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SAMSON PAPER HOLDINGS LIMITED

森信紙業集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 731)

UNAUDITED FINANCIAL INFORMATION FOR THE YEAR ENDED 31 MARCH 2020

The board (the “Board”) of Directors of Samson Paper Holdings Limited (the “Company”) hereby announces the unaudited financial information of the Company and its subsidiaries (the “Group”), which is extracted from the latest unaudited management account, for the year ended 31 March 2020, together with the audited comparative figures for the year ended 31 March 2019.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
RESULTS		
Revenue	5,736,917	5,907,821
Cost of sales	(5,187,308)	(5,347,831)
Gross profit	549,609	559,990
Fair value (losses)/gains on investment properties	(15,900)	31,716
Other expenses, net	(483,959)	(472,029)
Profit for the year	49,750	119,677
ASSETS AND LIABILITIES		
Total assets	7,165,358	6,522,844
Total liabilities	5,069,288	4,336,521
Total equity	2,096,070	2,186,323

Rule 13.49(3) of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited provides that where an issuer is unable to issue its preliminary results, it must announce its results based on the financial results which have yet to be agreed with the independent auditor (so far as the information is available).

NOTES TO THE UNAUDITED FINANCIAL INFORMATION

For the year ended 31 March 2020

1. BASIS OF PREPARATION

The unaudited financial information of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRS”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of the Hong Kong Companies Ordinance Cap. 622. The unaudited financial information have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through other comprehensive income (2018: available-for-sale financial assets), and financial assets and financial liabilities at fair value through profit or loss, land and buildings as well as investment properties, which are carried at fair value.

The preparation of unaudited financial information in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies.

(a) **New standards, amendments to existing standards, interpretation and improvements adopted by the Group**

The following new and amended standards, interpretation and amendments to existing standards are mandatory for the first time for the financial year beginning 1 April 2019:

Annual improvements project (Amendments)	Annual improvements 2015–2017 Cycle
HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over income tax treatments
HKFRS 9 (Amendments)	Prepayment features with negative compensation
HKAS 19 (Amendments)	Plan amendment, curtailment or settlement
HKAS 28 (Amendments)	Long-term interests in associates and joint ventures

The Group changed its accounting policies following the adoption of HKFRS 16 which are disclosed in note 1.2. The adoption of other new and amended standards, interpretation and improvements did not have any material impact in the current period or any prior period.

- (b) **New standards, amendments to existing standards and revised framework that have been issued but not effective for the financial year beginning 1 April 2019 and have not been early adopted by the Group**

		Effective for annual periods beginning on or after
Conceptual Framework for Financial Reporting 2018	Revised conceptual framework for financial reporting	1 January 2020
HKAS 1 and HKAS 8 (Amendments)	Definition of material	1 January 2020
HKFRS 3 (Amendments)	Definition of a business	1 January 2020
HKAS 39, HKFRS 7 and HKFRS 9 (Amendments)	Hedge accounting	1 January 2020
HKFRS 16 (Amendments)	COVID-19 related rent concession	1 June 2020
HKFRS 17	Insurance contracts	1 January 2021
HKFRS 10 & HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture	To be determined

The directors of the Company is in the process of assessing the financial impact of the new standards, amendments to existing standards and revised framework and do not expect them to have material impact in the current or future reporting periods and on foreseeable future. The directors of the Group will adopt the new standards, amendments to existing standards and revised framework when they become effective.

1.2 CHANGES IN ACCOUNTING POLICIES

The following explains the impact of the adoption of HKFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from 1 April 2019.

The Group has adopted HKFRS 16 from its mandatory adoption date of 1 April 2019. The Group has applied the simplified transition approach, and has not restated comparatives for the 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 April 2019.

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

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

	31 March 2019	Effect of HKFRS 16	1 April 2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Property, plant and equipment	2,056,466	(96,446)	1,960,020
Land use rights	113,553	(113,553)	—
Right-of-use assets	—	350,214	350,214
	<u> </u>	<u> </u>	<u> </u>
Non-current liabilities			
Borrowings	605,360	(1,760)	603,600
Lease liabilities	—	21,159	21,159
Deferred tax liabilities	96,591	20,850	117,441
	<u> </u>	<u> </u>	<u> </u>
Current liabilities			
Borrowings	1,090,588	(1,518)	1,089,070
Lease liabilities	—	22,208	22,208
	<u> </u>	<u> </u>	<u> </u>
Equity			
Reserves	1,832,568	70,994	1,903,562
Non-controlling interest	226,440	8,282	234,722
	<u> </u>	<u> </u>	<u> </u>

(i) ***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 the 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)-Int 4 “Determining whether an arrangement contains a Lease”.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

Over the year, although the US-China trade friction has entered into the phase one trade agreement in an effort to settle the trade dispute between the two countries, uncertainties continued to overhang the US-China trade relations. With the recent global coronavirus (COVID-19) pandemic, the entire paper industry environment continued to be volatile. The export business kept declining due to imposition of tariffs and lockdown. Market players tended to shift their focus on domestic sales in the PRC market. More supply of paper products was available in the market and prices of paper and board were softened when the demand eased off for the year under review. Owing to the impact of a series of factors, the profitability of the paper industry has been under pressure. Nevertheless, given the positive policies launched by China's government to promote domestic consumption, the Group upheld its leading marketing position and implemented an effective approach aimed to deliver a stable performance.

Financial Performance

Attributable to the successful implementation of its diversified strategy, the Group's overall financial performance remained stable despite the challenging market environment. The Group recorded a 2.9% decrease in overall turnover to HK\$5,736.0 million while there was a significant 11% rise in sales volume to 1,096,000 metric tonnes. The decrease in turnover was caused by the softer unit selling prices of paper products when compared with the previous year, while the Group was expanding its overall market share, especially in the PRC.

