HK\$37 million before accounting for the additional general provision of doubtful debts of HK\$7 million. In volume term, the segment traded 308,544 metric tons of paper, 2.3% less than the same period last year as a result of the Group's shift of strategic focus on to serving quality customers and a tightened credit policy on customers selection in order to mitigate the effect of the financial turmoil.

The PRC market continued to be a main growth driver of the segment. Owing to the climbing prices of paper products, the Group's focusing on selling higher value products and tightened credit control policy on customers, turnover from paper trading business in the market increased by a notable approximately 21.1% to HK\$1,152 million while in volume term the Group sold approximately 0.6% less in tonnage of paper products to customers in the market during the review period. The amount made up 53.6% of the total turnover from paper trading business.

Hong Kong, the second key market of the Group, accounted for 40.7% of total paper trading sales. It achieved a turnover of HK\$874 million, a 14.4% growth against the same period last year. As for other Asian countries such as Malaysia, the Group has been consolidating business in those markets with the aim of controlling credit risk exposure. As a result, paper sales in those markets dropped by 2.8% to HK\$122 million, which accounted for 5.7% of the turnover from paper trading business.

Singapore-listed United Pulp & Paper Company Limited, the Group's principal associate engaging in paper manufacturing, recorded a profit of S\$478,000 (equivalent to approximately HK\$2.6 million) before the provisions of impairment loss of assets and trade receivables of S\$710,000 by its subsidiaries which had ceased operation during the first half of its financial year.

Sales contribution by product was stable relative to the level recorded in the same period last year. Book printing papers and packaging boards accounted for 51.5% and 34.7% respectively of the Group's total turnover from paper trading.

Paper Manufacturing Business

The Group has expanded upstream into paper manufacturing after entering into a contract to acquire the entire assets of a paper mill in Shandong province, the PRC in February 2008. The two production lines of the paper mill with a total output capacity of 170,000 metric tons of duplex board have started to contribute revenue to the Group. During the review period, turnover and profit from the segment were HK\$148 million including inter-company sales and HK\$7 million respectively, with net profit margin at approximately 4.9%.

Consumable Aeronautic Parts and Services Business

The segment continued to perform steadily during the review period after achieving impressive growth in the corresponding period last year. Its turnover reached HK\$53 million, 25.8% higher than that in the same period last year, and operating profit grew by 44.1% to HK\$6 million.

Logistics Services Business

The Group continued to consolidate its logistic services business and focus on providing services internally to its paper business. Turnover from the business declined by 21.2% to HK\$23 million and a markedly smaller operating loss at HK\$0.2 million (2007/08: operating loss of HK\$1.5 million) was recorded for the period. Net profit was HK\$254,000 including a tax write back of HK\$521,000.

Marine Services Business

Hypex Holdings Limited, a wholly-owned subsidiary of the Group, provides corrosion prevention services – blasting (hydro and grit) and painting work – to the marine, oil and gas industries in Singapore. The segment recorded turnover of HK\$47 million and operating profit of HK\$1.3 million.

Prospects

The global economic downturn is affecting consumption sentiment worldwide with the retail segment among the hardest hit. Correspondingly, the demand for book printing papers and packaging boards has been affected. As demand slackens, the paper prices become softened and are expected to be subject to adjustments in the coming months.

However, the Group believes the PRC economy, which is feeling a relatively milder impact of the global financial turmoil so far and supported by government efforts to stimulate economic growth and domestic consumption, will come out less affected among economies around the world. To meet the demand for paper products in the Northern and Eastern China, the Group opened a new sales office in Qingdao in October 2008 and will open one more new office in Hangzhou in the second half of the financial year. By then it will have a stronger sales office network in the country.

To ensure it is in good financial health to make it through the current difficult times in global economy, the Group will tighten its credit control policies further. Also, exercising prudence, the Group has adjusted the construction plan of the new production line in the Shandong paper mill. The production line designed to produce up to 200,000 metric tons of kraftliner board and corrugated medium will be completed by the end of calendar year 2009. During the second half of the financial year, the Group will streamline operations and focus on improving the productivity of existing production lines. It has shelved the plan to build a paper mill in Nantong, Jiangsu in the PRC until market situation becomes clearer. It will continue to closely monitor the market environment and adjust plans for the two paper mills as appropriate.

