



Samson Paper Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 0731)

Interim Report 10/11



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 2010 together with comparative figures for the corresponding period in 2009, and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2010 with audited comparative figures as at 31 March 2010 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited	
		Six months ended 30 September	
		2010	2009
		HK\$'000	HK\$'000
Revenue	3	2,303,948	1,791,733
Cost of sales		(2,075,718)	(1,592,515)
Gross profit		228,230	199,218
Other gains and income, net		15,252	10,907
Selling expenses		(86,780)	(75,919)
Administrative expenses		(84,183)	(69,689)
Other operating expenses		(3,887)	(6,332)
Operating profit	4	68,632	58,185
Finance costs		(24,483)	(17,876)
Share of loss of an associated company		—	(1,186)
Profit before taxation		44,149	39,123
Taxation	5	(10,440)	(8,955)
Profit for the period		<u>33,709</u>	<u>30,168</u>
Attributable to:			
Equity holders of the Company		34,701	30,143
Non-controlling interests		(992)	25
		<u>33,709</u>	<u>30,168</u>
Earnings per share for profit attributable to the equity holders of the Company			
— Basic	6	<u>HK6.9 cents</u>	HK6.0 cents
— Diluted	6	<u>HK5.5 cents</u>	HK4.7 cents
Interim dividend per share		<u>HK1.0 cent</u>	HK1.0 cent
Interim dividends	7	<u>6,366</u>	<u>6,348</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Profit for the period	33,709	30,168
Other comprehensive income		
Currency translation differences	<u>26,137</u>	<u>11,758</u>
Other comprehensive income for the period, net of tax	<u>26,137</u>	<u>11,758</u>
Total comprehensive income for the period	<u>59,846</u>	<u>41,926</u>
Total comprehensive income attributable to:		
— Equity holders of the Company	60,456	41,827
— Non-controlling interests	<u>(610)</u>	<u>99</u>
	<u>59,846</u>	<u>41,926</u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2010

	Note	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000 (restated)
Non-current assets			
Property, plant and equipment	8	986,453	773,918
Land use rights	8	41,972	41,884
Investment properties		115,000	115,000
Intangible assets	9	43,672	41,280
Deferred tax assets		7,258	4,956
		<u>1,194,355</u>	<u>977,038</u>
Current assets			
Inventories		738,456	696,455
Accounts receivable, deposits and prepayments	10	1,452,565	1,388,730
Financial assets at fair value through profit or loss		22,578	15,197
Taxation recoverable		1,553	1,441
Restricted bank deposits		165,967	129,792
Bank balances and cash		518,224	463,614
		<u>2,899,343</u>	<u>2,695,229</u>
Non-current asset held for sale		—	60,745
		<u>2,899,343</u>	<u>2,755,974</u>
Current liabilities			
Accounts payable and accruals	11	1,235,650	1,299,176
Trust receipt loans	12	746,042	795,680
Taxation payable		19,775	17,285
Borrowings	12	323,203	254,171
		<u>2,324,670</u>	<u>2,366,312</u>
Net current assets		<u>574,673</u>	<u>389,662</u>
Total assets less current liabilities		<u>1,769,028</u>	<u>1,366,700</u>
Equity			
Equity attributable to owners of the parent			
Share capital	13	63,657	63,585
Reserves		1,005,628	951,030
Proposed dividend		6,366	12,731
		<u>1,011,994</u>	<u>963,761</u>
		1,075,651	1,027,346
Non-controlling interests		<u>10,187</u>	<u>10,797</u>
Total equity		<u>1,085,838</u>	<u>1,038,143</u>
Non-current liabilities			
Borrowings	12	647,688	300,143
Deferred tax liabilities		35,502	28,414
		<u>683,190</u>	<u>328,557</u>
		<u>1,769,028</u>	<u>1,366,700</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2010

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(124,529)	12,730
Net cash outflow from investing activities	(155,597)	(68,193)
Net cash inflow from financing activities	<u>330,181</u>	<u>98,892</u>
Net increase in cash and cash equivalents	50,055	43,429
Cash and cash equivalents at 1 April	461,044	594,704
Effect of change in exchange rate on cash and cash equivalents	<u>5,452</u>	<u>1,596</u>
Cash and cash equivalents at 30 September	<u><u>516,551</u></u>	<u><u>639,729</u></u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	518,224	642,033
Bank overdrafts	<u>(1,673)</u>	<u>(2,304)</u>
	<u><u>516,551</u></u>	<u><u>639,729</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2010

