



SC Industrial Development Company Limited

(Incorporated in the Cayman Islands with limited liability)

INTERIM REPORT
FOR THE SIX MONTHS ENDED 30TH SEPTEMBER 2002

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. David AN (*Chairman*)
Ms. FENG Ya Lei
Mr. ZHOU Nan Zheng
Ms. KWAN Po Wan
Mr. LI Wai Keung *
Mr. LIU Jian *

* *Independent non-executive director*

AUDIT COMMITTEE

Mr. LI Wai Keung
(*Committee Chairman*)
Mr. Liu Jian

COMPANY SECRETARY

Ms. Kwan Po Wan

REGISTERED OFFICE

P.O. Box 309
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands
British West Indies

PRINCIPAL OFFICE

Unit A, 12th Floor, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
Standard Chartered Bank

AUDITORS

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Bank of Butterfield International (Cayman) Ltd.
Butterfield House
Fort Street
P.O. Box 705
George Town
Grand Cayman
Cayman Islands

HONG KONG BRANCH SHARE REGISTRARS AND TRANSFER OFFICE

Secretaries Limited
5th Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

INTERIM RESULTS

The board of directors of SC Industrial Development Company Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30th September, 2002 together with the comparative figures as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th September, 2002

	<i>Notes</i>	Six months ended 30th September	
		2002 (UNAUDITED) <i>HK\$'000</i>	2001 (UNAUDITED) <i>HK\$'000</i>
Turnover	2	148,413	530,195
Cost of sales		(114,119)	(371,391)
Gross profit		34,294	158,804
Other operating income		6,134	12,178
Distribution costs		(13,205)	(29,592)
Administrative expenses		(16,188)	(56,294)
Profit from operations	3	11,035	85,096
Finance costs	4	(163)	(830)
Net loss on disposal of subsidiaries	6	(18,400)	–
(Loss) profit before taxation		(7,528)	84,266
Taxation	7	(156)	(5,002)
(Loss) profit after taxation		(7,684)	79,264
Minority interests		1,784	–
(Loss) profit attributable to shareholders		(5,900)	79,264
Interim dividend		–	49,500
(Loss) earnings per share (HK cents)	8	(0.7)	9.6

CONDENSED CONSOLIDATED BALANCE SHEET

At 30th September, 2002

	Notes	30th September, 2002 (UNAUDITED) HK\$'000	31st March, 2002 (AUDITED) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	164,764	195,069
CURRENT ASSETS			
Inventories		40,344	58,082
Trade and other receivables	10	57,589	56,859
Bills receivable		200	1,113
Amounts due from related companies	11	1,390	812
Taxation recoverable		–	376
Bank balances and cash		38,987	29,412
		138,510	146,654
CURRENT LIABILITIES			
Trade and other payables	12	12,054	19,424
Bills payable		13,701	658
Amounts due to related parties	13	9,266	16
Taxation payable		25	23
Short-term bank borrowings		71	4,704
		35,117	24,825
NET CURRENT ASSETS		103,393	121,829
TOTAL ASSETS LESS CURRENT LIABILITIES		268,157	316,898
Minority interests		113,705	–
		154,452	316,898
CAPITAL AND RESERVES			
Share capital		99,000	82,500
Reserves		55,452	234,398
		154,452	316,898

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th September, 2002

	Six months ended 30th September	
	2002	2001
	(UNAUDITED) <i>HK\$'000</i>	(UNAUDITED) <i>HK\$'000</i>
NET CASH FROM OPERATING ACTIVITIES	91,917	79,068
NET CASH FROM (USED IN) INVESTING ACTIVITIES	79,036	(34,901)
NET CASH USED IN FINANCING ACTIVITIES	(161,394)	(54,006)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,559	(9,839)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	29,357	56,931
CASH AND CASH EQUIVALENTS AT END OF PERIOD	38,916	47,092
ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	38,987	50,327
Bank overdrafts	(71)	(3,235)
	38,916	47,092

