

Samson Paper Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 0731)

Interim Report 2006/2007

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Samson group

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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 2006 together with comparative figures for the corresponding period in 2005, and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2006 with audited comparative figures as at 31 March 2006. The unaudited interim financial report has been reviewed by the Company's audit committee, and the Company's auditors, PricewaterhouseCoopers, in accordance with the Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The auditors, on the basis of their review, concluded that they are not aware of any material modifications that should be made to the interim financial report.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		2006	2005
		HK\$'000	HK\$'000
Turnover	2	1,686,671	1,706,340
Cost of sales		(1,538,614)	(1,556,676)
Gross profit		148,057	149,664
Other revenues		12,258	7,175
Selling expenses		(53,653)	(57,833)
Administrative expenses		(39,428)	(37,274)
Other operating expenses		(10,111)	(7,475)
Operating profit	3	57,123	54,257
Finance costs		(27,956)	(24,938)
Share of profit less loss of associated companies		303	1,017
Profit before taxation		29,470	30,336
Taxation	4	(4,761)	(6,364)
Profit for the period		24,709	23,972
Attributable to:			
Equity holders of the Company		24,462	23,264
Minority interests		247	708
		24,709	23,972
Earnings per share for profit attributable to the equity holders of the Company – Basic	5	HK5.7 cents	HK5.4 cents
Interim dividend per share		HK1.5 cents	HK1.5 cents
Interim dividends	6	6,439	6,439



CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2006

	Notes	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Non-current assets			
Property, plant and equipment	7	79,994	81,137
Prepaid premium for land leases	7	70,432	71,415
Interest in associated companies		59,954	60,682
Deferred tax assets		3,068	2,524
Finance lease receivables		2,905	2,421
		<u>216,353</u>	<u>218,179</u>
Current assets			
Inventories		332,450	337,424
Trade and other receivables	8	1,193,581	1,106,010
Other financial assets at fair value through profit or loss		26,296	24,879
Taxation recoverable		580	1,688
Restricted bank deposits		29,285	33,323
Bank balances and cash		337,101	307,798
		<u>1,919,293</u>	<u>1,811,122</u>
Current liabilities			
Trade and other payables	9	616,600	507,725
Trust receipt loans	10	490,792	437,204
Other financial liabilities at fair value through profit or loss		703	703
Bank borrowings	10	164,975	221,655
		<u>1,273,070</u>	<u>1,167,287</u>
Net current assets		<u>646,223</u>	<u>643,835</u>
Total assets less current liabilities		<u>862,576</u>	<u>862,014</u>
Financed by:			
Share capital	11	42,926	42,926
Reserves		605,587	586,751
Proposed dividend		6,439	4,292
Shareholders' funds		<u>654,952</u>	<u>633,969</u>
Minority interests		4,177	3,930
Total equity		<u>659,129</u>	<u>637,899</u>
Non-current liabilities			
Bank borrowings	10	200,749	221,222
Deferred tax liabilities		2,698	2,893
		<u>203,447</u>	<u>224,115</u>
		<u>862,576</u>	<u>862,014</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2006

	Unaudited	
	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Net cash inflow from/(used in) operating activities	44,613	(101,178)
Net cash inflow from investing activities	4,217	5,128
Net cash (used in)/inflow from financing activities	(19,527)	113,298
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Net increase in cash and cash equivalents	29,303	17,248
Cash and cash equivalents at 1 April	307,798	297,313
Effect of change in foreign exchange rate	—	1,538
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	337,101	316,099
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Analysis of balances of cash and cash equivalents		
Bank balances and cash	337,101	316,099
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2006