	Unaudited					Total equity HK'000
	Attributable to the equity holders of the Company				Non-controlling interests HK'000	
	Share capital HK'000	Other reserves HK'000	Retained earnings HK'000	Subtotal HK'000		
At 1 April 2009	63,485	369,064	526,590	959,139	8,146	967,285
Profit for the period	—	—	30,143	30,143	25	30,168
Other comprehensive income:						
Currency translation differences	—	11,684	—	11,684	74	11,758
Total comprehensive income	—	11,684	30,143	41,827	99	41,926
Proposed 2009-2010 interim dividend	63,485	380,748	550,385	994,618	8,245	1,002,863
	—	—	6,348	6,348	—	6,348
At 30 September 2009	<u>63,485</u>	<u>380,748</u>	<u>556,733</u>	<u>1,000,966</u>	<u>8,245</u>	<u>1,009,211</u>
At 1 April 2010	63,585	380,488	583,273	1,027,346	10,797	1,038,143
Profit for the period	—	—	34,701	34,701	(992)	33,709
Other comprehensive income:						
Currency translation differences	—	25,755	—	25,755	382	26,137
Total comprehensive income	—	25,755	34,701	60,456	(610)	59,846
Issuance of ordinary shares	72	508	—	580	—	580
2009–2010 final dividend payable	—	—	(12,731)	(12,731)	—	(12,731)
Proposed 2010-2011 interim dividend	63,657	406,751	598,877	1,069,285	10,187	1,079,472
	—	—	6,366	6,366	—	6,366
At 30 September 2010	<u>63,657</u>	<u>406,751</u>	<u>605,243</u>	<u>1,075,651</u>	<u>10,187</u>	<u>1,085,838</u>

Other reserves comprise share premium, assets revaluation reserve, capital reserve and exchange fluctuation reserve.

1. GENERAL INFORMATION

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are manufacturing, trading and marketing of paper products. The Group also engages in trading of consumable aeronautic parts and marine services. Detailed analysis of these business segments are set out in note 3 to the accounts.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is 3/F Seapower Industrial Centre, 177 Hoi Bun Road, Kwun Tong, Hong Kong.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim accounts are presented in Hong Kong dollars, unless otherwise stated. These unaudited condensed consolidated interim accounts have been approved for issue by the Board of Directors on 24 November 2010.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts for the six months ended 30 September 2010 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

These unaudited condensed consolidated interim accounts should be read in conjunction with the annual consolidated accounts for the year ended 31 March 2010, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

Except as described below, the accounting policies adopted are consistent with those of the annual consolidated accounts for the year ended 31 March 2010, as described in those annual consolidated accounts.

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

The following amendment to standard is mandatory for the first time for the financial year beginning 1 April 2010 and adopted by the Group.

HKAS 17 (amendment) "Lease" deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Land use rights", and amortised over the lease term.

HKAS 17 (amendment) has been applied retrospectively for annual periods beginning 1 April 2010 in accordance with the effective date and transitional provisions of the amendment. The Group has reassessed the classification of unexpired leasehold land and land use rights as at 1 April 2010 on the basis of information existing at the inception of those leases, and recognised the leasehold land in Hong Kong as finance lease retrospectively. As a result of the reassessment, the Group has reclassified certain leasehold land from operating lease to finance lease.

The effect of the adoption of this amendment is as below:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000	As at 1 April 2009 HK\$'000
Decrease in land use rights	(19,955)	(20,229)	(20,777)
Increase in property, plant and equipment	19,955	20,229	20,777

3. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Executive Directors. The Executive Directors review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the Executive Directors.

The Executive Directors consider the performance of the Group from the perspective of the nature of products and services. The chief operating decision-maker assesses the performance of the operating segments based on a measure of segment profit/(loss) without allocation of finance costs which is consistent with that in the accounts.

At 30 September 2010, the Group is organised on a worldwide basis into three main business segments:

- (1) Paper trading: trading and marketing of paper products;
- (2) Paper manufacturing: manufacturing of paper products;
- (3) Others: including trading and marketing of aeronautic parts and provision of related services and the provision of marine services to marine, oil and gas industries and provision of logistics services.

Segment assets consist primarily of property, plant and equipment, land use rights, investment properties, intangible assets, interest in an associated company, inventories, receivables, financial assets at fair value through profit or loss, non-current asset held for sale and operating cash. They exclude deferred tax assets and taxation recoverable.

