

Chairman's Statement

On behalf of the Board of Directors, I am pleased to present to the shareholders the annual report for SC Industrial Development Company Limited (the "Company") and its subsidiaries (the "Group") for the year ended 31st March 2002.

GROUP RESULTS

The Group recorded a turnover of approximately HK\$805 million (2001: HK\$1,004 million) and an audited consolidated profit attributable to shareholders of approximately HK\$98 million (2001: HK\$122 million).

DISTRIBUTIONS

An interim dividend of 6.0 Hong Kong cents per share was paid during the year (2001: 6.0 Hong Kong cents).

A special distribution was paid in the form of 825,000,000 ordinary shares in Lee & Man Handbag International Limited ("L & M Handbag International") on the basis that one L & M Handbag International's share was distributed for every ordinary share in the Company then held.

The directors do not recommend the payment of any final dividend for the year under review (2001: 7.0 Hong Kong cents).

BUSINESS REVIEW

During the year under review, the Group underwent a series of re-organization steps in order to rationalize the structure of the Group in preparation for the spin-off of the shares of L & M Handbag International on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16th January 2002. Details of the re-organization are set out in the introduction document issued by L & M Handbag International dated 21st December 2001.

Immediately after the separate listing of L & M Handbag International on the Stock Exchange, the Company did not carry out any handbags and luggage business. During the year under review, the Group continues to manufacture and sales of paper packaging products and audio cassette products.

Paper Packaging Business

As stated in the interim report dated 12th November 2001, the contribution from the paper packaging business would continuously under severe pressure. It recorded a turnover of about HK\$180,385,000, representing a decrease of 17.3% as compared with previous financial year. The operating profit recorded a decrease of 38.8% to HK\$22,834,000.

The decline in turnover was due to the drop of sales volume and the decrease in the selling price of the corrugated packaging products. The gross profit margin was under severe pressure due to the intense competition within the paper packaging industry, resulting in the decrease in the operating profit.

To be in the interests of the Company to realize the underlying value of the paper packaging business, the Group disposed 49% of paper packaging business for a consideration of HK\$93.1 million after the balance sheet date. This transaction was approved by the independent shareholders of the Company on 14th June 2002. Further details of this transaction and the related agreements are set out in the circular of the Company dated 21st May 2002.

Chairman's Statement

BUSINESS REVIEW *(Continued)*

Paper Packaging Business *(Continued)*

Given the fierce competition of the paper packaging business, it is expected that the profit contribution of this segment of business will continue to consolidate in the coming year.

Audio Cassette Business

Turnover dropped by 4.6% to HK\$87,967,000. It contributed an operating profit of about HK\$12,468,000, representing an increase of 71.4% over the previous financial year.

During the year under review, sales volume dropped slightly. The decline in the sales amount was mainly due to the slow economy. The increase in operating profit was mainly due to the increased sales turnover of two international brand name customers that can contribute a higher profit margin. However, since March 2002, the Group has not received any orders from one of these major customers and it is expected that this business would be affected.

As the audio cassette business is a mature business with a limited growth prospects, it is in the interests of the Company to realize the value thereunder. Subsequent to the balance sheet date, the Group disposed 100% of this business for a consideration of HK\$50 million. This transaction was approved by the independent shareholders of the Company on 14th June 2002. Further details of this transaction are set out in the circular of the Company dated 21st May 2002.

FUTURE EARNINGS AND PROSPECTS

The current economic downturn is likely to persist in the near term and our businesses would continuously under severe pressure. Meanwhile, the future earnings of the Group will also be affected by the disposals of the businesses subsequent to the balance sheet date.

In view of the foregoing, the Company intends to continue to pursuing business diversification policy of the Company for the benefit of the Shareholders whilst continuing to engage in the Paper Packaging Business. The Group intends to explore new business opportunities for the Company by building on the experience and connection of the new appointed executive directors to diversify into other industries with good business potential and growth prospects including the trading of petrochemical products, provision of storage facilities and transportation services of these products in the PRC to multinational oil and gas companies and investments in the Hong Kong and PRC property markets.

APPRECIATION

On behalf of the Board, I would like to thank all of our customers, suppliers, my fellow and former directors and all the Group's staff for their support, loyalty, dedication, and contribution over the last year.

On behalf of the Board

David An

Chairman

Hong Kong, 23rd July 2002