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Samson group

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Samson Paper Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code : 0731)



2019/2020 Interim Report



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 2019 together with comparative figures for the corresponding period in 2018, and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2019 with audited comparative figures as at 31 March 2019. The unaudited condensed consolidated interim financial statements have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2019

	Note	Unaudited Six months ended 30 September	
		2019 HK\$'000	2018 HK\$'000
Revenue	5	3,002,069	3,110,500
Cost of sales		<u>(2,708,227)</u>	<u>(2,799,721)</u>
Gross profit		293,842	310,779
Other gains and income, net		26,690	25,697
Selling expenses		(108,522)	(104,374)
Administrative expenses		(113,407)	(124,282)
Other operating expenses		<u>(3,105)</u>	<u>(3,005)</u>
Operating profit	6	95,498	104,815
Finance costs		<u>(31,703)</u>	<u>(34,755)</u>
Profit before taxation		63,795	70,060
Taxation	7	<u>(12,576)</u>	<u>(17,713)</u>
Profit for the period		<u>51,219</u>	<u>52,347</u>
Attributable to:			
Owners of the Company		45,585	47,151
Non-controlling interests		<u>5,634</u>	<u>5,196</u>
		<u>51,219</u>	<u>52,347</u>
Earnings per share			
— Basic	8	<u>HK3.9 cents</u>	<u>HK4.1 cents</u>
— Diluted	8	<u>HK3.6 cents</u>	<u>HK3.7 cents</u>
Interim dividend per share		<u>HK0.4 cent</u>	<u>HK0.4 cent</u>
Interim dividends	9	<u>5,092</u>	<u>5,092</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2019

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Profit for the period	51,219	52,347
Other comprehensive loss		
Item that may be reclassified subsequently to profit or loss:		
— Currency translation differences	<u>(176,153)</u>	<u>(309,129)</u>
Other comprehensive loss for the period, net of tax	<u>(176,153)</u>	<u>(309,129)</u>
Total comprehensive loss for the period	<u>(124,934)</u>	<u>(256,782)</u>
Total comprehensive loss attributable to:		
— Owners of the Company	(116,353)	(239,594)
— Non-controlling interests	<u>(8,581)</u>	<u>(17,188)</u>
Total comprehensive loss for the period	<u><u>(124,934)</u></u>	<u><u>(256,782)</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2019

		Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment	10	1,991,587	2,056,466
Land use rights	10	104,828	113,553
Right-of-use assets	20	35,972	—
Investment properties		741,671	742,676
Intangible assets	11	41,141	41,693
Financial assets at fair value through other comprehensive income		1,335	1,335
Financial assets at fair value through profit or loss		4,692	4,692
Non-current deposits and prepayments		20,985	21,268
Deferred tax assets		7,654	7,343
		<u>2,949,865</u>	<u>2,989,026</u>
Current assets			
Properties under development		204,022	206,127
Inventories		646,101	700,884
Accounts and other receivables	12	2,301,020	2,101,742
Taxation recoverable		9,738	8,313
Restricted bank deposits		172,942	184,344
Bank balances and cash		279,640	332,408
		<u>3,613,463</u>	<u>3,533,818</u>
Total assets		<u><u>6,563,328</u></u>	<u><u>6,522,844</u></u>
Current liabilities			
Accounts and other payables	13	1,560,444	909,415
Contract liabilities	13	34,572	25,263
Trust receipt loans	14	817,242	1,051,271
Taxation payable		105,719	106,467
Borrowings	14	719,955	1,090,588
Lease liabilities	20	20,382	—
		<u>3,258,314</u>	<u>3,183,004</u>
Net current assets		<u>355,149</u>	<u>350,814</u>
Total assets less current liabilities		<u><u>3,305,014</u></u>	<u><u>3,339,840</u></u>

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 September 2019

		Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
	<i>Note</i>		
Equity			
Equity attributable to owners of the Company			
Share capital	15	127,315	127,315
Reserves		1,690,752	1,832,568
		1,818,067	1,959,883
Non-controlling interests		217,859	226,440
Total equity		2,035,926	2,186,323
Non-current liabilities			
Accounts and other payables	13	374,492	451,566
Borrowings	14	787,165	605,360
Lease liabilities	20	12,434	—
Deferred tax liabilities		94,997	96,591
		1,269,088	1,153,517
		3,305,014	3,339,840

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2019

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Operating activities		
Cash generated from operations	512,849	200,269
Interest paid	(31,018)	(34,755)
Taxation paid	(9,208)	(7,055)
Net cash generated from operating activities	<u>472,623</u>	<u>158,459</u>
Investing activities		
Purchase of property, plant and equipment	(85,760)	(157,501)
Purchase of intangible assets	(281)	(1,982)
Proceeds from disposal of property, plant and equipment	220	413
Increase in non-current deposits and prepayments	(984)	(2,418)
Acquisition of additional interest from a non-controlling interest	—	(1,000)
Interest received	2,035	5,089
Net cash used in investing activities	<u>(84,770)</u>	<u>(157,399)</u>
Financing activities		
Increase in bank loans	693,071	487,126
Repayment of bank loans	(864,705)	(202,623)
Repayment of lease liabilities (2018: Finance lease liabilities)	(11,390)	(992)
Decrease in restricted bank deposits	455	25,245
Decrease in trust receipt loans	(234,029)	(266,811)
Net cash (used in)/generated from financing activities	<u>(416,598)</u>	<u>41,945</u>
Net (decrease)/increase in cash and cash equivalents	(28,745)	43,005
Cash and cash equivalents at 1 April	330,982	357,369
Effect of changes in exchange rates on cash and cash equivalents	(22,597)	(15,066)
Cash and cash equivalents at 30 September	<u>279,640</u>	<u>385,308</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	279,640	387,849
Bank overdrafts	—	(2,541)
	<u>279,640</u>	<u>385,308</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2019

