



Interim Report

2001 / 02

China Logistics Group Limited
中國物流集團有限公司

The board of directors ("Board") of China Logistics Group Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30th September 2001, together with the comparative figures for the corresponding period in the previous year, were as follows:

Condensed Consolidated Profit & Loss Account (Unaudited)

For the Six Months Ended 30th September 2001

	Note	Six months ended 30th September	
		2001 HK\$'000	2000 HK\$'000
Turnover	2	128,900	111,566
Cost of sales		(82,169)	(59,827)
Gross profit		46,731	51,739
Other revenues		263	700
Operating expenses			
Distribution costs		(2,250)	(3,013)
Administrative expenses		(26,614)	(26,548)
Other operating expenses net		(54,681)	(14,802)
Provision for doubtful debts	3(a)	(163,993)	–
Operating (loss)/profit	3	(200,544)	8,076
Finance costs		(8,955)	(7,421)
Share of (losses)/profits of associated companies		(5,552)	2,224
(Loss)/profit before taxation		(215,051)	2,879
Taxation	4	(1)	(422)
(Loss)/profit after taxation		(215,052)	2,457
Minority interests		(4,639)	294
(Loss)/profit attributable to shareholders		(219,691)	2,751
Dividends		–	–
(Loss)/earnings per share		HK cents	HK cents
Basic	5	(15.06)	0.19
Diluted	5	N/A	0.17

Condensed Consolidated Statement of Recognised Gains and Losses (Unaudited)
For the Six Months Ended 30th September 2001

	Six months ended 30th September	
	2001 HK\$'000	2000 HK\$'000
Revaluation deficit on investment properties	(2,934)	–
Exchange difference arising on translation of accounts of subsidiaries and associated companies	–	(2,477)
Net losses not recognised in the profit and loss account	(2,934)	(2,477)
(Loss)/profit for the six months ended 30th September	(219,691)	2,751
Total recognised (losses)/gains	(222,625)	274
Goodwill eliminated directly against reserves	–	(302,054)
	(222,625)	(301,780)

Condensed Consolidated Balance Sheet
As at 30th September 2001

	Note	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Intangible asset	6	428,999	441,999
Investment properties	7	380,194	410,364
Property, plant and equipment		14,606	16,030
Property under development		40,744	40,683
Investments in associated companies		255,785	296,871
Current assets			
Inventories-finished goods		15,526	20,355
Trade and other receivables	8	560,491	681,397
Other investments in securities		276	330
Pledged bank deposits		500	4,000
Other cash & bank balances		5,580	9,604
		582,373	715,686
Current liabilities			
Trade and other payables	9	109,755	121,660
Trust receipt loans, secured		7,183	29,941
Taxation		4,158	3,503
Bank loans, secured	10	118,364	108,069
Other loans	11	31,600	-
		271,060	263,173
Net current assets		311,313	452,513
Total assets less current liabilities		1,431,641	1,658,460
Share capital	12	146,335	145,685
Reserves	13	773,943	996,249
		920,278	1,141,934
Mandatory convertible note	14	306,600	306,600
Minority interests		30,059	25,420
Loans from minority shareholders of subsidiaries		165,841	163,501
Bank loans, secured	10	8,863	21,005
		1,431,641	1,658,460

Condensed Consolidated Cash Flow Statement
For the Six Months Ended 30th September 2001

	Six months ended 30th September (Unaudited)	
	2001 HK\$'000	(Restated) 2000 HK\$'000
Net cash outflow from operating activities	(68,804)	(132,853)
Returns on investments and servicing of finance		
Interest received	27,626	1,176
Interest paid	(8,979)	(7,421)
Dividend paid	-	(5,827)
Net cash inflow/(outflow) from returns on Investments and servicing of finance	18,647	(12,072)
Taxation		
Hong Kong profits tax refund/(paid),net	655	(162)
Investing activities		
Purchase of fixed assets	(288)	(1,882)
Investment in property under development	(37)	(4,339)
Purchase of a subsidiary, net	-	8,601
Proceeds on disposal of an associated company	-	1,355
Net advance from/(to) associated companies	32,506	(2,859)
Advance to investee companies	(507)	(1,428)
Net cash inflow/(outflow) from investing activities	31,674	(552)
Financing activities		
Issue of shares	969	-
Pledged bank deposits	3,500	-
Draw down of bank loans	6,753	21,324
Repayment of bank loans	(8,600)	(5,333)
Other loans	31,600	-
Loans from minority shareholders	2,340	201
Net cash inflow from financing activities	36,562	16,192
Increase/(decrease) in cash and cash equivalents	18,734	(129,447)
Cash and cash equivalents as at 31st March	(20,337)	142,679
Cash and cash equivalents as at 30th September	(1,603)	13,232
Analysis of the balance of cash and cash equivalents		
Cash and bank balances	5,580	13,232
Trust receipt loans	(7,183)	0
	(1,603)	13,232