The segment information for the six months ended 30 September 2010 and as at 30 September 2010 are as follows:

	Unaudited			
	Six months ended 30 September 2010			
	Paper			
	Paper Trading	Manufacturing	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT RESULTS				
Total segment revenue	2,055,275	318,566	56,611	2,430,452
Inter-segment revenue	<u>(33,381)</u>	<u>(91,212)</u>	<u>(1,911)</u>	<u>(126,504)</u>
Revenue from external customers	<u>2,021,894</u>	<u>227,354</u>	<u>54,700</u>	<u>2,303,948</u>
Reportable segment results	52,687	20,115	1,189	73,991
Corporate expenses				<u>(5,359)</u>
Operating profit				68,632
Finance costs				<u>(24,483)</u>
Profit before taxation				44,149
Taxation				<u>(10,440)</u>
Profit for the period				<u>33,709</u>
OTHER PROFIT AND LOSS ITEMS				
Depreciation	<u>3,699</u>	<u>6,808</u>	<u>4,019</u>	<u>14,526</u>
Amortisation charges	<u>352</u>	<u>6</u>	<u>36</u>	<u>394</u>
SEGMENT ASSETS				
Reportable segment assets	2,907,316	925,648	236,652	4,069,616
Corporate assets				15,271
Taxation recoverable				1,553
Deferred tax assets				<u>7,258</u>
Total assets				<u>4,093,698</u>

The segment information for the six months ended 30 September 2009 and as at 31 March 2010 are as follows:

	Unaudited			
	Six months ended 30 September 2009			
	Paper Trading	Paper Manufacturing	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT RESULTS				
Total segment revenue	1,596,328	200,023	71,482	1,867,833
Inter-segment revenue	(10,548)	(63,195)	(2,357)	(76,100)
Revenue from external customers	1,585,780	136,828	69,125	1,791,733
Reportable segment result	48,918	11,898	4,109	64,925
Corporate expenses				(6,740)
Operating profit				58,185
Finance costs				(17,876)
Share of loss of an associated company	(1,186)	—	—	(1,186)
Profit before taxation				39,123
Taxation				(8,955)
Profit for the period				30,168
OTHER PROFIT AND LOSS ITEMS				
Depreciation	3,727	3,425	4,695	11,847
Amortisation charges	348	—	31	379
SEGMENT ASSETS				
Reportable segment assets	2,658,420	825,112	241,879	3,725,411
Corporate assets				1,204
Taxation recoverable				1,441
Deferred tax assets				4,956
Total assets				3,733,012
Audited				
As at 31 March 2010				
	Paper Trading	Paper Manufacturing	Others	Group
	HK\$'000	HK\$'000	HK\$'000	HK\$'000

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

An analysis of the Group's revenue for the period by geographical areas is as follows:

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong	887,363	680,564
The PRC (<i>note</i>)	1,226,163	902,600
Singapore	50,112	64,573
Korea	113,513	120,380
Malaysia	26,797	23,616
	<u>2,303,948</u>	<u>1,791,733</u>

Note: The PRC, for the presentation purpose in these accounts, excludes Hong Kong Special Administrative Region of the PRC, Macau Special Administrative Region of the PRC and Taiwan.

4. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
		(restated)
Crediting		
Interest income	3,543	1,711
Provision for impairment on receivables written back	7,382	7,983
	<u>10,925</u>	<u>9,694</u>
Charging		
Depreciation and amortisation of property, plant and equipment	14,526	11,847
Amortisation of land use rights	119	113
Amortisation of intangible assets	275	266
Provision for impairment on inventories	2,263	6,332
Provision for impairment on receivables	4,559	10,073
	<u>22,742</u>	<u>29,631</u>

5. TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Hong Kong profits tax	4,085	2,693
Overseas taxation	1,569	1,843
Deferred taxation relating to origination and reversal of temporary differences	4,786	4,419
	<u>10,440</u>	<u>8,955</u>

6. EARNINGS PER SHARE

(a) Basic

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	
	2010	2009
Profit attributable to shareholders (HK\$'000)	<u>34,701</u>	<u>30,143</u>
Weighted average number of ordinary shares in issue ('000)	<u>504,330</u>	<u>502,779</u>
Basic earnings per share	<u>HK6.9 cents</u>	<u>HK6.0 cents</u>



(b) **Diluted**

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: preference shares and warrants. The preference shares are assumed to be converted into ordinary shares. For warrants, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's share) based on the monetary value of the subscription rights attached to outstanding warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the warrants. The Company has a share option scheme but no share option (2009: Nil) has been granted under the scheme. For the period ended 30 September 2010, the warrants expired on 4 June 2010 and the exercise of warrants for the period ended 30 September 2009 does not have any dilutive effect, therefore both of them are not included in the calculation of diluted earnings per share.