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th September, 2002

	Share capital (UNAUDITED) HK\$'000	Share premium (UNAUDITED) HK\$'000	Asset revaluation reserve (UNAUDITED) HK\$'000	Translation reserve (UNAUDITED) HK\$'000	Capital reserve (UNAUDITED) HK\$'000	Special reserve (UNAUDITED) HK\$'000	Accumulated profits (losses) (UNAUDITED) HK\$'000	Total (UNAUDITED) HK\$'000
At 1st April, 2002	82,500	136,694	22,196	(124)	-	-	75,632	316,898
Issue of new shares	16,500	21,450	-	-	-	-	-	37,950
Expenses incurred in connection with issue of new shares	-	(656)	-	-	-	-	-	(656)
Realised on depreciation of property, plant and equipment	-	-	(3,110)	-	-	-	3,110	-
Realised on disposal of property, plant and equipment	-	-	(15)	-	-	-	15	-
Realised on disposal of subsidiaries	-	-	(8,255)	-	-	-	8,255	-
Exchange difference arising from translation of financial statements of overseas operations not recognised in the income statement	-	-	-	35	-	-	-	35
Loss attributable to shareholders	-	-	-	-	-	-	(5,900)	(5,900)
Special dividend paid	-	(60,502)	-	-	-	-	(133,373)	(193,875)
At 30th September, 2002	99,000	96,986	10,816	(89)	-	-	(52,261)	154,452

	Share capital (UNAUDITED) HK\$'000	Share premium (UNAUDITED) HK\$'000	Asset revaluation reserve (UNAUDITED) HK\$'000	Translation reserve (UNAUDITED) HK\$'000	Capital reserve (UNAUDITED) HK\$'000	Special reserve (UNAUDITED) HK\$'000	Accumulated profits (UNAUDITED) HK\$'000	Total (UNAUDITED) HK\$'000
At 1st April, 2001 as restated	82,500	136,694	32,714	(1,456)	2,503	(64,980)	345,259	533,234
2001 final dividend paid	-	-	-	-	-	-	(57,750)	(57,750)
Surplus arising on revaluation of property, plant and equipment	-	-	10,795	-	-	-	-	10,795
Realised on depreciation of property, plant and equipment	-	-	(2,561)	-	-	-	2,561	-
Realised on disposal of property, plant and equipment	-	-	(122)	-	-	-	122	-
Exchange differences arising from translation of financial statements of overseas operations not recognised in the income statement	-	-	-	103	-	-	-	103
Profit attributable to shareholders	-	-	-	-	-	-	79,264	79,264
2002 interim dividend proposed	-	-	-	-	-	-	(49,500)	(49,500)
At 30th September, 2001	82,500	136,694	40,826	(1,353)	2,503	(64,980)	319,956	516,146

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30th September, 2002

1. Basis of preparation and principal accounting policies

The condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim financial reporting” issued by the Hong Kong Society of Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

These condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of property, plant and equipment.

The accounting policies adopted in preparation of these condensed consolidated financial statements are consistent with those used in the Group’s annual financial statements for the year ended 31st March, 2002 except that the Group has adopted the following new or revised SSAPs which are effective for the period commencing on or after 1st January, 2002.

SSAP No.1 (revised)	Presentation of financial statements
SSAP No.11 (revised)	Foreign currency translation
SSAP No.15 (revised)	Cash flow statements
SSAP No.34	Employee benefits

The adoption of these SSAPs does not have any material impact on the financial results of the Group for the current and prior accounting periods.

2. Segment information

For management purposes, the Group’s operations are organised into two operating divisions namely manufacture and sales of paper packaging products and manufacture and sales of audio cassette products. These divisions are the basis on which the Group reports its primary segment information. During the period, the business of manufacture and sales of audio cassette products was discontinued (see note 5).

The Group's turnover and contribution to the operating profits for the six months ended 30th September, 2002 and 30th September, 2001, analysed by business segments were as follows:

Business Segments

	Turnover		Segment Results	
	Six months ended		Six months ended	
	30th September		30th September	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Continuing operation				
Manufacture and sales of paper packaging products	136,317	91,530	9,571	15,354
Discontinuing operations				
Manufacture and sales of				
– Handbags	–	393,438	–	61,573
– Audio cassette products	12,096	45,227	2,877	7,704
	148,413	530,195	12,448	84,631
Interest income			70	1,204
Unallocated corporate expenses			(1,483)	(739)
Profit from operations			11,035	85,096

3. Profit from operations

	Six months ended 30th September	
	2002	2001
	HK\$'000	HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Bad debts written off	8,136	60
Depreciation	10,029	12,828
Interest income	(70)	(1,204)

4. Finance costs

During the period, interest of HK\$163,000 (six months ended 30th September, 2001: HK\$830,000) was charged in respect of the Group's bank borrowings.