Notes to the unaudited condensed consolidated accounts**1. Principal accounting policies and basis of presentation**

These interim unaudited condensed consolidated accounts are prepared in accordance with the Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 (Interim Financial Reporting) issued by the Hong Kong Society of Accountants. The principal accounting policies and methods of computation used in the preparation of the interim unaudited condensed consolidated accounts are consistent with those adopted in the annual report for the year ended 31st March 2001, except that the Group has changed certain of its accounting policies following its adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for the accounting periods commencing on or after 1st January 2001:

SSAP 9 (revised) :	Event after balance sheet date
SSAP 14 (revised) :	Leases
SSAP 26 :	Segment reporting
SSAP 28 :	Provisions, contingent liabilities and contingent assets
SSAP 29 :	Intangible assets
SSAP 30 :	Business combinations
SSAP 31 :	Impairment of assets
SSAP 32 :	Consolidated financial statements and accounting for investments in subsidiaries

The significant changes in the Group's accounting policies resulting from the adoption of these new policies are set out below:

(a) Goodwill

SSAP 31 prescribes procedures to be applied to ensure that assets are carried at not more than their recoverable amounts. The recoverable amount of an asset is defined to be the higher of its net selling price and its value in use. The Group determines the value in use of its assets (including fixed assets, goodwill arising on business combinations accounted for using the purchase method and intangible assets) as the present value of estimated future cash flows together with estimated disposal proceeds at the end of its useful life. The Group is required to assess at each balance sheet date whether there are any indications that assets may be impaired, and if there are such indications, the recoverable amount of the assets is to be determined. Any resulting impairment losses identified are charged to the income statement.

In accordance with the provisions of interpretation No. 13 "Goodwill - continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves" issued by the Hong Kong Society of Accountants, any impairment loss identified in respect of goodwill previously eliminated against reserves is to be recognised as an expense in the income statement.

The Group has performed an assessment of the fair value of its assets, including the related goodwill that has previously been netted off against retained profits. The Group has retrospectively restated its previously reported net loss for the six months ended 30th September 2000 and the year ended 31st March 2001 by nil and decrease of HK\$418,574,000 respectively for the impairment of goodwill arising from the acquisition of certain companies engaged in distributing books through the website "www.ebooksChina.com" and China-eDN.com Limited ("China-eDN") during the years ended 31st March 2000 and 31st March 2001 respectively.

(b) Leases

The SSAP14 (revised) "Leases" requires the aggregate future minimum lease payments analysed into the following period:

- (i) not later than one year
- (ii) later than one year and not later than five years
- (iii) later than five years

Comparative figures have been restated to confirm with the current period presentation.

2. Segment information

An analysis of the turnover and the operating (loss)/profit after finance costs by principal activities and geographical segments is as follows:

	Six months ended 30th September			
	Turnover (Unaudited)		(Loss)/profit after finance costs (Unaudited)	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
By principal activities				
Sales of goods	93,210	62,634	(1,782)	(4,441)
Property investment	8,557	10,013	(22,578)	6,645
Heating supply technical service	20,000	17,500	19,989	17,449
Investment holding	7,133	21,419	(19,715)	156
E-commerce				
– internet services	–	–	(6,443)	(8,293)
Unallocated expenses	–	–	(14,977)	(10,861)
	128,900	111,566	(45,506)	655
Provision for doubtful debts			(163,993)	–
			(209,499)	655
By geographical segments				
Hong Kong	25,184	12,350	(12,456)	(746)
Mainland China	80,982	82,787	(18,150)	13,942
Taiwan	22,734	16,429	77	(1,680)
Unallocated expenses	–	–	(14,977)	(10,861)
	128,900	111,566	(45,506)	655
Provision for doubtful debts			(163,993)	–
			(209,499)	655

