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Samson group

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Samson Paper Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 0731)

Interim Report 2007/2008



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 2007 together with comparative figures for the corresponding period in 2006, and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2007 with audited comparative figures as at 31 March 2007. 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 Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The auditors, on the basis of their review, concluded that nothing has come to their attention that causes them to believe that the interim financial report is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34, “Interim Financial Reporting”.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		Six months ended 30 September	
		2007	2006
		HK\$'000	HK\$'000
Turnover	2	1,949,218	1,686,671
Cost of sales		(1,769,233)	(1,538,614)
Gross profit		179,985	148,057
Other gains and income		10,775	12,258
Selling expenses		(60,856)	(53,653)
Administrative expenses		(55,195)	(39,428)
Other operating expenses		(4,142)	(10,111)
Operating profit	3	70,567	57,123
Finance costs		(27,575)	(27,956)
Share of profits less losses of associated companies		618	303
Profit before taxation		43,610	29,470
Taxation	4	(7,734)	(4,761)
Profit for the period		35,876	24,709
Attributable to:			
Equity holders of the Company		35,766	24,462
Minority interests		110	247
		35,876	24,709
Earnings per share for profit attributable to the equity holders of the Company — Basic	5	HK 8.3 cents	HK 5.7 cents
Interim dividend per share		HK 2.5 cents	HK 1.5 cents
Interim dividends	6	10,731	6,439

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2007

	Notes	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Non-current assets			
Property, plant and equipment	7	128,776	118,411
Construction in progress	7	1,886	—
Prepaid premium for land leases	7	48,192	48,785
Investment property		51,679	51,679
Intangible assets	8	41,962	32,414
Interest in associated companies		64,170	57,976
Deferred tax assets		5,093	4,055
Finance lease receivables		489	1,518
		<u>342,247</u>	<u>314,838</u>
Current assets			
Inventories		445,366	352,225
Trade and other receivables	9	1,422,005	1,122,076
Other financial assets at fair value through profit or loss		21,262	34,446
Restricted bank deposits		54,928	14,095
Bank balances and cash		362,477	337,529
		<u>2,306,038</u>	<u>1,860,371</u>
Current liabilities			
Trade and other payables	10	875,794	649,967
Trust receipt loans	11	561,246	389,509
Taxation payable		5,267	2,348
Other financial liabilities at fair value through profit or loss		100	406
Borrowings	11	337,367	262,953
		<u>1,779,774</u>	<u>1,305,183</u>
Net current assets		<u>526,264</u>	<u>555,188</u>
Total assets less current liabilities		<u>868,511</u>	<u>870,026</u>
Equity			
Share capital	12	42,926	42,926
Reserves		672,683	646,334
Proposed dividend		10,731	10,731
Equity attributable to shareholders of the Company		<u>726,340</u>	<u>699,991</u>
Minority interests		7,879	6,872
Total equity		<u>734,219</u>	<u>706,863</u>
Non-current liabilities			
Borrowings	11	128,169	157,159
Deferred tax liabilities		6,123	6,004
		<u>134,292</u>	<u>163,163</u>
		<u>868,511</u>	<u>870,026</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	Unaudited	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Net cash (outflow)/inflow from operating activities	(139,319)	44,613
Net cash (outflow)/inflow from investing activities	(15,127)	4,217
Net cash inflow/(outflow) from financing activities	173,735	(19,527)
	<hr/>	<hr/>
Net increase in cash and cash equivalents	19,289	29,303
Cash and cash equivalents at 1 April	336,562	307,798
Effect of change in foreign exchange rate on bank and cash balances	3,011	—
	<hr/>	<hr/>
Cash and cash equivalents at 30 September	358,862	337,101
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	362,477	337,101
Bank overdrafts	(3,615)	—
	<hr/>	<hr/>
	358,862	337,101
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CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	Share capital	Share premium	Assets revaluation reserve	Capital reserve	Unaudited Exchange fluctuation reserve	Retained earnings	Sub-total	Minority interests	Total
	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000	HK'000
At 1 April 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 difference	—	—	—	—	(2,467)	19	(2,448)	—	(2,448)
	<u>42,926</u>	<u>96,293</u>	<u>26,408</u>	<u>33,311</u>	<u>(1,840)</u>	<u>447,123</u>	<u>644,221</u>	<u>4,177</u>	<u>648,398</u>
Proposed 2005–2006 final dividend	—	—	—	—	—	4,292	4,292	—	4,292
Proposed 2006–2007 interim dividend	—	—	—	—	—	6,439	6,439	—	6,439
At 30 September 2006	<u>42,926</u>	<u>96,293</u>	<u>26,408</u>	<u>33,311</u>	<u>(1,840)</u>	<u>457,854</u>	<u>654,952</u>	<u>4,177</u>	<u>659,129</u>
At 1 April 2007	42,926	96,293	38,528	33,311	15,424	473,509	699,991	6,872	706,863
Profit for the period	—	—	—	—	—	35,766	35,766	110	35,876
2006–2007 final dividend	—	—	—	—	—	(10,731)	(10,731)	—	(10,731)
Currency translation difference	—	—	—	—	1,314	—	1,314	217	1,531
Capital injection by a minority shareholder	—	—	—	—	—	—	—	680	680
	<u>42,926</u>	<u>96,293</u>	<u>38,528</u>	<u>33,311</u>	<u>16,738</u>	<u>487,813</u>	<u>715,609</u>	<u>7,879</u>	<u>723,488</u>
Proposed 2007–2008 interim dividend	—	—	—	—	—	10,731	10,731	—	10,731
At 30 September 2007	<u>42,926</u>	<u>96,293</u>	<u>38,528</u>	<u>33,311</u>	<u>16,738</u>	<u>498,544</u>	<u>726,340</u>	<u>7,879</u>	<u>734,219</u>

I. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements for the six months ended 30 September 2007 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” and other relevant HKAS and Interpretations, the Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants, and the applicable requirements of Appendix 16 of the Rules (the “Listing Rule”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2007.

The accounting policies and methods of computation used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2007 and with the adoption of certain new or revised HKFRS and HKAS, which are mandatory for the year ending 31 March 2008, among which the following will have disclosure impacts on the 2008 annual financial statements:

- HKFRS 7 Financial instruments: Disclosure; and
- HKAS 1 (Amendment) Amendment to capital disclosures

The adoption of these accounting standards has no material effect on the Group’s results of operations.

2. SEGMENT INFORMATION

(a) Primary reporting format — Business segments

As at 30 September 2007, the Group is organised on a worldwide basis into four main business segments:

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

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

	Unaudited					Group HK\$'000
	Paper HK\$'000	Logistics services HK\$'000	Aeronautic parts HK\$'000	Marine services HK\$'000	Unallocated HK\$'000	
Total segment revenue	2,045,903	51,347	42,000	36,792	—	2,176,042
Inter-segment revenue	(204,360)	(22,464)	—	—	—	(226,824)
Revenue	<u>1,841,543</u>	<u>28,883</u>	<u>42,000</u>	<u>36,792</u>	<u>—</u>	<u>1,949,218</u>
Segment result	68,510	(1,479)	4,116	1,309	(1,889)	70,567
Finance costs						(27,575)
Share of profits less losses of associated companies	618	—	—	—	—	<u>618</u>
Profit before taxation						43,610
Taxation						<u>(7,734)</u>
Profit for the period						<u><u>35,876</u></u>

The segment results for the period ended 30 September 2006 are as follows:

	Unaudited					Group HK\$'000
	Paper HK\$'000	Logistics services HK\$'000	Aeronautic parts HK\$'000	Marine services HK\$'000	Unallocated HK\$'000	
Total segment revenue	1,859,035	33,803	27,906	—	—	1,920,744
Inter-segment revenue	(232,649)	(1,424)	—	—	—	(234,073)
Revenue	<u>1,626,386</u>	<u>32,379</u>	<u>27,906</u>	<u>—</u>	<u>—</u>	<u>1,686,671</u>
Segment result	58,238	(2,570)	1,817	—	(362)	57,123
Finance costs						(27,956)
Share of profits less losses of associated companies	303	—	—	—	—	<u>303</u>
Profit before taxation						29,470
Taxation						<u>(4,761)</u>
Profit for the period						<u><u>24,709</u></u>