	Unaudited					Total
	Attributable to owners of the Company					
	Share capital	Other reserves	Retained earnings	Subtotal	Non-controlling interests	
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April 2018	127,315	869,518	1,108,077	2,104,910	240,947	2,345,857
Comprehensive income						
Profit for the period	—	—	47,151	47,151	5,196	52,347
Other comprehensive income						
Currency translation differences	—	(286,745)	—	(286,745)	(22,384)	(309,129)
Total comprehensive income, net of tax	—	(286,745)	47,151	(239,594)	(17,188)	(256,782)
Transactions with owners in their capacity as owners 2017–2018 final dividend payable	—	—	(35,012)	(35,012)	—	(35,012)
Acquisition of non-controlling interest	—	(28)	—	(28)	(972)	(1,000)
At 30 September 2018	127,315	582,745	1,120,216	1,830,276	222,787	2,053,063
At 1 April 2019	127,315	660,213	1,172,355	1,959,883	226,440	2,186,323
Comprehensive income						
Profit for the period	—	—	45,585	45,585	5,634	51,219
Other comprehensive income						
Currency translation differences	—	(161,938)	—	(161,938)	(14,215)	(176,153)
Total comprehensive income, net of tax	—	(161,938)	45,585	(116,353)	(8,581)	(124,934)
Transactions with owners in their capacity as owners 2018–2019 final dividend payable	—	—	(25,463)	(25,463)	—	(25,463)
At 30 September 2019	127,315	498,275	1,192,477	1,818,067	217,859	2,035,926

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 paper manufacturing, sale of paper and board, office supplies and consumable, supplies for paper manufacturing, fast moving consumer goods ("FMCG") business, property development as well as leasing of investment properties. The Group is also engaged in the trading of consumable aeronautic parts and provision of marine services. Detailed analysis of these business segments are set out in note 5 to the financial statements.

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, Kowloon, Hong Kong.

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

These unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars, unless otherwise stated. These unaudited condensed consolidated interim financial statements have been approved for issue by the Board of Directors on 18 November 2019.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2019 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting".

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended 31 March 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The accounting policies applied are consistent with those of the annual consolidated financial statements for the year ended 31 March 2019, as described in those annual consolidated financial statements except for the adoption of a number of new or amended standards became applicable for the current reporting period.

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

The impact of the adoption of HKFRS 16 Leases is disclosed in note 20. Except this, the adoption of the other new standards, amendments to standards and interpretation does not have any significant impact to the results and financial position of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The following new standards, amendments to standards and new interpretation have been issued but are not effective for the financial year beginning on 1 April 2019 and have not been early adopted by the Group:

		Effective for accounting periods beginning on or after
Amendments to HKFRS 3	Definition of a business	1 January 2020
Amendments to HKAS 1 and HKAS 8	Definition of material	1 January 2020
HKFRS 17	Insurance contracts	1 January 2020
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial	1 January 2020
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The Group has commenced an assessment of the impact of the above new and amended standards and considers that they will not have any significant impact on the results of the Group's operations and financial position. The Group plans to adopt the above new and amendments to standards when they become effective.

3. ESTIMATES

The preparation of unaudited condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this unaudited condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 March 2019.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, price risk and cash flow interest-rate risk), credit risk and liquidity risk.

The condensed consolidated interim financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 March 2019. There have been no significant changes in the risk management policies since year end.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.2 Fair value estimation

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets/(liabilities) that are measured at fair value at 30 September 2019.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
— Insurance policy	—	—	4,692	4,692
Financial assets at fair value through other comprehensive income				
— Other investment	—	—	1,335	1,335

The following table presents the Group's assets/(liabilities) that were measured at fair value at 31 March 2019.

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Financial assets at fair value through profit or loss				
— Insurance policy	—	—	4,692	4,692
Financial assets at fair value through other comprehensive income				
— Other investment	—	—	1,335	1,335

There has been no transfer of financial assets and liabilities between levels 1, 2 and 3 during the period. There were no other change in valuation techniques during the period.

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

4. FINANCIAL RISK MANAGEMENT (CONTINUED)

4.3 Valuation technique used to derive level 2 fair values

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value as instrument are observable, the instrument is included in level 2.

4.4 Fair value measurements using significant observable input (level 3)

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. There is no quoted market price in an active market for certain financial assets and for which the range of other methods of reasonably estimating fair value is significant and the probabilities of the various estimates cannot be reasonably assessed without incurring excessive costs.