3. Operating (loss)/profit

The operating (loss)/profit is stated after crediting/(charging) the following:

	Six months ended 30th September	
	2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Amortisation of intangible asset	(13,000)	(13,000)
Deficit on revaluation of investment properties	(27,236)	–
Depreciation	(1,701)	(1,109)
Interest income	7,133	21,421
Net loss on disposal of subsidiaries and associated companies	–	(2,213)
Provision for doubtful debts (note(3a))	(163,993)	–
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Note 3(a) Provision for doubtful debts

Included in this balance is a provision of HK\$127,800,000 for an amount due from an independent third party which is unsecured, interest bearing and repayable within 12 months from the date of drawing with accelerated repayment clause.

4. Taxation

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profit for the period in Hong Kong. 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.

	2001 HK\$'000	2000 HK\$'000
Company and subsidiaries		
– Hong Kong profits tax	–	375
– Overseas profits tax	–	46
Share of taxation attributable to associated companies		
– Hong Kong profits tax	1	–
– Overseas profits tax	–	1
	<hr/>	<hr/>
	1	422

5. (Loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the Group's loss attributable to shareholders of HK\$219,691,000 (2000: profit of HK\$2,751,000) and on the weighted average number of 1,458,773,001 (2000: 1,456,847,825) ordinary shares in issue during the period.

No diluted loss per share for the period is presented as the exercise of share options and the conversion of convertible note would have no dilutive effect. (2000: There is no dilution effect if all outstanding warrants and share options had been exercised since the exercise prices are higher than the market price of ordinary shares of the Company. The diluted earnings per share is based on 1,656,243,272 ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average of 199,395,447 ordinary shares deemed to be issued at conversion price of HK\$1.40 if all outstanding mandatory convertible notes had been exercised.)

6. Intangible asset

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Cost		
At 1st April 2001/2000	519,999	519,999
Accumulated amortisation		
At 1st April 2001/2000	78,000	52,000
Amortisation for the period/year	13,000	26,000
	91,000	78,000
At 30th September 2001/31st March 2001		
Net book value		
At 30th September 2001/31st March 2001	428,999	441,999

In 1998, the Group entered into an agreement with Huatong Heat Energy Technique Company Limited ("Huatong Heat") under which the Group acquired a 75% interest in the issued share capital of Galaxy Gain Limited ("Galaxy"). Galaxy has a wholly-owned subsidiary, Ocean-Land Heat Supply Limited ("Ocean-Land Heat"), which was appointed, under another agreement and on an exclusive basis, for the provision of technical services relating to the supply, installation and management of heating systems of Huatong Heat in Mainland China. Huatong Heat shall pay Ocean-Land Heat an annual fee, depending on the total areas of heating system to be installed by Huatong Heat plus a 55% share of its net profit after tax, for a minimum period of 20 years. The principal asset acquired by the Group is effectively an intangible asset which represents the fair value of future distributions. The consideration for the acquisition was capitalised and amortised over the minimum useful life of the asset of 20 years.

Pursuant to guarantee letters provided by China Huatong Distribution Industry Development Corp. ("China Huatong"), the holding company of Huatong Heat, the Group is entitled to receive minimum income of HK\$25 million, HK\$58 million, HK\$35 million and HK\$40 million for the first four years of the above-mentioned heating supply project, commencing from the year ended 31st March 1999.

7. Investment properties

The investment properties were revalued on the basis of their open market value at 30th September 2001 by David C. Lee Surveyors Ltd., a firm of independent professional valuers.

Investment properties in Hong Kong and held overseas with aggregate carrying value of HK\$243,600,000 and HK\$3,921,000 (31st March 2001: HK\$256,080,000 and HK\$5,025,000) respectively have been pledged as securities for the Group's bank loans and facilities.