In November 2008, the Group raised approximately HK\$100 million by issuing convertible non-voting preference shares (“CP shares”) to shareholders. At the same time, it also issued bonus warrants to holders of both ordinary shares and CP shares on the basis of one warrant for every six shares held on the warrant record date. Each unit of warrant will entitle its holder to subscribe for one new ordinary share at the initial subscription price of HK\$0.8 per ordinary share at any time between 5 December 2008 and 4 June 2010. The proceeds from the bonus warrant issue is estimated at approximately HK\$76 million assuming full subscription of new ordinary shares under the bonus warrant issue. The Group intends to use 50% of the proceeds from the issue of the CP shares to finance expenditure on the new production line in Shandong province, the PRC and the remaining 50% as general working capital whereas the proceeds from the bonus warrant issue will be used for general working capital purpose. The issue of the CP shares and bonus warrants has not only provided shareholders with an opportunity to participate in fostering growth of the Company, but has also strengthened the Company’s capital base as well as for increasing the Company’s working capital and part of the funding requirement for the production lines in Shandong paper mill.

Building on its solid presence in the PRC and a strengthened capital base and prudent business strategy, and with the paper manufacturing business in the PRC bringing in steady income, the Group is confident of its ability to weather turbulence in the market in the second half of the financial year.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK 1 cent (2007: HK2.5 cents) per share for the six months ended 30 September 2008. The interim dividend will be payable to all shareholders of the Company whose names appear on the register of members of the Company on 9 January 2009. The interim dividend will be paid on or about 21 January 2009.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 7 January 2009 to 9 January 2009 (both days inclusive), during which period no transfers of shares of the Company will be registered. In order to qualify for the interim dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch registrar, Computershare Hong Kong Investor Services Limited at Shop 1712–16, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration no later than 4:30 pm on 6 January 2009.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2008, the total number of the Group's employees was 1,581. The Group's remuneration policies are primarily based on prevailing market levels and salaries are reviewed with reference to the performance of the Group and the individual employee concerned. In addition to salary payment, other staff benefits including performance bonus, education subsidies, provident fund, medical insurance and share option are offered to reward our high-calibre staff. Training on strategic planning and implementation, sales and marketing disciplines are offered to various management levels on a regular basis.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's short term deposits and bank balances and bank borrowings as at 30 September 2008 amounted to approximately HK\$494 million (including restricted bank deposits of HK\$77 million) and HK\$1,320 million respectively. As at 30 September 2008, its gearing ratio, measured on the basis of the Group's long term debt over the Group's shareholders' funds was 28.8% (31 March 2008: 26.2%). With bank balances and other current assets of approximately HK\$2,689 million as well as available banking and trade facilities, the directors of the Company (the "Directors") believe the Group has sufficient working capital to meet its present requirement.

The Group's foreign currency purchases were mainly denominated in United States dollars. Foreign exchange contracts and options were used, if necessary, to hedge the Group's foreign currency exposure. As the Group relied on the RMB banking finances to fund the operation in the PRC, which provides a natural hedge against currency risks, the appreciation of RMB does not have much impact on the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, the interests and short positions of each Director and chief executive of the Company and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long position in ordinary shares of HK\$0.10 each in the Company (the "Shares")

	Capacity	Number of ordinary shares beneficially held				Total	Percentage
		Personal interest	Corporate interest	Family interest			
Mr. LEE Seng Jin	Beneficial owner	60,344,000	219,620,000 (Note)	16,712,556	296,676,556	69.11%	
Ms. SHAM Yee Lan, Peggy	Beneficial owner	572,556	16,140,000	279,964,000	296,676,556	69.11%	
Mr. CHOW Wing Yuen	Beneficial owner	540,000	—	—	540,000	0.13%	

Note:

The 219,620,000 Shares are held by Quinselle Holdings Limited which is wholly owned by Mr. Lee Seng Jin. Mr. Lee Seng Jin therefore deemed under the SFO to be interested in such 219,620,000 Shares.

Save as disclosed above, as at 30 September 2008, none of the Directors and chief executives of the Company had any interest or short position in the shares or underlying shares or debentures of, or had been granted, or exercised any rights to subscribe for shares (or warrants or debentures, if applicable) of, the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than those interests disclosed above, the Directors and chief executives of the Company also hold shares of certain subsidiaries of the Company solely for the purpose of ensuring that the relevant subsidiary has more than one member.

At no time during the period was the Company, its holding company, its subsidiaries or its associated companies a party to any arrangement to enable any Director or chief executives of the Company to acquire benefits by means of acquisition of shares in, or debentures of, the Company and its associated corporations as defined in the SFO.