	Share capital HK\$'000	Share premium HK\$'000	Assets revaluation HK\$'000	Capital reserve HK\$'000	Unaudited Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Sub-total HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 April 2005	42,926	96,293	50,442	33,311	(3,449)	390,924	610,447	3,437	613,884
Changes in accounting policy — adoption of HKAS 17	—	—	—	—	—	4,636	4,636	—	4,636
At 1 April 2005, as restated	42,926	96,293	50,442	33,311	(3,449)	395,560	615,083	3,437	618,520
Profit for the period	—	—	—	—	—	23,264	23,264	708	23,972
Capital injection by a minority shareholder	—	—	—	—	—	—	—	1,125	1,125
Surplus on properties revaluation	—	—	4,288	—	—	—	4,288	—	4,288
2004-2005 final dividend paid	—	—	—	—	—	(12,878)	(12,878)	—	(12,878)
Currency translation differences	—	—	—	—	1,445	—	1,445	266	1,711
Dividend paid to a minority shareholder	—	—	—	—	—	—	—	(3,677)	(3,677)
Share of reserve of an associated company	—	—	—	—	(1,402)	(556)	(1,958)	—	(1,958)
	42,926	96,293	54,730	33,311	(3,406)	398,951	622,805	1,859	624,664
Proposed interim dividend	—	—	—	—	—	6,439	6,439	—	6,439
At 30 September 2005	42,926	96,293	54,730	33,311	(3,406)	405,390	629,244	1,859	631,103
At 1 October 2005	42,926	96,293	54,730	33,311	(3,406)	405,390	629,244	1,859	631,103
Profit for the period	—	—	—	—	—	7,185	7,185	632	7,817
Capital injection by a minority shareholder	—	—	—	—	—	—	—	297	297
Asset revaluation reserve transferred to retained earnings	—	—	(27,237)	—	—	27,237	—	—	—
Deficit on properties revaluation	—	—	(1,085)	—	—	—	(1,085)	—	(1,085)
2005-2006 interim dividend paid	—	—	—	—	—	(6,439)	(6,439)	—	(6,439)
Currency translation differences	—	—	—	—	2,481	—	2,481	(172)	2,309
Dividend paid to a minority shareholder	—	—	—	—	—	—	—	1,314	1,314
Share of reserve of an associated company	—	—	—	—	2,583	—	2,583	—	2,583
	42,926	96,293	26,408	33,311	1,658	429,081	629,677	3,930	633,607
Proposed 2005-2006 final dividend	—	—	—	—	—	4,292	4,292	—	4,292
At 31 March 2006	42,926	96,293	26,408	33,311	1,658	433,373	633,969	3,930	637,899
At 1 April 2006	42,926	96,293	26,408	33,311	1,658	433,373	633,969	3,930	637,899
Profit for the period	—	—	—	—	—	24,462	24,462	247	24,709
Share of reserve of an associated company	—	—	—	—	(1,031)	—	(1,031)	—	(1,031)
Currency translation differences	—	—	—	—	(2,467)	19	(2,448)	—	(2,448)
	42,926	96,293	26,408	33,311	(1,840)	447,123	644,221	4,177	648,398
Proposed 2005-2006 final dividend	—	—	—	—	—	4,292	4,292	—	4,292
Proposed interim dividend	—	—	—	—	—	6,439	6,439	—	6,439
At 30 September 2006	42,926	96,293	26,408	33,311	(1,840)	457,854	654,952	4,177	659,129

Notes:

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the HKICPA and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These unaudited condensed interim financial statements should be read in conjunction with the 2005/06 annual financial statements.

The principal accounting policies and methods of computation used in the preparation of these unaudited condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006.

The following new standards, amendments to standards and interpretations are mandatory for the year ending 31 March 2007.

- Amendment to HKAS 19, "Actuarial gains and losses, group plans and disclosures", effective for annual periods beginning on or after 1 January 2006. As the Group does not have any defined benefit plan, this interpretation is not relevant for the Group;
- Amendment to HKAS 39, Amendment to "The fair value option", effective for annual periods beginning on or after 1 January 2006. This amendment does not have any impact on the classification and valuation of the Group's financial instruments classified as at fair value through profit or loss prior to 1 January 2006 as the Group is able to comply with the amended criteria for the designation of financial instruments at fair value through profit or loss;
- Amendment to HKAS 21, Amendment "Net investment in a foreign operation", effective for annual periods beginning on or after 1 January 2006. This amendment does not have material effect on the Group's financial statements;
- Amendment to HKAS 39, Amendment "Cash flow hedge accounting of forecast intragroup transactions", effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial guarantee contracts", effective for annual periods beginning on or after 1 January 2006. This amendment does not have material effect on the Group's financial statements;
- HKFRS 6, "Exploration for and evaluation of mineral resources", effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, "Determining whether an arrangement contains a lease", effective for annual periods beginning on or after 1 January 2006. This amendment does not have material effect on the Group's financial statements;
- HK(IFRIC)-Int 5, "Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds", effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, "Liabilities arising from participating in a specific market – waste electrical and electronic equipment", effective for annual period beginning on or after 1 December 2005. This interpretation is not relevant for the Group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006/07 and have not been early adopted.