8. Trade and other receivables

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
	<i>Note</i>	
Due from a related company	(a) –	35,000
Trade receivables	(b) 39,049	67,962
Prepayments and deposits	(c) 216,460	219,176
Other receivables	(d) 304,982	359,259
	560,491	681,397

- (a) The balance represents guaranteed income receivable from Huatong Heat in respect of the heating supply project. The amount is unsecured and interest-free. Provision for doubtful debt for guaranteed income of HK\$20 million was made for the six months ended 30th September 2001.
- (b) Nearly half of the Group's turnover is on letter of credit. The Group allows an average credit period of 60 days to its trade customers on open account credit terms. The ageing analysis of the trade receivables at 30th September 2001 is as follows:

	30th September 2001 <i>HK\$'000</i>	31st March 2001 <i>HK\$'000</i>
Current	28,160	21,092
One to three months	8,331	11,174
Over three months	2,558	35,696
	39,049	67,962

- (c) Included in this balance is a deposit of HK\$200,000,000 (31st March 2001: HK\$200,000,000) paid by the Company pursuant to the terms of a memorandum of understanding dated 28th February 2000 (the "Memorandum") between the Company and an independent third party in Mainland China ("the JV Party"). As a result of the payment of this amount ("the earnest money"), which is refundable, the Company has the exclusive right to enter into negotiation with the JV Party for the acquisition of a substantial stake of a nation-wide, container based modern logistics and distribution network joint venture in Mainland China.
- (d) Included in this balance is HK\$127,800,000 (31st March 2001: HK\$126,780,000) due from one independent third party which is unsecured, interest bearing and repayable within 12 months from the date of drawing with accelerated repayment clause. At 30th September 2001, a provision of HK\$127,800,000 (31st March 2001: Nil) is made for the debts due from the independent third party (see note 3(a)).

9. Trade and other payables

	30th September 2001 (Unaudited) <i>HK\$'000</i>	31st March 2001 (Audited) <i>HK\$'000</i>
Trade payables	44,387	64,275
Deposits received, other payables and accruals	65,368	57,385
	109,755	121,660

The ageing analysis of the trade payables at 30th September 2001 is as follows:

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Current	16,501	16,050
One to three months	9,322	12,720
Over three months	18,564	35,505
	44,387	64,275

10. Bank loans, secured

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Bank loans were repayable as follows:		
Within one year	118,364	108,069
In the second year	5,931	10,217
In the third to fifth years inclusive	407	8,166
Beyond the fifth year	2,525	2,622
	127,227	129,074
Current portion of bank loans	(118,364)	(108,069)
	8,863	21,005

11. Other loans

Apart from an amount of HK\$25,000,000 borrowed from New Era Foundation (China) Limited ("New Era"), which is interest bearing, secured by certain shares of unlisted investments held by the Company's two subsidiaries and has fixed term of repayment, (see note 18(b)), other loans are unsecured, interest bearing at commercial rates and repayable within 12 months from the date of loan drawdown. The loan of HK\$25,000,000 was repaid in full on 31st January 2002.

12. Share capital

	31st March 2001 (Audited)	
	Number of shares issued '000	Amount HK\$'000
Authorised		
Ordinary shares of HK\$0.1 each	5,000,000	500,000
Issued and fully paid		
Balance as at 31st March 2000	1,456,845	145,685
Shares issued on exercise of bonus warrants	10	0
	1,456,855	145,685

30th September 2001 (Unaudited)		
	Number of shares issued '000	Amount HK\$'000
Authorised		
Ordinary shares of HK\$0.1 each	5,000,000	500,000
Issued and fully paid		
Balance as at 31st March 2001	1,456,855	145,685
Shares issued under share option scheme	6,500	650
Balance as at 30th September 2001	1,463,355	146,335