	Unaudited	
	Six months ended 30 September	
	2010	2009
Profit attributable to shareholders (HK\$'000)	<u>34,701</u>	<u>30,143</u>
Weighted average number of ordinary shares in issue ('000)	504,330	502,779
Adjustment for:		
— Assumed conversion of preference shares ('000)	<u>132,065</u>	<u>132,065</u>
Weighted average number of shares for diluted earnings per share ('000)	<u>636,395</u>	<u>634,844</u>
Diluted earnings per share	<u>HK5.5 cents</u>	<u>HK4.7 cents</u>

7. INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
Proposed — HK\$0.01 (2009: HK\$0.01) per ordinary share	5,045	5,027
Proposed — HK\$0.01 (2009: HK\$0.01) per preference share	<u>1,321</u>	<u>1,321</u>
	<u>6,366</u>	<u>6,348</u>

At a meeting held on 24 November 2010, the Directors proposed an interim dividend of HK\$0.01 per share. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2011.

8. PROPERTY, PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment	Unaudited Land use rights	Construction in progress
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(restated)	(restated)	
Six months ended 30 September 2009			
Opening net book amount at 1 April 2009	337,990	63,260	335,765
Reclassification for leasehold land (<i>note</i>)	<u>20,503</u>	<u>(20,503)</u>	<u>—</u>
Opening net book amount, as restated	358,493	42,757	335,765
Currency translation differences	4,372	112	609
Additions	16,382	—	57,024
Disposals	(2,469)	—	—
Depreciation and amortisation	<u>(13,865)</u>	<u>(697)</u>	<u>—</u>
Closing net book amount at 30 September 2009	<u><u>362,913</u></u>	<u><u>42,172</u></u>	<u><u>393,398</u></u>
Six months ended 30 September 2010			
Opening net book amount at 1 April 2010	408,861	62,113	344,828
Reclassification for leasehold land (<i>note</i>)	<u>20,229</u>	<u>(20,229)</u>	<u>—</u>
Opening net book amount, as restated	429,090	41,884	344,828
Currency translation differences	5,396	522	5,906
Additions	17,498	—	205,781
Disposals	(6,593)	—	—
Depreciation and amortisation	<u>(15,453)</u>	<u>(434)</u>	<u>—</u>
Closing net book amount at 30 September 2010	<u><u>429,938</u></u>	<u><u>41,972</u></u>	<u><u>556,515</u></u>

Note: According to HKAS17(amendment), the Group has reassessed the classification leasehold land and land use rights and recognised the leasehold land in Hong Kong as finance lease. The Group has reclassified certain leasehold land from operating lease to finance lease and reclassified to property, plant and equipment.

9. INTANGIBLE ASSETS

	Unaudited <i>HK\$'000</i>
Six months ended 30 September 2009	
Opening net book amount at 1 April 2009	38,631
Currency translation differences	2,391
Addition	9
Amortisation	<u>(266)</u>
Closing net book amount at 30 September 2009	<u><u>40,765</u></u>
Six months ended 30 September 2010	
Opening net book amount at 1 April 2010	41,280
Currency translation differences	2,354
Addition	313
Amortisation	<u>(275)</u>
Closing net book amount at 30 September 2010	<u><u>43,672</u></u>

10. ACCOUNTS RECEIVABLE, DEPOSITS AND PREPAYMENTS

	Unaudited 30 September 2010 <i>HK\$'000</i>	Audited 31 March 2010 <i>HK\$'000</i>
Trade receivables, net of provision	1,131,450	1,032,742
Other receivables, deposits and prepayments	318,552	352,957
Amount due from a minority shareholder	<u>2,563</u>	<u>3,031</u>
	<u><u>1,452,565</u></u>	<u><u>1,388,730</u></u>

The carrying values of the Group's trade and other receivables approximate 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 2010 <i>HK\$'000</i>	Audited 31 March 2010 <i>HK\$'000</i>
Current to 60 days	829,821	824,317
61 to 90 days	168,746	121,262
Over 90 days	<u>132,883</u>	<u>87,163</u>
	<u><u>1,131,450</u></u>	<u><u>1,032,742</u></u>

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

II. ACCOUNTS PAYABLE AND ACCRUALS

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Trade and bills payables	1,082,725	1,114,062
Accruals and other payables	140,194	185,114
Dividend payable	12,731	—
	<u>1,235,650</u>	<u>1,299,176</u>

The carrying values of the gross accounts payable and accruals approximate their fair values.