- HK(IFRIC)-Int 8, "Scope of HKFRS 2", effective for annual periods beginning on or after 1 May 2006
- HK(IFRIC)-Int 9, "Reassessment of embedded derivatives", effective for annual periods beginning on or after 1 June 2006
- HK(IFRIC)-Int 10, "Interim financial reporting and impairment", effective for annual periods beginning on or after 1 November 2006

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007
- Amendment to HKAS 1, "Capital disclosures", effective for annual periods beginning on or after 1 January 2007

The Group has not early adopted these standards and interpretations in the financial statements for the year ending 31 March 2007. The Group is in the process of assessing the impact to the Group's accounting policies on the adoption of the above standards and interpretations in future periods, but is not in a position to state whether these new standards and interpretations would have a significant impact on its results of operations and financial position.

2. SEGMENT INFORMATION

The Group is principally engaged in trading and marketing of paper products. In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format. No business segment analysis is provided as over 90% of the Group's turnover and profit contribution came from the distribution business of paper products during the period.

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

	Unaudited	
	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong	729,373	851,849
Mainland China	764,572	839,195
Others	192,726	15,296
	<u>1,686,671</u>	<u>1,706,340</u>

No contribution to operating profit from any of the above geographical segment is substantially out of line with the normal ratio of profit to turnover.

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Crediting		
Interest income	7,752	4,238
Charging		
Depreciation of fixed assets	3,325	3,502
Amortisation of prepaid premium for land leases	983	897

4. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2005: 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	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax	3,763	4,448
Overseas taxation	1,737	1,131
Deferred taxation	(739)	785
	<u>4,761</u>	<u>6,364</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	
	2006	2005
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	<u>24,462</u>	<u>23,264</u>
Weighted average number of ordinary shares in issue	<u>429,258</u>	<u>429,258</u>
Basic earnings per share (HK cents)	<u>5.7</u>	<u>5.4</u>

6. INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Proposed, of HK\$0.015 (2005: HK\$0.015) per share	<u>6,439</u>	<u>6,439</u>

Note: 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 2007.

7. CAPITAL EXPENDITURE

	Unaudited	
	Property, plant and equipment HK\$'000	Prepaid premium for land leases HK\$'000
Six months ended 30 September 2005		
Opening net book amount at 1 April 2005	79,523	73,486
Additions	2,763	—
Currency translation differences	173	—
Revaluation	4,288	—
Disposals	(135)	—
Depreciation/amortisation	(3,502)	(897)
	<u>83,110</u>	<u>72,589</u>
Six months ended 30 September 2006		
Opening net book amount at 1 April 2006	81,137	71,415
Additions	4,416	—
Currency translation differences	(4)	—
Disposals	(2,230)	—
Depreciation/amortisation	(3,325)	(983)
	<u>79,994</u>	<u>70,432</u>

8. TRADE AND OTHER RECEIVABLES

	Unaudited	Audited
	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
Trade receivables – net	1,108,827	1,018,608
Other receivables, deposits and prepayments	73,794	85,569
Amount due from related companies	7,694	—
Finance lease receivables	6,171	4,254
	<u>1,196,486</u>	1,108,431
Finance lease receivables – non current portion	(2,905)	(2,421)
	<u>1,193,581</u>	<u>1,106,010</u>

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Current to 60 days	756,666	641,357
61 to 90 days	174,847	171,060
Over 90 days	177,314	206,191
	<u>1,108,827</u>	<u>1,018,608</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 People's Republic of China (the "PRC") and other countries.

Finance lease receivables

	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Non-current		
Finance leases – gross receivables	3,099	2,691
Unearned finance income	(194)	(270)
	<u>2,905</u>	<u>2,421</u>
Current		
Finance leases – gross receivables	3,770	2,225
Unearned finance income	(504)	(392)
	<u>3,266</u>	<u>1,833</u>
Gross receivables from finance leases:		
Not later than 1 year	3,770	2,225
Later than 1 year and not later than 5 years	3,099	2,691
	<u>6,869</u>	<u>4,916</u>
Unearned future finance income on finance leases	(698)	(662)
Net investment in finance leases	<u>6,171</u>	<u>4,254</u>
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	3,266	1,833
Later than 1 year and not later than 5 years	2,905	2,421
	<u>6,171</u>	<u>4,254</u>

9. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
Trade and bills payables	559,861	459,129
Accrued expenses and other payables	45,503	37,718
Amount due to related companies	11,236	10,878
	<u>616,600</u>	<u>507,725</u>

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

	Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
Current to 60 days	517,167	266,991
61 to 90 days	28,057	101,485
Over 90 days	14,637	90,653
	<u>559,861</u>	<u>459,129</u>

10. BANK LOANS

	Unaudited 30 September 2006 <i>HK\$'000</i>	Audited 31 March 2006 <i>HK\$'000</i>
Bank loans		
Unsecured	329,786	399,231
Secured	35,938	43,646
	<u>365,724</u>	<u>442,877</u>
Less: current portion	<u>(164,975)</u>	<u>(221,655)</u>
	<u>200,749</u>	<u>221,222</u>
Trust receipt loans		
Unsecured	313,195	283,359
Secured	177,597	153,845
	<u>490,792</u>	<u>437,204</u>

At 30 September 2006, the Group's bank loans were repayable as follows:

	Bank loans		Trust receipt loans	
	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 HK\$'000
Within one year	164,975	221,655	490,792	437,204
In the second year	100,947	87,614	—	—
In the third to fifth years inclusive	99,802	133,608	—	—
	<u>365,724</u>	<u>442,877</u>	<u>490,792</u>	<u>437,204</u>

The effective interest rate at the balance sheet date on bank loans and trust receipt loans were 5.5% per annum (31 March 2006: 5.5% per annum).

The carrying amount of bank loans and trust receipt loans approximates their fair values.

11. SHARE CAPITAL

	Number of shares of HK\$0.10 each		Share capital	
	Unaudited 30 September 2006	Audited 31 March 2006	Unaudited 30 September 2006 HK\$'000	Audited 31 March 2006 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>

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 2006, no option was granted or outstanding.

12. CONTINGENT LIABILITIES

As at 30 September 2006, the Company provided corporate guarantees on the banking facilities granted to its three subsidiaries. The amount of such facilities utilized by the subsidiaries as at 30 September 2006 amounted to HK\$856,516,000 (31 March 2006: HK\$880,081,000).

13. COMMITMENTS

(a) Forward exchange contracts

As at 30 September 2006, the Group had outstanding forward exchange contracts to purchase American Dollars amounted to an aggregate of approximately HK\$188,471,000 (31 March 2006: HK\$124,400,000).

(b) **Operating lease commitments**

As at 30 September 2006, 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 2006 HK\$'000	Audited 31 March 2006 HK\$'000
No later than one year	4,944	7,500
Later than one year and not later than five years	1,954	946
	<u>6,898</u>	<u>8,446</u>

(c) **Capital commitments**

As at 30 September 2006, a wholly-owned subsidiary of the Company had commitment in respect of the injection of capital into two subsidiaries in Mainland China amounted to approximately HK\$86,969,000 (31 March 2006: HK\$50,546,000).

14. ACQUISITION OF HYPEX HOLDINGS LIMITED ("HYPEX")

On 25 September 2006, a sales and purchase agreement was signed by a subsidiary of the Company to purchase the entire issued and paid up capital of, and shareholders' loan to Hypex for a total consideration of HK\$50,000,000, which was paid by the Group on 5 December 2006.

The subsidiaries of Hypex (the "Hypex Group") provides corrosion prevention services to shipyards which require the blasting and painting services as part of their shipbuilding, ship conversion and ship repair activities. The Hypex Group also provides its corrosion prevention services for steel work structures and piping modules of oil rigs and jack-up rigs for customers in the oil and gas industries. The principal market of the Hypex Group is now in Singapore.

15. CHARGE OF ASSETS

As at 30 September 2006, trust receipt loans of HK\$177,597,000 (31 March 2006: HK\$153,845,000) and bank loans of HK\$35,938,000 (31 March 2006: HK\$43,646,000) were secured by legal charges on the Group's properties in Hong Kong with net book amount of approximately HK\$118,858,000 (31 March 2006: HK\$120,225,000).