13. Reserves

	Investment properties revaluation reserve	Exchange reserve	General reserve	Capital redemption reserve	Retained Profits	Share premium	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1st April 2000	70,732	767	44,942	402	610,359	654,049	1,381,251
Loss attributable to shareholders							
- as previously reported	-	-	-	-	(14,774)	-	(14,774)
- effect of adopting SSAP31 (see note 1 (a))	-	-	-	-	(418,574)	-	(418,574)
- as restated	-	-	-	-	(433,348)	-	(433,348)
Effect of adopting SSAP31	-	-	-	-	418,574	-	418,574
Goodwill on acquisition of subsidiaries netted off	-	-	-	-	(301,847)	-	(301,847)
Goodwill on acquisition of further interest in an associated company netted off	-	-	-	-	(562)	-	(562)
Deficit on revaluation	(70,634)	-	-	-	-	-	(70,634)
Exchange translation differences	-	(24)	-	-	-	-	(24)
Issue of new shares	-	-	-	-	-	3	3
Disposal of investment properties	2,836	-	-	-	-	-	2,836
At 31st March 2001	2,934	743	44,942	402	293,176	654,052	996,249
Deficit on revaluation	(2,934)	-	-	-	-	-	(2,934)
Loss attributable to shareholders	-	-	-	-	(219,691)	-	(219,691)
Issue of new shares	-	-	-	-	-	319	319
At 30th September 2001	-	743	44,942	402	73,485	654,371	773,943

14. Mandatory convertible note

The convertible note is redeemable at the Company's option at par value. Any principal amount of the convertible note outstanding on maturity will be mandatory converted into shares of the Company at the conversion rate of HK\$1.4 per share. The maturity date of the convertible note was extended from 27th April 2001 to 27th April 2002 by an ordinary resolution passed at the Extraordinary General Meeting of the Company held on 5th June 2001.

15. Contingent liabilities

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Guarantees for banking facilities granted to an investee company	7,706	7,706
Litigation (Note (a))	4,844	4,844
	12,550	12,550

Note (a): This represents the maximum contingent liability of the Group estimated by the directors in respect of a legal claim lodged against a subsidiary of the Company. The directors, based on the advice of the Group's legal advisor, considered that the Group has good defense against the alleged legal claim and accordingly no provision has been made in the accounts for the legal claim.

16. Commitments*(a) Capital commitments*

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) HK\$'000
Contracted but not provided for	12,158	18,149

(b) Commitments under operating leases

At 30th September 2001, the Group had future minimum lease payments payable under non-cancellable operating leases in respect of land and buildings which expire as follows:

	30th September 2001 (Unaudited) HK\$'000	31st March 2001 (Audited) (Restated) HK\$'000
Within one year	4,383	5,455
In the second to fifth years inclusive	3,188	5,205
	7,571	10,660

17. Related party transactions

The following is a summary of significant related party transactions during the period:

	Note	Six months ended 30th September	
		2001 (Unaudited) HK\$'000	2000 (Unaudited) HK\$'000
Guaranteed income on provision of heat supply service from Huatong Heat (note 6)	(a)	20,000	17,500
Issuance of a convertible note to Huatong Group Holdings Limited ("Huatong")	(a)	-	306,600

- (a) An executive director of the Company was appointed by China Huatong, the holding company of Huatong Heat and Huatong.

The directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms.

18. Significant post balance sheet date events

- (a) On 14th November 2001, certain subsidiaries of the Company entered into a series of transactions with First-Time Investment Limited ("First-Time"), ACME Corporation ("ACME"), and certain companies controlled by Winsor Properties Holdings Limited ("WPHL"), a listed company in Hong Kong in which the Group disposed of certain minority-owned investments to First-Time, ACME and WPHL in return for additional shareholdings in the Group's two associated companies, namely, Sea-Land Mining Limited ("Sea-Land") and Tat Yeung Investments Limited ("Tat Yeung"). Upon the completion of the transactions, the Group increased its shareholdings in both Sea-Land and Tat Yeung from 50% to 100%. The total consideration of acquiring the additional 50% shareholdings in Sea-Land and Tat Yeung is approximately HK\$61 million, that is the same as the total consideration received to dispose of the above-mentioned minority-owned investments.

Mrs. CHEN Chou Mei Mei, Vivien, is a common director of the Company and WPHL when the transactions were entered into.