5. Discontinuing operations

In June 2002, the Group disposed of certain subsidiaries which are principally engaged in the manufacture and sales of audio cassette products. Net assets disposed of are set out in note 6.

The results of the disposed subsidiaries for the period from 1st April, 2002 to the date of disposal, which have been included in the condensed consolidated financial statements, and are as follows:

	1st April, 2002 to 14th June, 2002 HK\$'000
Turnover	12,096
Segment results	2,877
Interest income	3
Profit from operations	2,880

6. Net loss on disposal of subsidiaries

During the period, the Group disposed of the following subsidiaries:

- a. The Group disposed of its entire interest in a property holding company and certain subsidiaries engaging in the audio cassette business. The net assets disposed of were as follows:

	<i>HK\$'000</i>
Net assets disposed of:	
Property, plant and equipment	25,984
Inventories	17,276
Trade and other receivables	11,774
Taxation recoverable	380
Bank balances and cash	12,755
Trade and other payables	(14,498)
Amounts due to related companies	(53,408)
Net assets disposed of	263
Gain on disposal of subsidiaries	3,988
	4,251
Satisfied by:	
Cash consideration	50,000
Assignment of current accounts	(45,749)
Net cash consideration	4,251
Analysis of the outflow of cash and cash equivalents in connection with the disposal of subsidiaries:	
Bank balances and cash disposed of	(12,755)
Net cash consideration	4,251
Net cash outflow from disposal of subsidiaries	(8,504)

- b. In addition, the Company disposed of 49% interest in Capital Nation Investments Limited (“Capital Nation”) for a cash consideration of HK\$93.1 million. After the disposal, Capital Nation remains a 51% owned subsidiary of the Group. The disposal resulted in a loss of HK\$22,388,000 to the Group.

7. Taxation

	Six months ended 30th September	
	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
The charge comprises:		
Taxation of the Company and its subsidiaries		
Hong Kong Profits Tax	156	4,980
Overseas taxation	–	22
	156	5,002

Hong Kong Profits Tax is calculated at 16% of the estimated assessable profit for both periods.

For the period ended 30th September, 2001, overseas taxation is calculated at the rates prevailing in the relevant jurisdictions.

8. (Loss) earnings per share

The calculation of (loss) earnings per share is based on unaudited loss attributable to shareholders of HK\$5,900,000 (six months ended 30th September, 2001: profit of HK\$79,264,000) and on the weighted average number of 850,246,000 (six months ended 30th September, 2001: 825,000,000) shares in issue during the period.

9. Additions to property, plant and equipment

During the period, the Group spent HK\$5,678,000 (six months ended 30th September, 2001: HK\$50,469,000) on property, plant and equipment to expand its operations. During the same period, the net book value of the Group's property, plant and equipment was reduced by HK\$25,984,000 (six months ended 30th September, 2001: nil) as a result of the disposal of subsidiaries.

At 30th September, 2002, the directors have considered the carrying amount of the Group's property, plant and equipment carried at revalued amounts and have estimated that the carrying amounts do not differ significantly from that which would be determined using fair values at the balance sheet date. Consequently, no revaluation surplus or deficit has been recognised in the current period.

10. Trade and other receivables

The Group allows an average credit period of 30 to 60 days to its trade customers.

Included in the trade and other receivables are trade receivables of HK\$54,538,000 (31st March, 2002: HK\$54,240,000).

The aged analysis of trade receivables is as follows:–

	At 30th September 2002 <i>HK\$'000</i>	At 31st March 2002 <i>HK\$'000</i>
	Less than 1 month	37,406
1-2 months	10,268	10,980
2-3 months	4,542	8,669
Over 3 months	2,322	9,380
Total	54,538	54,240

11. Amounts due from related companies

The balance represents amounts due from certain subsidiaries of Lee & Man Handbag International Limited (“L & M Handbag International”) and Good Partner Trading Limited (“Good Partner”), both of which are beneficially owned by Fortune Star Tradings Ltd. (“Fortune Star”). Fortune Star is an associate of Mr. Lee Wan Keung (“Mr. Lee”) who is a director of the subsidiary of the Company. The amounts are unsecured, interest free and repayable on demand.

12. Trade and other payables

Included in trade and other payables are trade payables of HK\$4,453,000 (31st March, 2002: HK\$7,238,000).