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

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Current to 60 days	786,148	904,833
61 to 90 days	141,229	104,888
Over 90 days	155,348	104,341
	<u>1,082,725</u>	<u>1,114,062</u>

12. BORROWINGS

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Non-current		
Bank loans — unsecured	537,637	270,607
Bank loans — secured	109,640	27,841
Finance lease liabilities	411	1,695
	<u>647,688</u>	<u>300,143</u>
Current		
Trust receipt loans — unsecured	511,492	557,588
Trust receipt loans — secured	234,550	238,092
	<u>746,042</u>	<u>795,680</u>
Bank loans — unsecured	292,186	229,980
Bank loans — secured	27,147	18,682
Bank overdrafts	1,673	2,570
Finance lease liabilities	2,197	2,939
	<u>323,203</u>	<u>254,171</u>
Total current borrowings	<u>1,069,245</u>	<u>1,049,851</u>
Total borrowings	<u>1,716,933</u>	<u>1,349,994</u>

At 30 September 2010, the Group's bank loans, bank overdrafts and trust receipt loans were repayable as follows:

	Bank overdrafts		Bank loans		Trust receipt loans	
	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Within one year	1,673	2,570	319,333	248,662	746,042	795,680
In the second year	—	—	131,307	155,948	—	—
In the third to fifth years inclusive	—	—	515,970	142,500	—	—
	<u>1,673</u>	<u>2,570</u>	<u>966,610</u>	<u>547,110</u>	<u>746,042</u>	<u>795,680</u>

The effective interest rates at the balance sheet date on bank loans, bank overdrafts and trust receipt loans ranged from 1.9% to 5.8% per annum (31 March 2010: 1.4% to 5.7% per annum).

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

Finance lease liabilities

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Gross finance lease liabilities — minimum lease payments:		
Not later than 1 year	2,323	3,097
Later than 1 year but not later than 5 years	<u>428</u>	<u>1,786</u>
	2,751	4,883
Future finance charges on finance leases	<u>(143)</u>	<u>(249)</u>
Present value of finance lease liabilities	<u>2,608</u>	<u>4,634</u>

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
The present value of finance lease liabilities is as follows:		
Not later than 1 year	2,197	2,939
Later than 1 year and not later than 5 years	<u>411</u>	<u>1,695</u>
	<u>2,608</u>	<u>4,634</u>

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

13. SHARE CAPITAL

	Number of shares of HK\$0.10 each		Share capital	
	Unaudited 30 September 2010	Audited 31 March 2010	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Authorised:				
Ordinary shares				
At the beginning and the end of period/year	<u>1,456,913,987</u>	<u>1,456,913,987</u>	<u>145,691</u>	<u>145,691</u>
Convertible non-voting preference shares				
At the beginning and the end of period/year	<u>143,086,013</u>	<u>143,086,013</u>	<u>14,309</u>	<u>14,309</u>
Total	<u>1,600,000,000</u>	<u>1,600,000,000</u>	<u>160,000</u>	<u>160,000</u>
Issued and fully paid:				
Ordinary shares				
At the beginning of period/year	503,779,117	491,758,039	50,378	49,176
Conversion from preference shares	—	11,021,078	—	1,102
Exercise of bonus warrants	<u>726,329</u>	<u>1,000,000</u>	<u>72</u>	<u>100</u>
At the end of period/year	<u>504,505,446</u>	<u>503,779,117</u>	<u>50,450</u>	<u>50,378</u>
Convertible non-voting preference shares				
At the beginning of period/year	132,064,935	143,086,013	13,207	14,309
Convert to ordinary shares	<u>—</u>	<u>(11,021,078)</u>	<u>—</u>	<u>(1,102)</u>
At the end of period/year	<u>132,064,935</u>	<u>132,064,935</u>	<u>13,207</u>	<u>13,207</u>
Total	<u>636,570,381</u>	<u>635,844,052</u>	<u>63,657</u>	<u>63,585</u>

The shareholders of the Company adopted a share option scheme to comply with the requirements of Chapter 17 of the Listing Rules. As at 30 September 2010 and 31 March 2010, no share option was granted or outstanding.