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

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

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

	Unaudited	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong	788,496	729,373
Mainland China	956,527	764,572
Others	204,195	192,726
	<u>1,949,218</u>	<u>1,686,671</u>

3. OPERATING PROFIT

Operating profit is stated after crediting and charging the following:

	Unaudited	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Crediting		
Interest income	4,606	7,752
Provision for impairment on receivables written back	1,023	3,547
Net dilution gain on interest in an associated company	3,719	—
	<u>9,348</u>	<u>11,300</u>
Charging		
Depreciation of property, plant and equipment	7,491	3,325
Amortisation of prepaid premium for land leases	649	983
Provision for impairment on inventory	3,275	274
Provision for impairment on receivables	3,317	15,654
	<u>14,732</u>	<u>19,836</u>

4. TAXATION

Hong Kong profits tax has been provided for at the rate of 17.5% (2006:17.5%) 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	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong profits tax	4,235	3,763
Overseas taxation	2,580	1,737
Deferred taxation	919	(739)
	<u>7,734</u>	<u>4,761</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	
	2007	2006
	HK\$'000	HK\$'000
Profit attributable to equity holders of the Company	<u>35,766</u>	<u>24,462</u>
Weighted average number of ordinary shares in issue	<u>429,258</u>	<u>429,258</u>
Basic earnings per share (HK cents)	<u>8.3</u>	<u>5.7</u>

6. INTERIM DIVIDENDS

	Unaudited	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Proposed, of HK\$0.025 (2006: HK\$0.015) per share	<u>10,731</u>	<u>6,439</u>

Note: This proposed interim dividend is not reflected as a dividend payable in these condensed consolidated financial statements, but will be reflected as an appropriation of retained earnings for the year ending 31 March 2008.

7. CAPITAL EXPENDITURE

	Unaudited		
	Property, plant and equipment	Prepaid premium for land leases	Construction in progress
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Six months ended 30 September 2006			
Opening net book amount at 1 April 2006	81,137	71,415	—
Currency translation differences	(4)	—	—
Additions	4,416	—	—
Disposals	(2,230)	—	—
Depreciation / amortisation	(3,325)	(983)	—
Closing net book amount at 30 September 2006	<u>79,994</u>	<u>70,432</u>	<u>—</u>
Six months ended 30 September 2007			
Opening net book amount at 1 April 2007	118,411	48,785	—
Currency translation differences	1,280	56	—
Additions	17,069	—	1,886
Disposals	(493)	—	—
Depreciation / amortisation	(7,491)	(649)	—
Closing net book amount at 30 September 2007	<u>128,776</u>	<u>48,192</u>	<u>1,886</u>

8. INTANGIBLE ASSETS

Unaudited
HK\$'000

Six months ended 30 September 2006

Opening and closing net book amount at 1 April 2006 and 30 September 2006

—

Six months ended 30 September 2007

Opening net book amount at 1 April 2007

32,414

Currency translation differences

2,052

Additions

7,496

Closing net book amount at 30 September 2007

41,962

Additions during the interim period represent the acquisition of interest in land use right grant contract in respect of a piece of land located at 中國江蘇省南通市港閘區通港路南側 (South Side of Tong Gang Road, Gangzha Area, Nantong City, Jiangsu Province, the People's Republic of China (the "PRC")) and costs incurred for such acquisition.