16. RELATED PARTY TRANSACTIONS

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	
		2006	2005
		HK\$'000	HK\$'000
(a)	Sale to and purchase from related parties		
(i)	Rental income from an associated company	<u>870</u>	<u>—</u>
(ii)	Purchase from associated companies	<u>33,069</u>	<u>87,147</u>

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

(b)	Period-end balances arising from sales/purchase of goods		
(i)	Payables to associated companies	<u>11,236</u>	<u>—</u>
(ii)	Receivables from associated companies	<u>7,694</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Economy

In the six months ended 30 September 2006, the Hong Kong economy kept on improving with GDP leaped 6.8% in the third quarter versus 5.5% in the second quarter of the 2006 calendar year. The PRC has had continuous healthy growth with GDP increased by 10.7% in the first nine months of 2006.

The Paper Industry

According to the Hong Kong Census and Statistics Department, the total export value of printed matters was HK\$13,045 million for the nine months ended 30 September 2006, an increase of approximately 12.7% when comparing with HK\$11,577 million for same period last year. Total import value was HK\$7,634 million. The PRC remained the largest exporter of printed matters to Hong Kong with export value at HK\$5,929 million for the nine months ended 30 September 2006, making up approximately 77.7% of the total value of printed matters imported by Hong Kong.

With growing demand for paper products from the PRC, the gap between paper supply and demand has narrowed. The prices of book printing papers and packaging boards remained steady during the review period.

Operations Review

The Group achieved moderate results during the period under review. Facing over supply and intense competition in the paper market, and economic austerity measures imposed by the PRC Government causing banks to tighten credit for customers, the Group strategically shifted its focus on to serving quality customers instead of just aiming for turnover growth. As a result, the Group's turnover dropped a slight 1.2% to HK\$1,686 million.

However, the strategy has strengthened the Group's foundation and paved the way for its healthy growth in the future, and also mitigated the impact of market competition on the Group's performance. Although gross profit was down slightly to HK\$148.0 million, gross profit margin was improved to 8.78%, against 8.77% in the same period last year and 8.52% in the full year ended 31 March 2006. Profit attributable to shareholders increased by 5.1% from approximately HK\$23.3 million to approximately HK\$24.5 million. Net profit margin improved from 1.36% to 1.45%. Earnings per share were HK5.7 cents (2005/06: HK5.4 cents). The Board has resolved to pay an interim dividend of HK1.5 cents per share (2005/06: HK1.5 cents).

By business segment, paper products, consumable aeronautic parts, and transportation services accounted for 96.4%, 1.7% and 1.9% respectively of the Group's turnover.

The Group continued to explore expansion opportunities in the PRC and overseas and, at the same time, strengthened its footholds in newly developed markets in Malaysia and other Asian countries. During the review period, the total sales of paper products decreased by 4% to approximately HK\$1,626 million. Sales volume dropped by 4% to 310,500 metric tonnes.

The total sales of paper products in the PRC amounted to HK\$762.3 million, or 47% of the Group's total paper products sales. The PRC has become the Group's largest market in the region. Although sales dropped by 8.6% as compared with same period last year, riding on its strong sales network and supplier channels across Beijing, Chongqing, Foshan, Shanghai, Shenzhen and Wuxi the Group has boosted its reputation in the PRC printing industry. Malaysia and other Asian countries together contributed 10% of the paper products sales of the Group. The operation in Malaysia registered a net profit of HK\$445,000, after the adjustment of the minority interest. And the Group's associate, Singapore-listed United Pulp & Paper Company Limited, reported a net profit of S\$411,000.

To enhance its service capabilities and achieve long-term growth, the Group has diversified into consumable aeronautic parts and transportation services in recent years. The consumable aeronautic parts business recorded a revenue growth of 84% to HK\$27.9 million with positive contribution up 142% to HK\$1.4 million. Revenue of the transportation service business jumped 4.8 times to HK\$32.3 million with the freight forwarding business in Hong Kong commencing operation in January 2006. However, taking into account upfront investment cost in the new business, the operation experienced a loss of HK\$940,000.

The Group has lowered its selling expenses to turnover from 3.39% to 3.18% thanks to its efforts to streamline operating flows, enhance logistic management and control costs. Effective inventory controls and shortened receivable collection period helped the Group combat the adverse impacts of high interest rate and maintain a healthy financial position. Average stock turnover for the period under review was kept at 35 days. The Group's policy has been to maintain an average inventory level of approximately one month with close regard to prevailing and anticipated market conditions.