The following table presents the changes in level 3 instruments:

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 <i>HK\$'000</i>
Opening	6,027	5,986
Net changes in fair value transferred to equity	—	166
Net changes in fair value recorded in profit or loss	—	(125)
Closing	6,027	6,027

4.5 Fair values of financial assets and liabilities measured at amortised cost

The carrying amount of receivables, bank balances, payables and bank borrowings are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4.6 Liquidity risk

Compared to year end, there have been no material changes to the policies and practices for the Group's liquidity and funding risk management as described in the annual financial statements for the year ended 31 March 2019.

5. 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 financial statements.

There are differences in the basis of operating and reportable segments from the last annual consolidated financial statements.

From January 2019 onwards, to further cope with the Group's strategic development of the trading business and to further leverage on the strengths and resources to reshape the whole trading business segment, the Group has restructured the trading business into several key pivotal business units, paper and board, office supplies & consumable, supplies for paper manufacturing and FMCG, to capture the opportunities in different markets.

As a consequence, the Group is now organised on a worldwide basis into four main business segments as at 30 September 2019:

- (1) Trading: sale of paper and board, office supplies and consumable, supplies for paper manufacturing and FMCG;
- (2) Paper manufacturing: manufacturing of paper products in Shandong, the PRC;
- (3) Property development and investment: developing properties for sale and leasing of investment properties; and
- (4) 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.

The comparative segment information for the six months ended 30 September 2018 has been restated to align with the presentation of the current period's segment information disclosure.

Segment assets consist primarily of property, plant and equipment, land use rights, right-of-use assets, investment properties, non-current deposits and prepayments, intangible assets, properties under development, inventories, accounts and other receivables, financial instruments and operating cash. They exclude deferred tax assets, taxation recoverable and corporate assets.



5. SEGMENT INFORMATION (CONTINUED)

The segment information for the six months ended and as at 30 September 2019 is as follows:

	Unaudited Six months ended 30 September 2019				Group HK\$'000
	Trading HK\$'000	Paper manufacturing HK\$'000	Property development and investment HK\$'000	Others HK\$'000	
Total segment revenue	<u>2,395,961</u>	767,342	32,052	32,360	3,227,715
Mercantile products					
Sales of goods — paper and board	1,862,351				
Sales of goods — office supplies and consumable	331,406				
Sales of goods — supplies for paper manufacturing	<u>168,905</u>				
FMCG	<u>33,299</u>				
Inter-segment revenue	<u>(169,093)</u>	<u>(35,393)</u>	<u>(20,062)</u>	<u>(1,098)</u>	<u>(225,646)</u>
Revenue from external customers	<u>2,226,868</u>	<u>731,949</u>	<u>11,990</u>	<u>31,262</u>	<u>3,002,069</u>
Reportable segment results	43,142	53,970	9,089	(3,711)	102,490
Corporate expenses					<u>(6,992)</u>
Operating profit					95,498
Finance costs					<u>(31,703)</u>
Profit before taxation					63,795
Taxation					<u>(12,576)</u>
Profit for the period					<u>51,219</u>
OTHER PROFIT AND LOSS ITEMS					
Depreciation	<u>17,623</u>	<u>26,013</u>	<u>625</u>	<u>1,900</u>	<u>46,161</u>
Amortisation	<u>416</u>	<u>2,156</u>	<u>35</u>	<u>—</u>	<u>2,607</u>

5. SEGMENT INFORMATION (CONTINUED)

	Unaudited As at 30 September 2019				
	Trading	Paper manufacturing	Property development and investment	Others	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
SEGMENT ASSETS					
Reportable segment assets	2,530,203	2,895,002	1,012,880	104,453	6,542,538
Taxation recoverable					9,738
Deferred tax assets					7,654
Corporate assets					<u>3,398</u>
Total assets					<u><u>6,563,328</u></u>

5. SEGMENT INFORMATION (CONTINUED)

The segment information for the six months ended 30 September 2018 and as at 31 March 2019 are as follows:

	Unaudited				
	Six months ended 30 September 2018				
	Trading	Paper	Property	Others	Group
	HK\$'000	manufacturing	development	HK\$'000	HK\$'000
	(restated)	HK\$'000	and	(restated)	
			investment		
			HK\$'000		
Total segment revenue	<u>2,440,959</u>	785,220	30,455	27,979	3,284,613
Mercantile products					
Sales of goods — paper and board	1,981,940				
Sales of goods — office supplies and consumable	280,728				
Sales of goods — supplies for paper manufacturing	<u>141,438</u>				
FMCG	<u>36,853</u>				
Inter-segment revenue	<u>(141,438)</u>	<u>(11,000)</u>	<u>(18,953)</u>	<u>(2,722)</u>	<u>(174,113)</u>
Revenue from external customers	<u>2,299,521</u>	<u>774,220</u>	<u>11,502</u>	<u>25,257</u>	<u>3,110,500</u>
Reportable segment results	45,594	54,743	10,031	(1,364)	109,004
Corporate expenses					<u>(4,189)</u>
Operating profit					104,815
Finance costs					<u>(34,755)</u>
Profit before taxation					70,060
Taxation					<u>(17,713)</u>
Profit for the period					<u>52,347</u>
OTHER PROFIT AND LOSS ITEMS					
Depreciation	<u>7,388</u>	<u>25,970</u>	<u>315</u>	<u>1,716</u>	<u>35,389</u>
Amortisation	<u>646</u>	<u>2,091</u>	<u>35</u>	<u>—</u>	<u>2,772</u>