9. TRADE AND OTHER RECEIVABLES

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Trade receivables — net	1,274,224	962,301
Other receivables, deposits and prepayments	145,247	156,870
Finance lease receivables	3,023	4,423
	<u>1,422,494</u>	<u>1,123,594</u>
Finance lease receivables — non current portion	(489)	(1,518)
	<u>1,422,005</u>	<u>1,122,076</u>

The ageing analysis of trade receivables is as follows:

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Current to 60 days	925,387	693,075
61 to 90 days	197,001	134,820
Over 90 days	151,836	134,406
	<u>1,274,224</u>	<u>962,301</u>

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

Finance lease receivables

	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Non-current		
Finance leases — gross receivables	505	1,583
Unearned finance income	(16)	(65)
	<u>489</u>	<u>1,518</u>
Current		
Finance leases — gross receivables	2,725	3,246
Unearned finance income	(191)	(341)
	<u>2,534</u>	<u>2,905</u>
	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Gross receivables from finance leases:		
Not later than 1 year	2,725	3,246
Later than 1 year and not later than 5 years	505	1,583
	<u>3,230</u>	<u>4,829</u>
Unearned future finance income on finance leases	(207)	(406)
Net investment in finance leases	<u>3,023</u>	<u>4,423</u>
The net investment in finance leases may be analysed as follows:		
Not later than 1 year	2,534	2,905
Later than 1 year and not later than 5 years	489	1,518
	<u>3,023</u>	<u>4,423</u>

10. TRADE AND OTHER PAYABLES

	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Trade and bills payables	742,352	543,748
Accrued expenses and other payables	107,108	93,809
Loan from a minority shareholder	1,563	1,563
Amounts due to related companies	14,040	10,847
Dividend payable	10,731	—
	<u>875,794</u>	<u>649,967</u>

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

	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Current to 60 days	628,725	444,611
61 to 90 days	28,122	12,578
Over 90 days	85,505	86,559
	<u>742,352</u>	<u>543,748</u>

II. BORROWINGS

	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Non-current		
Bank loans — unsecured	86,364	131,212
Bank loans — secured	35,034	19,063
Finance lease liabilities	6,771	6,884
	<u>128,169</u>	<u>157,159</u>
Current		
Trust receipt loans — unsecured	283,981	219,527
Trust receipt loans — secured	277,265	169,982
Bank loans — unsecured	314,194	245,022
Bank loans — secured	13,875	11,250
Bank overdrafts	3,615	967
Finance lease liabilities	5,683	5,714
	<u>898,613</u>	<u>652,462</u>
Total borrowings	<u>1,026,782</u>	<u>809,621</u>

At 30 September 2007, the Group's bank loans and overdrafts and trust receipt loans were repayable as follows:

	Bank loans and overdrafts		Trust receipt loans	
	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>	Unaudited 30 September 2007 <i>HK\$'000</i>	Audited 31 March 2007 <i>HK\$'000</i>
Within one year	331,684	257,239	561,246	389,509
In the second year	105,273	100,947	—	—
In the third to fifth years inclusive	16,125	49,328	—	—
	<u>453,082</u>	<u>407,514</u>	<u>561,246</u>	<u>389,509</u>

The effective interest rate at the balance sheet date on bank loans and trust receipt loans were 5.8% per annum (31 March 2007: 5.3% per annum).

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

Finance lease liabilities

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Gross finance lease liabilities — minimum lease payments :		
Not later than 1 year	6,050	5,876
Later than 1 year but not later than 5 years	7,200	7,266
Later than 5 years	127	178
	<u>13,377</u>	<u>13,320</u>
Future finance charges on finance leases	(923)	(722)
Present value of finance lease liabilities	<u>12,454</u>	<u>12,598</u>
	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
The present value of finance lease liabilities is as follows :		
Not later than 1 year	5,683	5,714
Later than 1 year and no later than 5 years	6,649	6,714
Later than 5 years	122	170
	<u>12,454</u>	<u>12,598</u>

At the balance sheet date, the carrying amount of finance lease liabilities approximates their fair value.

12. SHARE CAPITAL

	Number of shares of HK\$0.10 each		Share capital	
	Unaudited 30 September 2007	Audited 31 March 2007	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 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 requirements of Chapter 17 of the Listing Rules. As at 30 September 2007, no option was granted or outstanding.