14. BANK GUARANTEES

As at 30 September 2010, the Company continued to 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 2010 amounted to HK\$1,714,000,000 (31 March 2010: HK\$1,345,000,000).

15. COMMITMENTS

(a) Capital commitments

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

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Property, plant and equipment		
Contracted but not provided for	378,188	379,418
Authorised but not contracted for	10,445	91,320

- (b) As at 30 September 2010, the Company had commitment in respect of the injection of capital into certain subsidiaries in the PRC amounted to approximately HK\$132,437,000 (31 March 2010: HK\$148,506,000).

(c) Operating lease commitments

As at 30 September 2010, 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 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Not later than one year	19,467	16,608
Later than one year and not later than five years	14,241	8,334
	33,708	24,942

(d) Operating lease receivable

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

	Unaudited 30 September 2010 HK\$'000	Audited 31 March 2010 HK\$'000
Not later than one year	7,528	3,689
Later than one year and not later than five years	15,837	—
	23,365	3,689

16. CHARGE OF ASSETS

As at 30 September 2010, trust receipt loans of HK\$234,550,000 (31 March 2010: HK\$238,092,000) and bank loans of HK\$136,787,000 (31 March 2010: HK\$46,523,000) were secured by legal charges on the Group's properties with net book amount of approximately HK\$164,222,000 (31 March 2010: HK\$164,607,000).

17. RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
(a) Sale to and purchase from related parties		
Purchase from an associated company	<u>—</u>	<u>1,230</u>

The above transaction was carried out on the basis of the price lists in force with non-related parties.

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
(b) Period-end balances arising from sales/purchase of goods		
Payables to an associated company	<u>—</u>	<u>7,949</u>

	Unaudited	
	Six months ended 30 September	
	2010	2009
	HK\$'000	HK\$'000
(c) Key management compensation		
Key management compensation	<u>6,452</u>	<u>6,377</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Economy

During the period under review, the economies underwent satisfactory growth both in the Hong Kong Special Administrative Region (“Hong Kong”) and the People’s Republic of China (the “PRC”). In particular the robust expansion in the PRC propelled its GDP past Japan’s for the first time during the second quarter of 2010, ranking the country as the second largest economy in the world after the US. For the first three quarters in 2010, its GDP growth reached 10.6%. We are optimistic that we would see consistent growth of the domestic economy in the PRC.

In Hong Kong, during the first three quarters of 2010, GDP expanded 7.1%. Considering a potential moderate decline in the fourth quarter, the GDP growth for the entire year is expected to reach 6.5%. Buttressed by the prosperous development in the PRC, the local economy is likely to grow steadily in the mid to long term.

The Printing and Paper Industry

The economic recovery has been considerably stronger in the developing world, such as the PRC, and this upturn has boosted demand for paper and board products. Separately, panic over the prospect of paper shortages following a massive earthquake in Chile in February 2010, led to a sharp increase in prices from February 2010 to May 2010. However, as Chilean pulp exports restarted a couple of months later, customers found themselves with adequate stocks and the market calmed down, resulting in stabilized paper prices during the second quarter of the financial year. Despite increases in material and energy costs, the demand for paper remained solid owing to rising consumption. In particular, the climb in demand in the PRC is expected to support the Group’s business in the future.

Operations Review

Financial Performance

For the six months ended 30 September 2010, the Group recorded a satisfactory performance against the reviving economy and greater domestic consumption created by the favourable economic policies in the PRC. Turnover and profit attributable to shareholders increased notably. The former grew 28.6% from HK\$1,792 million to HK\$2,304 million, while the latter rose by 16.7% from HK\$30 million to HK\$35 million. In light of the increasing material and energy costs as well as the early calmed down of the market in the second quarter of the financial year, the Group’s gross profit margin and net profit margin were 9.9% and 1.5% respectively. Earnings per share were HK6.9 cents (2009/10: HK6.0 cents), a gain of 15.0%.

The Group continued to maintain a healthy financial position. During the period under review, cash and bank balance amounted to HK\$684 million. Current ratio rose to 1.25 times (2009/10: 1.16 times), with a gearing ratio at a healthy level of approximately 48.7%. Provision for doubtful debts dropped from 0.6% in the same period last year to 0.2% of the Group’s total revenue.