With the uncertain market environment, the Group intends to keep less inventory and carries out more indent sales, thus its gross profit decreased slightly by 1.9% to HK\$549.6 million, while gross profit margin remained stable at around 9.5%. During the reporting year, the Group recorded a fair value loss of HK\$15.9 million (2019: gain of HK\$31.7 million) on investment properties mainly due to the COVID-19 outbreak. Hence, these factors impacted the profit for the year which recorded a decrease by 58.4% to HK\$49.8 million.

Prospects

Looking ahead in 2020, the market environment is expected to remain challenging with the uncertainties arising from the global situation. In addition, the recent COVID-19 pandemic has posed an even greater difficulty to the economic environment worldwide. The Group sees the fundamental drivers for the long-term growth of the China market remaining unchanged and there will be more opportunity after the market consolidates. It is believed that the average selling prices of paper products has reached its bottom and will see a steady upward trend once the world's economy is back on track. In the coming year, the Group will continue to take a cautious approach to overcoming these challenges through its diversified businesses and will devote more resources to expand its trading businesses as well as the property development and investment businesses.

For paper manufacturing business, all the production facilities in the PRC have resumed production with full capacity and target to maintain the sales volume. As for paper trading business, China will remain the main focus for this segment. The domestic market has gradually recovered since the outbreak of COVID-19. The Group will take a strategic approach and spare no effort to uphold its market share in the PRC region. Leveraging the existing business foundation and strong logistics network in the PRC, Samson Paper will maintain its credibility in order to enrich its clientele, aiming to preserve its trading volume during the challenging period.

As for the FMCG business, the Group is planning to secure more distributorships and introduce a wider range of quality and popular products in its product portfolio. It will also put more effort into developing its online business. Hong Kong will remain the key market for this segment, while the Group will seek opportunities to tap the China market leveraging its strong logistics and distribution network in the PRC region.

As for the property business and investment segment, subsequent to the completion of Phase 1B, the Group will start the planning of Phase 2 at Nantong Business Park which contains 15 blocks. Backed by 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 location of the Nantong Business Park, the Group is confident that a greater contribution in terms of both revenue and profit from this segment will follow after the completion of Phase 2 and Phase 3.

Although market conditions are expected to remain tough, the Group remains cautiously optimistic. Based on the strong business foundation, Samson Group is well prepared to overcome the challenges and ready to grasp the upcoming opportunities arising from market consolidation.

Events after the reporting period

In order to strengthen the Group's financial position and to tackle the uncertainties ahead amid the outbreak of the Covid-19 pandemic, the Group before the year end considers to realize and thus reflect the intrinsic value and the appreciation of various investment properties in the Group's property portfolio. At the same time, this also enhances the Group's financial position as well as maintains the various financial ratios in a better position to fulfil the targets and requirements laid down by the management and banks.

On 29 May 2020, the Group enters into agreements to dispose of two units of investment properties to the Group's major shareholder. In addition, the Group also considers and takes further appropriate measures to realize additional units of investment properties in the Group's properties portfolio. Apart from this, the Group has also commenced liaison process with banks to refinance one of existing banking facilities in order to enhance the financial position and meet the challenge ahead.

CLOSURE OF REGISTER OF MEMBERS

The Company will issue a separate announcement regarding the date of the upcoming AGM, the record date for the payment of dividends and the dates of closure of register of members of the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2020, the Group employed 1,892 staff members, 231 of whom are based in Hong Kong and 1,344 are based in the PRC and 317 are based in other 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. Remuneration policies are reviewed regularly to ensure that the Group is offering competitive employment packages. 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.

REVIEW BY AUDIT COMMITTEE

The audit committee of the Company (the "Committee") comprises two independent non-executive directors of the Company, namely Mr. Pang Wing Kin, Patrick and Mr. Tong Yat Chong and one non-executive director of the Company, namely Mr. Lau Wang Yip, Eric. The principal activities of the Committee include the review and supervision of the Group's financial reporting process and internal controls.

The Company's unaudited material financial information for the year have been reviewed by the Audit Committee.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the year.

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 annual results.

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the accounting period covered by the annual results 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.

REVIEW OF UNAUDITED FINANCIAL INFORMATION

Based upon the latest financial information, it is likely that a financial covenant ratio requirement of the Group may not be fulfilled. The Group has already commenced the liaison process with banks to apply for the relevant waiver if needed which the management expects that it is likely to be granted. The management in any event has taken appropriate measures to enhance the financial position including the realization of additional investment properties and refinancing the existing banking facilities (refer to "Events after the reporting period"). The application if needed will take certain time to process. At the same time, additional time is required by the auditor of the Company to finalise the audit work on the final results of the Company and its subsidiaries for the year ended 31 March 2020. Thus, both affect the finalisation of the annual results.

The unaudited financial information contained herein have not been agreed by the Company's independent auditor. An announcement relating to the audited results will be made when auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants. The unaudited financial information contained herein have been reviewed by the audit committee of the Company.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement in relation to (i) the audited results for the year ended 31 March 2020 as agreed by the Company's independent auditor and the material differences (if any) as compared with the unaudited financial information contained herein, (ii) the proposed date on which the forthcoming annual general meeting will be held, and (iii) the period during which the register of members holding ordinary shares will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting (and the proposed arrangements relating to dividend payment, if any). In addition, the Company will issue further announcement as and when necessary if there are other material developments in the completion of the auditing process.

BOARD OF DIRECTORS

As at the date of this announcement, the Board comprises four executive Directors, namely 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
LEE Seng Jin
Chairman

Hong Kong, 30 June 2020

* *for identification purpose only*