5. SEGMENT INFORMATION (CONTINUED)

	Audited As at 31 March 2019				Total
	Trading <i>HK\$'000</i>	Paper manufacturing <i>HK\$'000</i>	Property development and investment <i>HK\$'000</i>	Others <i>HK\$'000</i>	<i>HK\$'000</i>
SEGMENT ASSETS					
Reportable segment assets	2,402,364	2,984,087	1,015,292	105,233	6,506,976
Taxation recoverable					8,313
Deferred tax assets					7,343
Corporate assets					212
Total assets					<u>6,522,844</u>

The Group's four operating segments operate in the following 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	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Hong Kong	320,620	398,852
The PRC (<i>note</i>)	2,479,923	2,470,809
Singapore	28,869	24,195
Korea	130,726	152,244
Malaysia	41,931	64,400
	<u>3,002,069</u>	<u>3,110,500</u>

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

6. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 September	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Crediting		
Interest income	2,035	2,471
Reversal of loss allowance for impairment on receivables	1,542	3,170
	<u>3,577</u>	<u>5,641</u>
Charging		
Depreciation of property, plant and equipment	46,161	35,389
Amortisation of land use rights	2,261	2,174
Amortisation of intangible assets	346	598
Provision for inventories	552	1,200
Loss allowance for impairment on receivables	2,545	1,631
	<u>51,865</u>	<u>40,992</u>

7. TAXATION

Hong Kong profits tax has been provided for at the rate of 16.5% (2018: 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	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax	3,181	4,593
Overseas taxation	9,395	13,120
	<u>12,576</u>	<u>17,713</u>

8. EARNINGS PER SHARE

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to the owners of the Company less preference share dividends of HK\$45,057,000 (2018: HK\$46,623,000) by the weighted average number of 1,141,076,000 (2018: 1,141,076,000) ordinary shares in issue during the period.

(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 one category of dilutive potential ordinary shares: preference shares. The Company has a share option scheme but no share option (2018: Nil) has been granted under the scheme.

	Unaudited	
	Six months ended 30 September	
	2019	2018
Profit attributable to owners of the Company (HK\$'000)	<u>45,585</u>	<u>47,151</u>
Weighted average number of ordinary shares in issue ('000)	1,141,076	1,141,076
Adjustments 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>1,273,141</u>	<u>1,273,141</u>
Diluted earnings per share	<u>HK3.6 cents</u>	<u>HK3.7 cents</u>

9. INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
Proposed — HK\$0.004 (2018: HK\$0.004) per ordinary share	4,564	4,564
Proposed — HK\$0.004 (2018: HK\$0.004) per preference share	<u>528</u>	<u>528</u>
	<u>5,092</u>	<u>5,092</u>

At a meeting held on 18 November 2019, the Directors proposed an interim dividend of HK\$0.004 per share. This proposed 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 2020.

10. PROPERTY PLANT AND EQUIPMENT AND LAND USE RIGHTS

	Property, plant and equipment <i>HK\$'000</i>	Unaudited Land use rights <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>
Six months ended 30 September 2018			
Opening net book amount at 1 April 2018	1,539,665	128,067	476,966
Currency translation differences	(124,288)	(11,087)	(23,134)
Additions	6,699	—	150,802
Disposals	(400)	—	—
Depreciation and amortisation	(38,227)	(2,174)	—
	<u>1,383,449</u>	<u>114,806</u>	<u>604,634</u>
Six months ended 30 September 2019			
Opening net book amount at 1 April 2019	1,461,459	113,553	595,007
Adjustment for change in accounting policy (<i>note 20</i>)	(7,155)	—	—
	<u>1,454,304</u>	<u>113,553</u>	<u>595,007</u>
Restated opening net book amount	1,454,304	113,553	595,007
Currency translation differences	(77,029)	(6,464)	(28,326)
Additions	12,854	—	72,906
Disposals	(217)	—	—
Depreciation and amortisation	(37,912)	(2,261)	—
	<u>1,352,000</u>	<u>104,828</u>	<u>639,587</u>

11. INTANGIBLE ASSETS

	Unaudited <i>HK\$'000</i>
Six months ended 30 September 2018	
Opening net book amount at 1 April 2018	42,387
Currency translation differences	(1,772)
Addition	1,982
Amortisation	(598)
	<u>41,999</u>
Six months ended 30 September 2019	
Opening net book amount at 1 April 2019	41,693
Currency translation differences	(487)
Addition	281
Amortisation	(346)
	<u>41,141</u>
Closing net book amount at 30 September 2019	<u>41,141</u>

12. ACCOUNTS AND OTHER RECEIVABLES

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 <i>HK\$'000</i>
Accounts and bills receivables — net of provision	1,441,281	1,246,301
Other receivables, deposits and prepayments	859,739	855,441
	<u>2,301,020</u>	<u>2,101,742</u>

The carrying values of the Group's accounts and other receivables approximate their fair values. The Group normally grants credit to customers ranging from 30 to 90 days.