(b) Short positions in shares and underlying Shares of the Company

None of the Directors and the chief executive of the Company or their associates had any short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

(c) Share option scheme

At the Special General Meeting of the Company held on 26 February 2004, the shareholders of the Company approved the adoption of a share option scheme (the "Option Scheme") to comply with the requirements of Chapter 17 of the Listing Rules. As at 30 September 2008, no option was granted under the Option Scheme. A summary of the terms and conditions of the Option Scheme are set out below.

(1) Purpose

The purpose of the Option Scheme is to provide incentives to Participants (as defined below) to contribute to the Group and to enable the Group to recruit high-calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds any equity interest (the "Invested Entity").

(2) Participants

All Directors and employees of the Group and suppliers, consultants, advisors, agents, customers, service providers, contractors, any member of or any holder of any securities issued by any member of the Group or any Invested Entity.

(3) Maximum number of shares

The number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option scheme(s) of the Company must not exceed 10% in the nominal amount of the issued share capital of the Company as at the date of adoption of the Option Scheme. The maximum number of share available for issue under the Option Scheme is 42,925,803 as at the date of this report.

(4) *Maximum entitlement of each Participant*

The maximum number of shares issued and to be issued upon exercise of the options granted to any one Participant (including both exercised and unexercised options) in any 12-month period shall not exceed one percent of the Shares in issue as at the date of grant.

(5) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Option Scheme at any time during the period to be notified by the Board to each grantee of the option at the date of grant provided that such period shall not exceed a period of ten years from the date of grant but subject to the provisions for early termination of the option as contained in the terms of the Option Scheme.

(6) The eligible person shall pay HK\$1.0 to the Company in consideration of the grant of an option upon acceptance of the grant of option.

(7) *Exercise price*

The option price per share payable on the exercise of an option is determined by the Board and shall not be less than the highest of:

- a) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;
- b) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and
- c) the nominal value of a share on the date of grant.

(8) *Remaining life of the Option Scheme*

The Option Scheme will remain in force until 26 February 2014.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

As at 30 September 2008, the interests and short positions of the shareholders of the Company other than a Director or chief executives of the Company and their associates, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under Section 336 of the SFO were as follows:

Long position in the Shares

Name of shareholder	Number of Shares	Approximate percentage of interest to total issued share capital of the Company
Quinselle Holdings Limited (<i>Note</i>)	219,620,000	51.16%

Note:

Quinselle Holdings Limited is a company wholly owned by Mr. Lee Seng Jin.

Save as disclosed above, the register which was required to be kept under Section 336 of the SFO shows that the Company had not been notified of any interests or short positions in the shares or underlying shares of the Company as at 30 September 2008.

CONTINGENT LIABILITIES

The Company provided corporate guarantees on the banking facilities granted to its subsidiaries. The amount of such facilities utilized by the subsidiaries as at 30 September 2008 amounted to HK\$1,320,000,000 (31 March 2008: HK\$1,006,000,000).

CHARGE OF ASSETS

As at 30 September 2008, trust receipt loans of HK\$230,187,000 (31 March 2008: HK\$277,164,000) and bank loans of HK\$80,313,000 (31 March 2008: HK\$87,563,000) were secured by legal charge on certain properties of the Group in Hong Kong.

AUDIT COMMITTEE

The Audit Committee of the Company (the "Committee") was set up to review and provide supervision of the Group's financial reporting process and internal controls. The Committee has reviewed the Group's unaudited interim report for the six months ended 30 September 2008 before it was tabled for the Board's approval.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as the Company's code of conduct for dealings in securities of the Company by the Directors. Having made specific enquiry of all the Directors, the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the accounting period covered by the interim report.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES OF THE LISTING RULES

In the opinion of the Directors, the Company was in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules during the six-month period ended 30 September 2008 except that the non-executive Directors were not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the bye-laws of the Company.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises five executive Directors, namely Mr. SHAM Kit Ying, Mr. LEE Seng Jin, Mr. CHOW Wing Yuen, Ms. SHAM Yee Lan, Peggy and Mr. LEE Yue Kong, Albert, one non-executive Director, Mr. LAU Wang Yip, Eric and three independent non-executive Directors, namely Mr. PANG Wing Kin, Patrick, Mr. TONG Yat Chong, and Mr. NG Hung Sui, Kenneth.

By Order of the Board
SHAM Kit Ying
Chairman

Hong Kong, 18 December 2008