By business segment, paper trading, paper manufacturing and other business accounted for 87.8%, 9.9% and 2.3% of the Group’s total turnover respectively.

Paper Business

Riding on over 40 years of experience in operating paper trading business and its extensive and solid sales network in the PRC and Hong Kong, the Group started to develop its own paper manufacturing business in the PRC in 2007. The vertically integrated business model has brought huge synergies to the Group. Facing the increasing demand for paper products in the PRC, turnover of the Group's paper products increased by 30.5% from HK\$1,723 million in the same period last year to HK\$2,249 million. Operating profit was HK\$73 million, a growth of 19.7% from HK\$61 million in the same period last year. In terms of volume, the Group sold 365,420 metric tonnes of paper products during the period under review, a rise of 5.1% when compared with the last corresponding period.

The Group's efforts to expand the PRC market have shown notable results. The PRC market continued to be the Group's largest market, accounting for 54.4% of the Group's total turnover of paper products. Hong Kong, the Group's second largest market, has been growing steadily and accounted for approximately 39.4% of the Group's turnover of paper products.

Paper Trading

The Group's sales network covers more than 13 cities in the PRC, which enables it to fully capture the opportunities arising from the increasing demand for paper products from different localities in the PRC. The paper trading business has achieved satisfactory results during the period under review, with turnover up 27.5% from HK\$1,586 million in the same period last year to HK\$2,022 million. Sales tonnage increased by 2.0% as compared to the same period last year. The Group continued to expand its sales network by opening a sales office in Harbin during the period. This sales office will serve as the base for the Group to develop North-eastern districts in the PRC.

Paper Manufacturing

The paper manufacturing business is the Group's main growth driver. Turnover surged by 59.3% to HK\$319 million, including inter-company sales. In terms of sales tonnage, it increased by 17.7% as compared to the same period last year. Entering the third year of operating the paper manufacturing business, the Group has benefited from improved operational efficiency. Its operating profit grew 66.6% year-on-year to HK\$20 million, with its operating profit margin rising from 8.7% in the same period last year to 8.8%. To meet the strong market demand for paper products, the utilisation rate of the production equipment of the Group's Shandong mill met the Group's expectation during the period under review.

Other Businesses

The aeronautic parts and services business and marine services business recorded turnover of HK\$18,768,000 and HK\$31,343,000 respectively and the operations were not yet fully recovered from the impact of the worldwide financial crisis.

Prospects

In the 12th Five-Year Plan passed in October 2010, the PRC Government proposed to create mechanisms to boost domestic demand and increase the income of urban and rural residents to unleash their spending power, presenting promising development potential for the PRC economy. Looking ahead, the PRC, with sound fundamentals for economic development, is expected to continuously create long-term demand for paper products and drive the price of paper products to rise steadily.

For the paper manufacturing business, the Group's paper mill in Zaozhuang City, Shandong Province, boasts a geographic advantage, enabling the Group to tap the huge demand for paper products in various industrial zones near the Yangtze River Region and the Beijing and Tianjin municipalities near areas such as Jianguo and the Bohai Economic Zone. The above site also allows the paper mill

easy access to coal for power generation. The new production line (“PM5”) installed by the Group recently has commenced trial runs in the third quarter of the financial year and is going to begin full operation by the last quarter of this financial year. The additional production line would be able to produce 200,000 metric tonnes of kraftliner boards and corrugated medium and more than double the total production capacity of the Group to 370,000 metric tonnes. As the Shandong paper mill has sufficient land to support further development for a total production capacity exceeding 1,000,000 metric tonnes, the Group will carefully monitor the market and decide to increase production facilities as appropriate to boost its capacity for meeting market demand.

For its paper trading business, the Group plans to set up several new sales offices in the inland areas of the PRC during the second half year, with the aim to generate greater synergies to its existing sales network and enhance the market penetration of its business in the country.