The aging analysis of accounts and bills receivables based on invoice date, is as follows:

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 <i>HK\$'000</i>
Current to 60 days	1,271,054	1,079,290
61 to 90 days	88,470	107,656
Over 90 days	81,757	59,355
	<u>1,441,281</u>	<u>1,246,301</u>

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

13. ACCOUNTS AND OTHER PAYABLES AND CONTRACT LIABILITIES

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
Accounts and bills payables	1,799,897	1,166,353
Accruals and other payables	109,576	194,628
Dividend payable	25,463	—
	<u>1,934,936</u>	<u>1,360,981</u>
Less: non-current portions:		
Accounts and other payables	<u>(374,492)</u>	<u>(451,566)</u>
	<u>1,560,444</u>	<u>909,415</u>
Contract liabilities		
Prepayments from customers	<u>34,572</u>	<u>25,263</u>

The carrying values of the accounts and other payables approximate their fair values. The aging analysis of accounts and bills payables based on invoice date is as follows:

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
Current to 60 days	1,423,317	970,714
61 to 90 days	136,983	102,928
Over 90 days	239,597	92,711
	<u>1,799,897</u>	<u>1,166,353</u>

14. BORROWINGS

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
Non-current		
Bank loans — unsecured	782,183	598,165
Bank loans — secured (<i>note 18</i>)	4,982	5,435
Finance lease liabilities (<i>note 20</i>)	—	1,760
	<hr/>	<hr/>
Total non-current borrowings	787,165	605,360
	<hr/> <hr/>	<hr/> <hr/>
Current		
Trust receipt loans — unsecured	639,271	927,340
Trust receipt loans — secured (<i>note 18</i>)	177,971	123,931
	<hr/>	<hr/>
	817,242	1,051,271
	<hr/>	<hr/>
Bank loans — unsecured	611,477	973,397
Bank loans — secured (<i>note 18</i>)	108,478	114,247
Bank overdrafts	—	1,426
Finance lease liabilities (<i>note 20</i>)	—	1,518
	<hr/>	<hr/>
	719,955	1,090,588
	<hr/>	<hr/>
Total current borrowings	1,537,197	2,141,859
	<hr/> <hr/>	<hr/> <hr/>
Total borrowings	2,324,362	2,747,219
	<hr/> <hr/>	<hr/> <hr/>

14. BORROWINGS (CONTINUED)

The Group's bank loans, overdrafts and trust receipt loans were repayable as follows:

	Bank overdrafts		Bank loans		Trust receipt loans	
	Unaudited	Audited	Unaudited	Audited	Unaudited	Audited
	30 September	31 March	30 September	31 March	30 September	31 March
	2019	2019	2019	2019	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	—	1,426	719,955	1,087,644	817,242	1,051,271
In the second year	—	—	229,929	315,953	—	—
In the third to fifth years inclusive	—	—	553,891	283,895	—	—
Over five years	—	—	3,345	3,752	—	—
	<u>—</u>	<u>1,426</u>	<u>1,507,120</u>	<u>1,691,244</u>	<u>817,242</u>	<u>1,051,271</u>

The effective interest rates at the balance sheet date on bank loans, bank overdrafts and trust receipt loans ranged from 3.6% to 5.7% per annum (31 March 2019: 3.0% to 5.7% per annum).

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

15. SHARE CAPITAL

	Number of shares of HK\$0.10 each		Share capital	
	Unaudited 30 September 2019	Audited 31 March 2019	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
Authorised:				
Ordinary shares				
At beginning and end of the 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 beginning and end of the 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 beginning and end of the period/year	<u>1,141,075,827</u>	<u>1,141,075,827</u>	<u>114,108</u>	<u>114,108</u>
Convertible non-voting preference shares				
At beginning and end of the period/year	<u>132,064,935</u>	<u>132,064,935</u>	<u>13,207</u>	<u>13,207</u>
Total	<u>1,273,140,762</u>	<u>1,273,140,762</u>	<u>127,315</u>	<u>127,315</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 2019 and 31 March 2019, no share option was granted or outstanding.

16. BANK GUARANTEES

As at 30 September 2019, the Company continued to provide 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 2019 amounted to HK\$2,324,362,000 (31 March 2019: HK\$2,743,941,000).

17. COMMITMENTS

Capital commitments

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

	Unaudited 30 September 2019 HK\$'000	Audited 31 March 2019 HK\$'000
Property, plant and equipment Contracted but not provided for	<u>153,820</u>	<u>81,534</u>

18. CHARGE OF ASSETS

As at 30 September 2019, trust receipt loans of HK\$177,971,000 (31 March 2019: HK\$123,931,000) and bank loans of HK\$113,460,000 (31 March 2019: HK\$119,682,000) were secured by legal charges on the Group's land and building and investment properties, with aggregate net book amount of approximately HK\$334,837,000 (31 March 2019: HK\$337,090,000).

19. RELATED PARTY TRANSACTIONS

Related parties refer to entities in which the Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions, or directors or officers of the Company and its subsidiaries. The related party identified by the management was an investee company, of which a director is a controlling shareholder of the Company. On 11 February 2019, the controlling shareholder has resigned as the director of the investee company. Consequently, there was no related parties transactions for the six months ended 30 September 2019.

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 2019 HK\$'000	2018 HK\$'000
(a) Purchase of merchandise from a related company		
Purchase of merchandise from an investee company	<u>—</u>	<u>467,596</u>

19. RELATED PARTY TRANSACTIONS (CONTINUED)

The above transactions were conducted at negotiated prices between transacting parties.