13. BANK GUARANTEES

As at 30 September 2007, 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 2007 amounted to HK\$1,014,328,000 (31 March 2007: HK\$797,023,000).

14. COMMITMENTS

(a) Capital commitments

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

	Unaudited 30 September 2007 HK\$'000	Audited 31 March 2007 HK\$'000
Property, plant and equipment, contracted but not provided for	171,681	1,500
Prepaid premium for land leases, contracted but not provided for	18,638	—
Intangible assets, contracted but not provided for	3,071	3,832
	<u>193,390</u>	<u>5,332</u>

(b) As at 30 September 2007, the subsidiaries of the Company had commitment in respect of the injection of capital into certain subsidiaries in the PRC amounted to approximately HK\$278,969,000 (31 March 2007: HK\$90,754,000).

(c) Operating lease commitments

As at 30 September 2007, 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 2007 HK\$'000	Audited 31 March 2007 HK\$'000
No later than one year	21,496	7,382
Later than one year and not later than five years	13,871	5,717
Later than five years	2,734	—
	<u>38,101</u>	<u>13,099</u>

15. CHARGE OF ASSETS

As at 30 September 2007, trust receipt loans of HK\$277,265,000 (31 March 2007: HK\$169,982,000) and bank loans of HK\$48,909,000 (31 March 2007: HK\$30,313,000) were secured by legal charges on the Group's properties in Hong Kong with net book amount of approximately HK\$134,785,000 (31 March 2007: HK\$135,813,000).

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	
	2007	2006
	HK\$'000	HK\$'000
(a) Sale to and purchase from related parties		
(i) Rental income from an associated company	<u>631</u>	<u>870</u>
(ii) Rental expense paid to associated company	<u>931</u>	<u>—</u>
(iii) Purchase from associated companies	<u>26,934</u>	<u>33,069</u>

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

	Unaudited	Audited
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
(b) Period-end balances arising from sales/purchase of goods		
(i) Payables to associated companies	<u>14,040</u>	<u>12,626</u>
(ii) Receivables from associated companies	<u>730</u>	<u>8,975</u>

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

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

	Unaudited	
	Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
(c) Key management compensation		
Key management compensation	<u>6,138</u>	<u>5,730</u>

MANAGEMENT DISCUSSION AND ANALYSIS

The Economy

In the six months ended 30 September 2007, the Hong Kong economy continued to enjoy robust growth with GDP rising at a rate of 9.8% in the third quarter compared to 8.7% for the second quarter of 2007. In the PRC, the economy maintained phenomenal growth, with GDP up 11.5% for the first nine months of 2007.

The Paper Industry

According to the Hong Kong Census and Statistics Department, the total export value of printed matters was HK\$10,306 million during the review period, up 8.6% against the same period last year. The Territory's import of printed matters was valued at HK\$6,286.6 million, up 10.7% compared with the same period last year.

Operations Review

During the review period, the Group achieved remarkable results, with growing turnover and improving of gross profit margin. Turnover increased by 15.6% to HK\$1,949 million as compared with the same period last year. Gross profit increased by 21.6% to HK\$180 million, with gross profit margin improved to 9.2% (2006/07: 8.8%). Operating profit increased by 23.5% to HK\$70.6 million. Profit attributable to shareholders rose sharply, up by 46.2% to HK\$35.8 million. Net profit margin also improved, from 1.5% in the corresponding period last year to 1.8% this review period. Earnings per share were HK8.3 cents (2006/07: HK5.7 cents).

By business segment, paper products, consumable aeronautic parts/services, marine services, and logistics services accounted for 94.5%, 2.1%, 1.9%, and 1.5% of the Group's turnover respectively.

Paper Business

The encouraging growth of the Group's paper business reflected the Group's continuous effort and success in broadening its sales network in the PRC. Increasing market demand for paper products driven by the booming economy also pushed up the average prices of book printing papers and packaging boards by approximately 10% and 5% respectively and in turn the turnover of the Group's paper products benefited. The Group's shift of strategic focus on to serving quality customers as a means of combating the effects of intense competition in the paper industry and controlling credit risk also proved to be successful. Provision for doubtful debts after taking into account the provision written back significantly decreased from 0.7% to 0.1% of total turnover from paper product sales during the review period.