To optimise the promising prospects of the PRC, the Group will continue to enhance its competitiveness, reinforce its existing foundation and consistently expand business to maximise returns to its shareholders.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK1 cent (2009: HK1 cent) per share for the six months ended 30 September 2010. The interim dividend will be payable to all shareholders of the Company whose names appear on the register of members of the Company on 7 January 2011. The interim dividend will be paid on or about 20 January 2011.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 5 January 2011 to 7 January 2011 (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 4 January 2011.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2010, the Group employed 1,792 staff members, 151 of whom are based in Hong Kong and 1,341 are based in the PRC and 300 are based in other Asian countries. The Group’s remuneration policies are primarily based on prevailing market salary levels and the performance of the Group and of the individuals concerned. In addition to salary payments, other staff benefits include performance bonuses, education subsidies, provident fund, medical insurance and the use of share option scheme to reward high-calibre staff. Training for various levels of staff is undertaken on a regular basis, consisting of development in the strategic, implementation, sales and marketing disciplines.

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 30 September 2010, short term deposits plus bank balances and bank borrowings amounted to HK\$684 million (including restricted bank deposits of HK\$166 million) and HK\$1,717 million respectively.

As at 30 September 2010, the Group's gearing ratio was 48.7% (31 March 2010: 42.2%), calculated as net debt divided by total capital. Net debt of HK\$1,033 million is calculated as total borrowings of HK\$1,717 million (including trust receipt loans, short term and long term borrowings) less cash on hand and restricted deposits of HK\$684 million. Total capital is calculated as total equity of HK\$1,086 million plus net debt. The current ratio (current assets divided by current liabilities) was 1.25 times (31 March 2010: 1.16 times).

With bank balances and other current assets of approximately HK\$2,899 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.

FOREIGN EXCHANGE RISK

The Group's transaction currencies are principally denominated in Renminbi, United States dollars and Hong Kong dollar. The Group hedged its position with foreign exchange contracts and options when considered necessary. The Group has continued to obtain Renminbi loan which provide a natural hedge against currency risks. As at 30 September 2010, bank borrowings in Renminbi amounted to HK\$248 million (31 March 2010: HK\$84 million). The remaining borrowings are mainly in Hong Kong dollar. The majority of the Group's borrowings bear interest costs which are based on floating interest rates. As at 30 September 2010, the Group has no outstanding interest rate swap contracts (31 March 2010: Nil).

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

As at 30 September 2010, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and 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") are as follows:

(a) Long position in shares of the Company

Ordinary shares (the "Shares") of HK\$0.10 each

	Capacity	Number of ordinary shares beneficially held			Total	Percentage
		Personal interest	Corporate interest	Family interest		
Mr. LEE Seng Jin	Beneficial owner	64,229,844	278,234,156 (note)	16,712,556	359,176,556	71.19%
Ms. SHAM Yee Lan, Peggy	Beneficial owner	572,556	16,140,000	342,464,000	359,176,556	71.19%
Mr. CHOW Wing Yuen	Beneficial owner	540,000	—	—	540,000	0.11%

Convertible non-voting preference shares (“CP shares”) of HK\$0.10 each

	Capacity	Number of CP shares beneficially held			Total	Percentage
		Personal interest	Corporate interest	Family interest		
Mr. LEE Seng Jin	Beneficial owner	—	132,064,935 (note)	—	132,064,935	100.00%

Notes:

The 278,234,156 Ordinary Shares and 132,064,935 CP 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 Shares and CP Shares.

Save as disclosed above, as at 30 September 2010, none of the Directors and chief executives of the Company had any interests or short positions 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 2010, 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

- i) the closing price of the shares as stated in the daily quotations sheet of the Stock Exchange on the date of grant;
- ii) 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
- iii) 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 2010, 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 ordinary shares of HK\$0.10 each in the Company

Name of shareholder	Number of ordinary shares	Percentage
Quinselle Holdings Limited (Note)	278,234,156	55.15%

Long position in CP shares of HK\$0.10 each in the Company

Name of shareholder	Number of CP shares	Percentage
Quinselle Holdings Limited (Note)	132,064,935	100.00%

Note:

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

Save as disclosed above, the register which is 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 2010.

CONTINGENT LIABILITIES

The Company provided corporate guarantees on the banking facilities granted to its subsidiaries. The amount of facilities utilised by the subsidiaries as at 30 September 2010 amounted to HK\$1,714,000,000 (31 March 2010: HK\$1,345,000,000).

CHARGE OF ASSETS

As at 30 September 2010, trust receipt loans of HK\$234,550,000 (31 March 2010: HK\$238,092,000) and bank loans of HK\$136,787,000 (31 March 2010: HK\$46,523,000) were secured by legal charge on certain properties of the Group.

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 2010 before it was tabled for the Board's approval.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2010, 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 2010 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, 24 November 2010