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
(b) Payables to a related company		
Payables to an investee company	—	265,556

The above transactions were conducted at negotiated prices between transacting parties.

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
(c) Sales to a related party		
Sale of merchandise to an investee company	—	18,073

The above transactions were conducted at negotiated price between transacting parties.

	Unaudited	
	Six months ended 30 September	
	2019	2018
	HK\$'000	HK\$'000
(d) Key management compensation		
Key management compensation	7,355	6,928

20. CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 Leases on the Group's condensed consolidated financial information and also discloses the new accounting policies that have been applied from 1 April 2019, where they are different to those applied in prior periods.

(a) Adjustments recognised on the adoption of HKFRS 16

On the adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.00%.

For leases previously classified as 'finance leases', the Group recognised the carrying amounts of these leased assets and lease liabilities immediately before transition as the carrying amounts of the right-of-use assets and the lease liabilities at 1 April 2019 (date of initial application). The measurement principles of HKFRS 16 are only applied after that date.

The table below shows the reconciliation of operating lease commitments and finance lease liabilities disclosed as at 31 March 2019 to the lease liabilities recognised as at 1 April 2019:

	At 1 April 2019 HK\$'000
Operating lease commitments disclosed as at 31 March 2019	50,824
Discounted using the lessee's incremental borrowing rate at the date of initial application	(1,336)
Finance lease liabilities recognised as at 31 March 2019	3,278
Less: short-term leases and low-value leases recognised on a straight-line basis as expense	<u>(9,399)</u>
Lease liabilities recognised as at 1 April 2019	<u><u>43,367</u></u>
Of which are:	
Current lease liabilities	22,208
Non-current lease liabilities	<u>21,159</u>
	<u><u>43,367</u></u>

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 March 2019. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

20. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(a) Adjustments recognised on the adoption of HKFRS 16 (Continued)

The recognised right-of-use assets relate to the following types of assets:

	As at 30 September 2019 HK\$'000	As at 1 April 2019 HK\$'000
Buildings	29,358	40,089
Motor Vehicles	6,614	7,155
	<u>35,972</u>	<u>47,244</u>

The following table summaries the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

	31 March 2019 HK\$'000	Effect of HKFRS 16 HK\$'000	1 April 2019 HK\$'000
Non-current assets			
Property, plant and equipment	2,056,466	(7,155)	2,049,311
Right-of-use assets	—	47,244	47,244
	<u>2,056,466</u>	<u>(7,155)</u>	<u>2,049,311</u>
Non-current liabilities			
Borrowings	1,090,588	(1,760)	1,088,828
Lease liabilities	—	21,159	21,159
	<u>1,090,588</u>	<u>(1,760)</u>	<u>1,088,828</u>
Current liabilities			
Borrowings	605,360	(1,518)	603,842
Lease liabilities	—	22,208	22,208
	<u>605,360</u>	<u>(1,518)</u>	<u>603,842</u>

There was no material impact on the earnings per share and the segment profits for the six months ended 30 September 2019 as a result of the adoption of HKFRS 16 while the segment assets as at 30 September 2019 increased as follows:

	Increase in segment assets HK\$'000
Trading	<u>29,358</u>

20. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Practical expedients applied

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- reliance on previous assessments on whether leases are onerous;
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases;
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC) 4 'Determining whether an Arrangement contains a Lease'.

(c) Accounting policies applied from 1 April 2019

As a lessee

The Group leases various buildings and motor vehicles. Rental contracts are typically made for fixed periods of 1 to 5 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until 31 March 2019, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 April 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

20. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(c) Accounting policies applied from 1 April 2019 (Continued)

As a lessee (Continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable (if any);
- variable lease payment that are based on an index or a rate;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received (if any);
- any initial direct costs; and
- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise small items of office equipment.

As a lessor

The Group leases out its various offices and warehouses under non-cancellable operating lease arrangements. The lease terms are between 1 and 5 years. The Group has classified these leases as operating leases.

The accounting policies applicable to the Group as a lessor in the comparative period are not different from HKFRS 16. The Group is not required to make any adjustments on transition to HKFRS 16 for leases in which it acts as a lessor, except for a sub-lease. When the Group is an intermediate lessor, the sub-lease is classified with reference to the underlying asset.

The Group does not have sub-leases during the financial year as of 31 March 2019. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term. The Group has accounted for its lease in accordance with HKFRS 16 from the date of initial application.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview of the Industry

During the reporting period, the paper industry has been encountering challenges and adjustments. The ongoing trade friction between China and the United States has put pressure on the paper business. The price of paper recorded downward adjustments during the period from April to July when demand eased off. However, as China has successively introduced policies to promote domestic consumption, domestic demand has picked up and lessen the negative impact of the weakening export business. The price of paper has recovered in August when customers started to restock, and has kept rising since then.

Overview of Operations

Financial Performance

Despite the challenging market environment, the Group's overall financial performance remained stable, although still inevitably slightly affected, thanks to the successful implementation of its diversified strategy during previous years. Leveraging on the Group's extensive sales channels and close relationship with suppliers, the Group adopted sales strategies to expand market share and took measures to mitigate the price volatility of paper products by keeping less stocks and carrying out indent sales. At the same time, it is monitoring closely the working situation of customers. Those measures implemented for the period have taken effect. The Group recorded a significant 16.2% growth in sales volume to 575,800 metric tonnes with a 3.5% decrease in overall turnover to HK\$3,002.1 million causing by the soften average unit selling prices of paper products.