All these factors together contributed to the business achieving turnover of HK\$1,841.5 million, representing a rise of 13.2% when compared with the corresponding period last year. In terms of operating profit, HK\$68.5 million was recorded representing a rise of 17.6%.

The PRC market continued to be the main growth driver of the segment's business. Paper product sales in the market increased by 24.9% to HK\$951.8 million, making up 51.7% of the Group's total turnover from paper business. The Group sold 11.7% more paper products in tonnage through its extensive sales network in the PRC.

Hong Kong is the Group's second key market accounted for 41.5% of its total paper product sales. It achieved turnover of HK\$764.3 million, or a rise of 9.3% against the same period last year. As the Group has been consolidating its businesses in other Asian countries, such as Malaysia, to control credit risks and enjoy more healthy growth in the long run, paper sales from these regions for the review period dropped by 23.9% to HK\$125.4 million, accounting for 6.8% of total turnover from paper product sales.

Regarding the Group's paper manufacturing arm, the Singapore-listed United Pulp & Paper Company Limited ("UPP"), it achieved a net gain of S\$1.1 million (2006/07: S\$0.4 million). The improved performance was the result of higher paper product prices and UPP's successful switch from using fuel oil to natural gas for powering its production plant. The change in fuels was implemented in September 2006 and has since been translating into significant savings for the operation particularly when oil prices have been on the rise.

Sales contribution by product was maintained at a stable level. Book printing papers and packaging boards accounted for 50.5% and 33.2% of the Group's total turnover of paper products respectively.

Consumable Aeronautic Parts / Services Business

The Group has successfully diversified its business in recent years to cover also consumable aeronautic parts/services. This segment continued to generate increasing revenue for the Group, up by 50.5% to HK\$42.0 million, with operating profit up by 126.5% to HK\$4.1 million.

Logistics Services Business

The Group has sought to consolidate its logistics services business by focusing more on key profit centres such as transportation and warehousing services as reflected in its ongoing expansion in the Yangtze River Delta region. Accordingly, turnover from logistics services decreased by 10.8% to 28.9 million, but operating loss was reduced by 42.5% to HK\$1.5 million (2006/07: operating loss of HK\$2.6 million).

Marine Services Business

Hypex Holdings Limited, the wholly-owned subsidiary of the Group acquired in December 2006, provides corrosion prevention services to the marine, oil and gas industries in Singapore. The corrosion prevention services comprise blasting (hydro and grit) and painting work. It recorded turnover of HK\$36.8 million and operating profit of HK\$1.3 million during the period under review.

Prospects

The management team is optimistic about the Group's business prospects. The anticipated steady rise in price of paper products in the coming months will bode well for the Group. To strengthen its presence and capture the enormous business opportunities in the PRC, the Group has opened a new office in Xiamen and will open offices in Shenyang, Naning and Nanjing in the second half of the financial year, expanding its sales office network currently covering Beijing, Shanghai, Chongqing, Tianjin, Guangzhou, Foshan, Shenzhen and Wuxi.

Moreover, the Group believes that by building a vertically integrated operation, it will be assured of stable supply of raw material and be able to improve overall profit margin. Thus, it signed an agreement to acquire the entire share capital of Kingsrich Group Limited on 13 July 2007, which has given it 99% holding in Universal Pulp and Paper (Jiangsu) Co. Ltd. (UPP(JS)) (formerly known as Jiangsu Yuan Tong Paper Co. Ltd), a Sino-foreign equity joint venture specializing in the manufacture and sale of kraftliner board and corrugated medium.

UPP(JS) is planning to build a paper mill in Nantong, Jiangsu with completion scheduled for the second quarter of 2009. The designed total production capacity of the paper mill is 250,000 tonnes per annum – 150,000 tonnes kraftliner board and 100,000 tonnes corrugated medium. The Group has already ordered the core units of a kraftliner board and corrugated medium production line to be installed in the paper mill. The construction work of the plant is expected to begin in mid December 2007.