- (b) On 27th November 2001, the Company announced that a winding-up petition ("Petition") was served on it by New Era, an independent third party. On 31st January, 2002, the Company, its subsidiary Price Sales Limited and New Era entered into a deed of settlement whereby New Era has agreed to accept in full and final settlement of all claims to which the Petition relates upon receipt of HK\$29,066,465.73, and as a consequence the Company has no further obligations with New Era. The Company has paid that amount of money on 31st January 2002 and a consent summons has been filed to the High Court of Hong Kong to dismiss the Petition. On 6th February 2002, the High Court of Hong Kong has ordered the Petition be dismissed.
- (c) On 31st December 2001 and 9th January 2002, The Hongkong and Shanghai Banking Corporation Limited ("HSBC") withdrew the banking facilities in respect of documentary credit operations and general purpose loans granted to certain of the Company's subsidiaries totalling approximately HK\$101,000,000. HSBC advised that such withdrawal of banking facilities does not constitute a demand for immediate repayment for all outstanding amounts due by the Group to HSBC. The Board believes that the withdrawal of banking facilities by HSBC is the result of the Petition to winding up by New Era. The Company had started negotiations with HSBC to maintain the facility lines.

■ INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend.

■ REVIEW OF OPERATIONS

For the six months ended 30th September 2001, the total turnover of the Group was HK\$129 million (2000: HK\$112 million) and the interim unaudited consolidated loss attributable to shareholders was HK\$220 million (2000: profit of HK\$2.8 million). The loss of HK\$220 million for the current period was significantly affected by a preliminary provision for doubtful receivable of HK\$128 million, deficit on revaluation of investment properties of HK\$27 million and provision for guaranteed income of HK\$20 million.

With the current economic situation and environment, the Group has adopted a conservative and prudent approach in reviewing and scrutinizing the operations of the Group.

The Group has to adopt this precautionary approach after the Company was served with a winding up petition ("Petition") on 27th November 2001 in relation to an outstanding loan with a principal amount of HK\$25 million. On 31st January 2002, the Company has reached a settlement in respect of the Petition served on the Company by New Era Foundation (China) Limited on 27th November 2001 and a consent summons has been filed to the High Court of Hong Kong to dismiss the Petition. On 6th February 2002, the High Court of Hong Kong has ordered the Petition be dismissed.

About HK\$240 million is due to the Group by China National Container Corporation ("CNCC"), representing earnest money, interest accrued and related expenses thereon in relation to the proposed joint venture with CNCC. The fulfillment for the conditions precedent for the transaction has been extended to 28th February 2002. If the conditions precedent for the transaction are not fulfilled by that date or the date for the fulfillment of the conditions precedent for the transaction is not further extended, the Group would be required to recover the amount from CNCC, in which event additional provisions may be required.

Trading Division

P & G consumer products division faced stiff and keen competition in 2001. With the significant erosion of its contribution margin, this division has ceased its operation since October 2001. The net loss for this division for the first six months was HK\$480,000.

The "Puma" division managed to double its turnover for the six months under review as compared with the corresponding period of last financial year. A significant increase in turnover of over 80% and 38% has been recorded in Mainland China ("the PRC") and Taiwan market. A new distribution agent in Hong Kong has been appointed and we expect to increase our market penetration in the Hong Kong market. However, with the intensive promotion and marketing expenses incurred for an increase of our market share, this division has yet to make its contribution to the profitability of the Group. With the strong demand for branded consumer goods in the PRC and an increase in the awareness of Puma brand, we expect the turnover and contribution from the Puma division to increase significantly.

Property Investment

The rental income from the property investment division for the first half of 2001 was HK\$9 million, a decrease of about 15% when compared with the corresponding period of last financial year. With the increase in operating cost, the contribution will keep on decreasing.

With the tightening cost improvement measure adopted for the "Panyu Times Place", the loss for the Panyu Times Place has been further reduced. The launching of "Waterfront", the property development project in Panyu, was within our expectation. With the fierce competition in property projects within the Panyu areas, the Group has adopted a new sale strategy for the promotion of its Waterfront project and we expect some contribution for the second half of the year.