Gross profit was at HK\$293.8 million, while gross profit margin remained stable at around 9.8%. Profit for the period was approximately HK\$51.2 million (2018: HK\$52.3 million). Profit attributable to the owners of the Company stayed at HK\$45.6 million (2018: HK\$47.2 million). Basic earnings per share were HK 3.9 cents. As the Renminbi currency depreciated during the period, an unrealised currency translation loss of HK\$176.1 million (30 September 2018: loss of HK\$309.1 million) was recorded as other comprehensive loss, mainly arising from the translation of the financial statements of PRC subsidiaries into the Hong Kong dollar, the Group's reporting currency upon consolidation. The item of the unrealised currency translation loss is a non-cash item and will not affect the cash flow and business operation of the Group.

As at 30 September 2019, the Group had cash and bank balances (including a restricted bank deposit) of HK\$452.6 million, with a gearing ratio at a healthy level of 47.9% (31 March 2019: 50.5%) Without the unrealised currency translation loss of approximately HK\$176.1 million, the gearing ratio would be 45.8%. The finance costs were HK\$31.7 million, accounting for 1.1% of the Group's total revenue. Owing to the ongoing stringent credit policy, the Group's debtor turnover days shortened by five days compared with last corresponding period. The provision for impairment on receivables was HK\$2.5 million, representing 0.08% of total revenue of the Group, while the write back of the provision was HK\$1.5million.

Segment Performance

Paper Manufacturing Business

During the reporting period, the Group continued to take a more cautious approach on various sales and procurement strategies with an aim to achieve higher profitability and expanding market share amid the strong growth in local consumption. The segment's sales volume rose strongly by 28.1% while its turnover decreased by 2.3%, including inter-segment revenue to HK\$767.3 million (2018: HK\$785.2 million) amid the soften unit selling price of packaging boards.

Trading Business

Paper and Board Business

In the paper trading business, the turnover decreased by 6.0% to HK\$1,862.4 million but a rise of 9.9% in sales tonnage resulted from the good business performance in the PRC market especially in second- and third-tier cities, which was achieved by the Group's effective execution of marketing and promotion strategies, as well as its more sophisticated management of the sales channels. In terms of market regions, turnover from the PRC market increased 0.8% to HK\$1,450.7 million with a significant growth of 20.4% in sales volume, while the Hong Kong market recorded a 26.8% decrease to HK\$239.0 million, due to the declining purchasing sentiment as a result of the depreciation of the RMB.

As for other Asian countries, in Korea the Group has recorded an increase in sales volume of 8.8% with a turnover of HK\$130.7 million resulting from low unit selling price of paper products. For Malaysia, the Group's turnover decreased by 34.9% to HK\$41.9 million, while the sales tonnage decreased by 18.4% due to the ongoing consolidation in the Malaysia market with an intention to realise more efficient and mature operations.

Office Supplies and Consumable and FMCG Business

The office supplies and consumable achieved a strong rise of 18.1% in turnover from HK\$280.7 million to HK\$331.4 million with a significant growth of 32.1% in sales tonnage resulting from tremendous good performance in the Hong Kong and PRC market. The FMCG business segment decreased by 9.8% from HK\$36.9 million to HK\$33.3 million. Hong Kong remained the largest market for this business, accounting for 98.4% of the segmental turnover. The Group expects to maintain the outstanding performance in Hong Kong market, meanwhile it will reinforce the product lines and selling strategies for the PRC market for the purpose of enlarging its market share and revenue.

Property Development and Investment

Property Development

The Group's Nantong Business Park project not only provides a multifunctional area to enterprises, but also good geographical connections to Shanghai through convenient transportation links. During the period, seven blocks of properties with total gross floor area ("GFA") of 18,469 m² on the site for Phase 1B were under construction after marketing activities for sales were carried out. Two potential purchasers have made deposits of RMB7.2 million for two blocks of properties. Together with the potential purchaser's deposit of RMB4.1 million made in the previous period, total deposits for the Phase 1B site as at 30 September 2019 amounted to RMB11.3 million for three blocks of properties with an estimated sales value of RMB37.5 million in total on the Phase 1B site covering an estimated total GFA of 7,931 m². As at 30 September 2019, the costs of property under development amounted to HK\$204.0 million.

After the period ended 30 September 2019, in October 2019 the sales permits for two blocks of properties on the Phase 1A site covering a total GFA of 5,506 m² with an estimated sales value of RMB22.7 million were successfully obtained and the ownership has been transferred. Deposits totaling RMB11.0 million have already been received in previous period. Sales revenue of RMB22.7 million will be recorded for the year ending 31 March 2020.

Property Investment

During the period under review, rental income from investment properties with a value of HK\$741.7 million as at 30 September 2019 has increased 4.3% to HK\$12.0 million compared with the same period last year. Additional rental revenue from the inter-segments amounted to HK\$20.1 million. Together with the rental earned from third parties of HK\$12.0 million, the gross rental revenue of the property segment was HK\$32.1 million for the six months ended 30 September 2019.