Prospects

Moving forward, the Group will carry on providing quality products and services to foster its reputation and client relationship. It will continue to focus on quality customers and is confident that the strategy will help to improve the Group's profitability.

The strong demand for paper products from the PRC has narrowed the gap between paper supply and demand, and the directors of the Company (the "Directors") expect paper prices to stay at the same level in the foreseeable future. The management will tackle the challenge and improve overall efficiency by exercising stringent cost controls and prudent financial management.

Diversifying into other potential business areas has been a strategy of the Group to promote growth. This strategy has been successful as reflected in the good performance of the consumable aeronautic parts and transportation services businesses. To broaden its earning base, the Group entered into an agreement to acquire Hypex in September 2006. Hypex is an investment holding company with subsidiaries engaged in the provision of corrosion prevention services including blasting (hydro and grit) and painting work to customers in the marine, oil and gas industries in Singapore. The Group sees strong potential in Hypex in bringing good returns to the Group.

Looking ahead, paper trading business will remain as the Group's major business. However, the Group will maintain an open attitude towards other promising investment opportunities. The management is cautiously optimistic about the Group's future performance.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK1.5 cents (2005: HK 1.5 cents) per share for the six months ended 30 September 2006. The interim dividend will be payable to all shareholders of the Company whose names appear on the register of members of the Company on Friday, 5 January 2007. The interim dividend will be paid on or about Friday, 12 January 2007.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 3 January 2007 to Friday, 5 January 2007 (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 Suite 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:00 pm on Tuesday, 2 January 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the total number of the Group's employees was 443. 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 2006 amounted to approximately HK\$366 million (including restricted bank deposits of HK\$29 million) and HK\$857 million respectively. As at 30 September 2006, its gearing ratio, measured on the basis of the Group's long term debt over the Group's shareholders' funds was 30.7% (31 March 2006: 34.9%). With bank balances and other current assets of approximately HK\$1,919 million as well as available banking and trade facilities, 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 2006, 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	Other interest		
Mr. LEE Seng Jin	Beneficial owner & beneficiary of trust	11,624,000	—	16,712,556	268,340,000 (Note 1)	296,676,556	69.11%
Ms. SHAM Yee Lan, Peggy	Beneficial owner & beneficiary of trust	572,556	16,140,000	11,624,000	268,340,000 (Notes 1)	296,676,556	69.11%
Mr. CHOW Wing Yuen	Beneficial owner	540,000	—	—	—	540,000	0.13%

Notes:

- (1) Shares were held by Quinselle Holdings Limited, acting in its capacity as trustee of a private unit trust. HSBC International Trustee Limited, acting in its capacity as trustee of a family trust holds the majority units in the private unit trust. The objects of the family trust include Mr. Lee Seng Jin and Ms. Sham Yee Lan, Peggy.

Save as disclosed above, as at 30 September 2006, 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 new share option scheme (the "New Scheme") to comply with the new requirements of Chapter 17 of the Listing Rules and the termination of the operation of the share option scheme (the "Old Scheme") which was adopted on 8 November 1995. No share option was granted under the Old Scheme since 8 November 1995 and up to the date of the termination or was outstanding as at the date of the termination. As at 30 September 2006, no option was granted under the New Scheme. A summary of the terms and conditions of the New Scheme are set out below.

(1) Purpose

The purpose of the New 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 New 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 New Scheme. The maximum number of Share available for issue under the New 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 New 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 the 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 New 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 New Scheme*

The New 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 2006, 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	268,340,000	62.51%
HSBC International Trustee Limited (Note)	268,340,000	62.51%

Note:

Quinselle Holdings Limited holds the 268,340,000 Shares in its capacity as trustee of a private unit trust. HSBC International Trustee Limited, acting in its capacity as trustee of a family trust, holds the majority units in the private unit trust.

Save as disclosed above, the register which was required to be kept under Section 336 of the SFO showed 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 2006.

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 2006 amounted to HK\$856,516,000 (31 March 2006: HK\$880,081,000).

CHARGE OF ASSETS

As at 30 September 2006, trust receipt loans of HK\$177,597,000 (31 March 2006: HK\$153,845,000) and bank loans of HK\$35,938,000 (31 March 2006: HK\$43,646,000) 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 2006 before it was tabled for the Board's approval. The review of the unaudited interim financial statements was conducted in conjunction with the Group's external auditors.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2006, 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 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 2006 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, 14 December 2006