Between 2002 and 2006, consumption of containerboard products in the PRC had consistently exceeded domestic production. This phenomenon is expected to continue in the next 10 years according to RISI projection. However, containerboard products only accounted for less than 5.0% of the total volume of paper products sold by the Group in 2006. This translates into growth potential for the Group with an over 1,000-strong regular client base in the Asia Pacific Region and strong reputation in the PRC printing and packaging industry as leverage. The Group is confident of securing orders for the new paper mill and expanding the containerboard business in the next few years to bring better returns to shareholders.

Looking ahead, the Group will strive to strengthen its position in the paper industry and expand its business by moving upstream, aiming to become one of the leading paper industry players in the PRC.

INTERIM DIVIDEND

The Board has resolved to declare the payment of an interim dividend of HK2.5 cents (2006: HK1.5 cents) per share for the six months ended 30 September 2007. 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, 4 January 2008. The interim dividend will be paid on or about Friday, 11 January 2008.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Wednesday, 2 January 2008 to Friday, 4 January 2008 (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 4:30 pm on Monday, 31 December 2007.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2007, the total number of the Group's employees was 934. 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 2007 amounted to approximately HK\$417 million (including restricted bank deposits of HK\$55 million) and HK\$1,014 million respectively. As at 30 September 2007, its gearing ratio, measured on the basis of the Group's long term debt over the Group's shareholders' funds was 17.6% (31 March 2007: 22.5%). With bank balances and other current assets of approximately HK\$2,306 million as well as available banking and trade facilities, the directors of the Company (the "Directors") believe the Group has sufficient working capital to meet its present requirement.

The Group's foreign currency purchases were mainly denominated in United States dollars and RMB. 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 2007, 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	60,344,000	—	16,712,556	219,620,000 (Note)	296,676,556	69.11%
Ms. SHAM Yee Lan, Peggy	Beneficial owner & beneficiary of trust	572,556	16,140,000	60,344,000	219,620,000 (Note)	296,676,556	69.11%
Mr. CHOW Wing Yuen	Beneficial owner	540,000	—	—	—	540,000	0.13%

Note:

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 all the 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 2007, none of the Directors and chief executives of the Company had any interest or short position in the shares or underlying shares or debentures of, or had been granted, or exercised any rights to subscribe for shares (or warrants or debentures, if applicable) of, the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including

interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which had been recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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

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

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

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

(c) Share option scheme

At the special general meeting of the Company held on 26 February 2004, the shareholders of the Company approved the adoption of a share option scheme (the "Option Scheme") to comply with the requirements of Chapter 17 of the Listing Rules. As at 30 September 2007, no option was granted under the Option Scheme. A summary of the terms and conditions of the Option Scheme are set out below.

(1) Purpose

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

(2) Participants

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

(3) Maximum number of shares

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

(4) *Maximum entitlement of each Participant*

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

(5) *Time of exercise of option*

An option may be exercised in accordance with the terms of the Option Scheme at any time during the period to be notified by the Board to each grantee of the option at the date of grant provided that such period shall not exceed 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 Option Scheme.

(6) The Eligible Person shall pay HK\$1.0 to the Company in consideration of the grant of an Option upon acceptance of the grant of Option.

(7) *Exercise price*

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

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

(8) *Remaining life of the Option Scheme*

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

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

As at 30 September 2007, 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	219,620,000	51.16%
HSBC International Trustee Limited (Note)	219,620,000	51.16%

Note: Quinselle Holdings Limited holds the 219,620,000 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 all 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 2007.

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 2007 amounted to HK\$1,014,328,000 (31 March 2007: HK\$797,023,000).

CHARGE OF ASSETS

As at 30 September 2007, trust receipt loans of HK\$277,265,000 (31 March 2007: HK\$169,982,000) and bank loans of HK\$48,909,000 (31 March 2007: HK\$30,313,000) 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 2007 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 2007, 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 2007 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, 12 December 2007