Investment Holding

Environmental Heat Supply Project

The Group has been enjoying a total guaranteed income of HK\$118 million from Huatong Distribution & Industry Development Corp ("China Huatong") for the last three years. The Directors believe that, China Huatong is facing some financial problems. As the Group adopted a conservative accounting approach, the Group decided to make a provision of its guaranteed income of HK\$20 million for the period from 1st April 2001 to 30th September 2001 although the payment of the guaranteed income is not due until 31st March 2002. The Group is monitoring the development of China Huatong closely and will respond to the changes immediately in order to protect our interest.

Shanghai East Ocean Centre Phase II

Due to sentiments brought by China's entry into the World Trade Organization, the property market in Shanghai has increased marginally. However, with the completion of the property development projects in the surrounding areas, the Shanghai East Ocean Centre is facing stiff competition. We do not expect significant increase in contribution for the second half of the current financial year.

e-Commerce

With the drastic change in consumer response to online business, our online bookstore www.ebookschina.com is not well received contrary to our expectation; this online business has temporarily ceased operation in order to minimize its operating costs. However, the Group will continue to monitor the online business environment and appropriate actions will be taken to reactivate this online business when business conditions improve.

Electronic Distribution Network ("eDN")

China-eDN has completed its B2B e-Commerce system to cater for the Puma consumer products. However, China-eDN may be able to be on its own with the completion of the CNCC deal as the CNCC would then be able to utilize the services and facilities provided by China-eDN.

■ PROSPECTS

Settlement was reached on 31st January 2002, in respect of the Petition and the Petition has been dismissed by an order of the High Court of Hong Kong on 6th February 2002. Management should be able to concentrate its time in reviewing and scrutinizing the operations of the Group. Efforts have to be made to repair the damages caused by the Petition.

The development at China Huatong for the Heat Supply Project will affect the Group significantly. Management is monitoring the situation closely. The finalization for the CNCC project has been further delayed to 28th February 2002. Total accumulated investment incurred in this CNCC project was about HK\$240 million.

Efforts will be made to find ways to recover the unsecured advances of approximately HK\$128 million made to an independent third party. The recovery of part, if not all, will definitely improve our current cash tight position. The Board is monitoring the accounts receivables closely and further provision, if require, will be made at year end. Appropriate actions will be taken to protect the interest of the Group.

The outcome of the above major events is not certain. Management is of the view that it is rather difficult for the Group to make a turnaround position in the second half of the financial year.

■ LIQUIDITY AND CAPITAL RESOURCES

As at 30th September 2001, the Group had current assets and current liabilities of HK\$582 million and HK\$271 million respectively (31st March 2001: HK\$716 million and HK\$263 million, respectively). The Group had cash and bank balances (including pledged bank deposits) amounting to approximately HK\$6 million as at 30th September 2001 (31st March 2001: approximately HK\$14 million).

The Group had in aggregate HK\$127 million (31st March 2001: HK\$129 million) bank borrowings secured on certain properties owned by the Group.

■ EMPLOYEES

As at 30th September 2001, the Group employed a total of about 110 employees, of which 60 were based in Hong Kong and 50 in the PRC. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. During the period under review, no option has been granted from the Company's employee share option scheme.

■ DIRECTORS' INTERESTS IN SECURITIES

As at 30th September 2001, the interests of the directors, chief executives of the Company in the shares in the Company or any associated corporations as recorded in the register maintained under Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Type of interest	Number of ordinary shares held
Mr. YUEN Wai	Personal	6,500,000
Mr. Mongkon CHERLOEMCHOEDCHOO	Corporate (Note 1)) 512,663,500
Mrs. CHEN CHOU Mei Mei, Vivien	Corporate (Note 1)	
	Personal (Note 2)	8,635,000

Note:

- The shares are held by Pan Pacific Traders Limited which is 70% and 30% owned by Magnificent Fortune Limited and Newfound Wealth Limited respectively, and which in turn are wholly-owned by Mr. YUEN Wai and Mr. Mongkon CHERLOEMCHOEDCHOO respectively.
- Mrs. CHEN CHOU Mei Mei, Vivien has resigned on 17th January 2002.

