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## **SAMSON PAPER HOLDINGS LIMITED**

### **森信紙業集團有限公司\***

(Provisional Liquidators Appointed)

(For Restructuring Purposes Only)

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 731)**

### **OUTSTANDING AUDIT ISSUES**

References are made to the announcements of Samson Paper Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 14 July 2020, 16 July 2020, 17 July 2020, 23 July 2020, 26 July 2020 and 10 August 2020 in relation to, among other things, (i) the potential independent investigation of audit issues; (ii) the establishment of an IBC to look into and investigate the outstanding audit issues; (iii) the Resumption Guidance; (iv) the appointment of the JPLs; and (v) the appointment of Grant Thornton Advisory Services Limited as an independent investigator (the “**Independent Investigator**”) (the “**Announcements**”). Unless otherwise defined herein or the context otherwise requires, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcements.

### **LETTER FROM THE AUDITORS**

As disclosed in the announcement of the Company dated 14 July 2020, the Board has requested the Auditors to confirm in writing the outstanding audit issues (the “**Outstanding Audit Issues**”) in a letter to the Board as soon as possible so that the Board can properly address the same.

On 16 July 2020, the Board received a letter from the Auditors (the “**Auditors’ Letter**”) setting out details of the Outstanding Audit Issues for the year ended 31 March 2020 (the “**Year**”), including the following:

### **Transactions and balances with two suppliers**

During the Year, the Group recorded purchase of paper products from supplier A of HK\$450,944,000 (net of purchase rebate of HK\$26,245,000) in Hong Kong and supplier B of HK\$966,543,000 (net of purchase rebate of HK\$22,347,000) in The People’s Republic of China (“**Mainland China**”). The Group also sold other paper products of HK\$160,176,000 to supplier B in Mainland China. Both suppliers are connected persons at subsidiary level of the Company by virtue of their holding company’s interest as a substantial shareholder in a subsidiary of the Company.

### *Accounts Payable and Deferred Payment*

The Group entered into an alleged deferred payment agreements with the two suppliers dated 31 March 2020 pursuant to which the balances of HK\$200,389,000 and HK\$494,178,000, respectively, should be settled after 12 months from 31 March 2020 and deferred for 13 months until 30 April 2021, respectively, and bear interest at 4 or 5% per annum. Hence, management classified accounts payable of HK\$694,567,000 in aggregate as non-current liabilities as at 31 March 2020. The Auditors were advised by management that the above accounts payable, as well as the rebate receivables from supplier A and supplier B of approximately HK\$26,245,000 and HK\$5,034,000 respectively as at 31 March 2020 remained outstanding as at the date of the Auditors’ Letter. The Auditors also sought explanations on certain observations with respect to the execution of the deferred payment agreements.

### *Purchase Prepayments*

As at 31 March 2020, there were also prepayments for purchase of paper products of HK\$258,474,000 and HK\$443,557,000 made by the Group to supplier A and supplier B, respectively (the “**Purchase Prepayments**”). The Auditors note that certain of these payments amounting to HK\$570,558,000 were initially recorded as repayment of accounts payable to supplier A and supplier B but subsequently adjusted through manual journal entries to account for as prepayments. The Auditors were advised by management that HK\$162,409,000 of these Purchase Prepayments were subsequently utilised in purchases up to May 2020. The Auditors also sought explanations on certain observations with respect to the sales contracts in relation to the Purchase Prepayments to supplier B.

### ***Unreconciled Differences and Payment on Behalf***

The Auditors also noted unreconciled differences in balances between Group companies in the aggregate amount of HK\$580,643,000 (the “**Unreconciled Differences**”) and were adjusted to account for as addition to property, plant and equipment and other receivables of HK\$25,801,000 and HK\$299,166,000, respectively, and reduction of other payables of HK\$255,676,000. The reduction of other payables was subsequently adjusted as addition to other receivables. Through the enquiry with management into the explanation of the Unreconciled Differences, management explained to the Auditors that amongst the HK\$580,643,000, there were certain payment on-behalf arrangements made for and on behalf of supplier A by two subsidiaries of the Company to certain of its suppliers which are also suppliers of the Group in Mainland China, amounting to HK\$416,237,000 and that such amount is not settled as at the date of the Auditors’ Letter.

In light of the above, the Auditors requested from management, but up to date of the Auditor’s letter, have not been provided with sufficient and appropriate explanation and supporting documents in respective of the transactions and balances with suppliers A and B.

### **Compliance with bank covenants requirements and going concern assessment**

The Auditors also noted based upon the latest unaudited financial information, it was likely that a financial covenant ratio requirement of the Group may not be fulfilled and together with the Outstanding Audit Issues as described above, it may further negatively affect the Group’s compliance with these covenant requirements and trigger event of defaults and cross defaults under its bank borrowings. As such, the Auditors raised their concerns and requested, amongst others, comprehensive assessment of its compliance with bank covenants, a going concern assessment by the management of the Company and written waivers from the relevant banks to waive their rights arising from the non-compliance of bank covenants and/or cross default (as the case maybe).

### **STATEMENT FROM THE BOARD**

The Board wishes to take the opportunity to emphasize that the Auditors’ Letter was prepared and made available to the Board as a result of the Board’s request so that the Board can properly address those Outstanding Audit Issues. None of the statements as mentioned under the section headed “Letter from Auditors” have been independently verified by the Board nor the IBC. The independent investigation is ongoing and the extent and nature of the Outstanding Audit Issues are subject to investigation by the Independent Investigator. The information contained in this announcement is only based on the information currently available to the Board and the Company based on the Auditors’ Letter. As such, the above financial figures and statements are provided for the shareholders of the Company for referential purposes only and to provide transparency to the affairs of the Company. Shareholders of the Company are advised to exercise

caution and not to place undue reliance on such information. When in doubt, shareholders of the Company are advised to seek professional advice from professionals or financial advisers.

The Company will make further announcement(s) to provide updates to the shareholders and potential investors of the Company as and when appropriate.

## **CONTINUED SUSPENSION OF TRADING**

Trading in the shares of the Company on the Stock Exchange has been suspended with effect from 9:00 a.m. on 2 July 2020 pending the release by the Company of an announcement in relation to the audited annual results for the year ended 31 March 2020.

**Shareholders and potential investors are reminded to exercise caution when dealing in the securities of the Company.**

By Order of the Board  
**SAMSON PAPER HOLDINGS LIMITED**  
(Provisional Liquidators Appointed)  
(For Restructuring Purposes Only)  
**Mr. LEE Seng Jin**  
*Chairman*

Hong Kong, 17 September 2020

*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; and three independent non-executive Directors, namely Mr. CHOI Wai Hong, Clifford, Mr. LAU Wai Leung, Alfred and Mr. LEUNG Vincent Gar-gene.*

\* *for identification purposes only*