Others

These business segments include the aeronautic parts and services business, marine services business and logistics services business. These business segments together contributed approximately HK\$31.3 million, representing 1.0% (2018: HK\$25.3 million, some 0.8%) of the Group's total revenue.

Prospects

Looking ahead, the Group believes that the average selling prices of paper products will keep rising and secure a stable business performance. In order to further consolidate its leading position in the industry, the Group has actively searched for more different grades of paper products to amplify the business synergies especially for the purpose of increasing the market share and enhance the Group's development strategy. Furthermore, the Group will exert more effort into maintaining and deepening of customer relationships, especially those with high credibility and a good track record, by pursuing customer-oriented sales strategies to fulfill their needs and meet the potential demand.

As for paper trading in the PRC market, the Group will keep pace with the strong momentum of the outstanding performance in the PRC. In Hong Kong, for office supplies and consumable segment, the Group has already secured an additional contract from the substantial customer, and a large part of the related revenue will make accounting contribution in the next period, as it marks another substantial achievement for this segmental business.

For the FMCG business, the Group plans to secure more distributorships to expand the Group's current product range and cover more popular international brands, attracting a wider customer base. Besides, the Group is in the process of setting up a new office in Vietnam to target more business opportunities and facilitate further geographic market diversification.

As for the property business, after the period end, a further deposit of RMB4.1 million has been received from a potential purchaser for an additional block of property on the Phase 1B site covering an estimated GFA of 2,605 m² with an estimated sales value of RMB13.8 million. It is expected that the sales permits of Phase 1B at the Nantong Business Park project will be granted in 2020 while the sales transactions of the two blocks of properties of Phase 1A can be booked in the second half of the financial year. With the supportive policies enacted by China's government on transforming land use from idle land to industrial or business parks, as well as the strategic and convenience location of the Nantong Business Park, the Group is confident that a greater contribution in terms in both revenue and profit from this business segment will follow after the completion of Phase 2 and Phase 3.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK0.4 cent (2018: HK0.4 cent) per share for the six months ended 30 September 2019. The interim dividend will be payable to all shareholders of the Company whose names appear on the register of members of the Company on 31 December 2019. The interim dividend will be paid around 16 January 2020.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 27 December 2019 to 31 December 2019 (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, Boardroom Share Registrars (HK) Limited, at Room 2103B, 21/F, 148 Electric Road, North Point, Hong Kong for registration no later than 4:30 pm on 24 December 2019.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2019, the Group employed 1,832 staff members, 199 of whom are based in Hong Kong and 1,338 are based in the PRC and 295 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 and medical insurance. 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, long term borrowings and shareholders' equity for the financing of long-term assets and investments. As at 30 September 2019, short term deposits plus bank balances amounted to HK\$452.6 million (including restricted bank deposits of HK\$172.9 million) and bank borrowings amounted to HK\$2,324.4 million.

As at 30 September 2019, the Group's gearing ratio was 47.9% (31 March 2019: 50.5%), calculated as net debt divided by total capital. Net debt of HK\$1,871.8 million is calculated as total borrowings of HK\$2,324.4 million (including trust receipt loans, short term and long term borrowings) less cash on hand and restricted deposits of HK\$452.6 million. Total capital is calculated as total equity of HK\$2,035.9 million plus net debt. The current ratio (current assets divided by current liabilities) was 1.11 times (31 March 2019: 1.11 times).

With bank balances and other current assets of approximately HK\$3,613.5 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 dollars. The Group hedged its position with foreign exchange contracts and options when considered necessary. The Group has continued to obtain Renminbi loans which provide a natural hedge against currency risks. As at 30 September 2019, bank borrowings in Renminbi amounted to HK\$193.0 million (31 March 2019: HK\$227.0 million). The remaining borrowings are mainly in Hong Kong dollars. The majority of the Group's borrowings bear interest costs which are based on floating interest rates.

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

As at 30 September 2019, 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 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	128,459,688	688,533,247	33,425,112	850,418,047	74.53%
			(note)			
Ms. SHAM Yee Lan, Peggy	Beneficial owner	1,145,112	32,280,000	816,992,935	850,418,047	74.53%
Mr. CHOW Wing Yuen	Beneficial owner	1,080,000	—	—	1,080,000	0.09%

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	—	132,064,935	100.00%
			(note)			

Note: The 688,533,247 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 2019, 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 18 September 2015, 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 2019, 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 nil 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 17 September 2025.

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

As at 30 September 2019, 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 are as follows:

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

Name	Number of ordinary shares	Percentage
Quinselle Holdings Limited (<i>note</i>)	688,533,247	60.34%

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

Name	Number of CP shares	Percentage
Quinselle Holdings Limited (<i>note</i>)	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 2019.

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 2019 amounted to HK\$2,324,362,000 (31 March 2019: HK\$2,743,941,000).

CHARGE OF ASSETS

As at 30 September 2019, trust receipt loans of HK\$177,971,000 (31 March 2019: HK\$123,931,000) and bank loans of HK\$113,460,000 (31 March 2019: HK\$119,682,000) 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 2019 before it was tabled for the Board's approval.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the six months ended 30 September 2019, 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 2019 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 November 2019