■ DIRECTORS' RIGHT TO ACQUIRE SECURITIES

The following directors were granted share options to subscribe for the following number of shares in the Company under the Company's share option scheme:

Name of director	Granted on 15th July 1999	Granted on 30th March 2001
Mr. YUEN Wai	22,000,000	13,000,000
Mr. Mongkon CHERLOEMCHOEDCHOO	4,000,000	4,000,000
Mr. CHUNG Ho	6,000,000	8,000,000
Mrs. CHEN CHOU Mei Mei, Vivien *	4,000,000	4,000,000
Mr. WU Yuehua	–	4,000,000

The share options granted on 15th July 1999 are exercisable from 16th January 2000 to 15th January 2002 at the subscription price of HK\$0.8432 per share and hence are now lapsed.

The following share options granted on 30th March 2001 and outstanding as at 30th September 2001 are exercisable at the subscription price of HK\$0.1491 per share and for a period of three years commencing from the following dates:

Name of director	1st July 2001	1st October 2001	31st March 2002
Mr. YUEN Wai	–	6,500,000	–
Mr. Mongkon CHERLOEMCHOEDCHOO	2,000,000	2,000,000	–
Mr. CHUNG Ho	4,000,000	4,000,000	–
Mrs. CHEN CHOU Mei Mei, Vivien *	2,000,000	2,000,000	–
Mr. WU Yuehua	–	2,000,000	2,000,000

* Mrs. CHEN CHOU Mei Mei, Vivien has resigned on 17th January 2002. All outstanding options held by her shall lapse on 17th February 2002.

During the period and up to the date of this report, no share option had been exercised by the directors except that Mr. Yuen Wai had exercised 6,500,000 shares at the subscription price of HK\$0.1491 per share. Save as disclosed above, at no time during the period was the Company, its fellow subsidiaries or its holding companies a party to any arrangements to enable the directors of the Company to acquire benefit by means of the acquisition of shares in, or debt securities of, the Company or any other body corporate.

Save as disclosed herein, at no time during the year, the directors and chief executives of the Company (including their spouse and children under 18 years of age) had any interest in, or had been granted or exercised, any rights to subscribe for shares or debt securities of the Company and its associate corporations within the meaning of the SDI Ordinance.

■ SUBSTANTIAL SHAREHOLDERS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

At 30th September 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the following shareholders had an interest of 10% or more in the issued share capital of the Company:

Name of shareholder	Number of shares	% interest in total issued shares
Mr. YUEN Wai	6,500,000	0.44%
Mr. YUEN Wai)	
Magnificent Fortune Limited) 512,663,500 (<i>Note</i>)	35.03%
Pan Pacific Traders Limited)	

Note: The 512,663,500 shares are held by Pan Pacific Traders Limited. According to the shareholding position as disclosed in the note to the paragraph headed "DIRECTORS' INTERESTS IN SECURITIES", Magnificent Fortune Limited and Mr. Yuen Wai are deemed to be interested in the 512,663,500 shares pursuant to the SDI Ordinance.

■ REVIEW OF INTERIM REPORT BY THE AUDIT COMMITTEE

The accounting information given in this interim report has not been audited. This interim report has been reviewed by the Audit Committee of the Company. PricewaterhouseCoopers, the Company's auditors, has been asked to perform a full audit of the interim accounts for the period ended 30th September 2001 in view of the significant adjustments made in the interim accounts.

■ COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that non-executive directors are not appointed for a specific term as they are subject to retirement by rotation and re-election at Annual General Meetings in accordance with Article 105 of the Company's Articles of Association.

■ PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 September 2001, there was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities.

■ PRACTICE NOTE 19 DISCLOSURES

The proforma combined balance sheet of associated companies as at 30th September 2001 disclosed in accordance with 3.10 of the Practice Note 19 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited is as follows:

	<i>HK\$'000</i>
Long-term investments	811,215
Current assets	
Due from investee companies	82,381
Other current assets	56,227
	<hr/> 138,608
Current liabilities	(51,462)
	<hr/> 87,146
Net current assets	87,146
Non-current liabilities	
Shareholders' loans	(920,089)
	<hr/> (21,728)
Net liabilities	(21,728)
	<hr/> (12,428)
Group's share of net liabilities	(12,428)

By order of the Board
YUEN WAI
Chairman

Hong Kong, 6th February 2002

Website: www.chinalogisticsgroup.com