The aged analysis of trade payables is as follows:

	At 30th September 2002 HK\$'000	At 31st March 2002 HK\$'000
Less than 1 month	3,812	5,202
1-2 months	97	1,470
2-3 months	513	566
Over 3 months	31	–
Total	4,453	7,238

13. Amounts due to related parties

The balance represents an amount due to a subsidiary of Fortune Star amounting to HK\$7,784,000 (31st March, 2002: HK\$16,000) and an amount due to Mr. Lee amounting to HK\$1,482,000 (31st March, 2002: nil). The amounts are unsecured, interest free and repayable on demand.

14. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	Notes	Six months ended 30th September	
		2002 HK\$'000	2001 HK\$'000
Lee & Man Industries Company Limited ("L & M Industries")			
Raw materials purchased	<i>a. b.</i>	41,169	21,700
Waste paper by-products sold	<i>a. c.</i>	2,728	1,688
Steam purchased	<i>a. d.</i>	780	780
Licence fee income received	<i>a. e.</i>	337	337
L & M Handbag International & its Subsidiaries ("Handbag Group")			
Corrugated cardboard and carton boxes sold	<i>f.</i>	3,805	–
Management fee paid	<i>g.</i>	524	–
Licence fee income received	<i>h.</i>	314	–
Lee & Man Realty Investment Limited ("L & M Realty")			
Licence fee paid	<i>i.</i>	64	–
Lee And Man Manufacturing Company Limited			
Corrugated cardboard and carton boxes sold	<i>j.</i>	159	–
Mr. Lee			
Management fee paid	<i>k.</i>	1,482	–
Guarantee given to bank in respect of credit facilities extended to the Group	<i>l.</i>	20,000	–

Notes:

- a. The transactions with L & M Industries were approved in an extraordinary general meeting of the Company held on 20th August, 2001 (the "EGM") and were carried out in the normal course of business. The aggregate amount of each transaction for the period did not exceed the relevant limit approved in the EGM.
- b. Pursuant to the master supply agreement for raw materials, L & M Industries has agreed to sell and Lee & Man Industrial Manufacturing Limited ("L & M Industrial Manufacturing"), a subsidiary of the Company, has agreed to purchase such quantities of test liner and corrugated medium paper as may be ordered by L & M Industrial Manufacturing from time to time for a period of three years commencing July 1998 and thereafter unless and until terminated by either party giving to the other party not less than three months' written notice. The prices are based on the monthly quote given by L & M Industries provided that the quote is not higher than the prevailing market price of test liner and corrugated medium paper at the time of such quotation.
- c. Pursuant to the master supply agreement for waste paper by-products, L & M Industrial Manufacturing has agreed to sell and L & M Industries has agreed to purchase such quantities of waste paper as may be ordered by L & M Industries from time to time for a period of three years commencing July 1998 and thereafter unless and until terminated by either party giving to the other party not less than three months' written notice. The prices are based on the monthly quote given by L & M Industrial Manufacturing provided that the quote is not higher than the prevailing market price of waste paper at the time of such quotation.
- d. Pursuant to the agreement for the supply of steam, L & M Industrial Manufacturing has agreed to purchase and L & M Industries has agreed to provide steam at Huang Yong Industrial Park, the People's Republic of China other than Hong Kong (the "PRC") (the "Premises") for a term of two years commencing July 1998 and thereafter for successive terms of one year as may be renewed between the parties. The agreement was renewed on 10th July, 2002 for a period of one year. L & M Industrial Manufacturing will pay a monthly fee of HK\$130,000 (which is based on the monthly fee representing approximately the cost of coal incurred by L & M Industrial Manufacturing to produce steam in the past) to L & M Industries for the supply of steam by L & M Industries.

- e. Pursuant to a licence agreement (the "Licence Agreement"), L & M Industrial Manufacturing has agreed to permit L & M Industries and its subsidiaries (i) to enter into possession of and occupy certain office space and staff quarters of the Premises; and (ii) to use and enjoy the canteen, playground, function rooms and other recreational facilities in the Premises in common with L & M Industrial Manufacturing and all others having the like right, as a licensee for a term of two years (which may be renewed annually if agreed by both parties) commencing July 1998 for a monthly licence fee of HK\$40,000.

The Licence Agreement also provides that if L & M Industries requires the use of additional areas in the Premises during the term of the Licence Agreement, L & M Industrial Manufacturing may grant further licence(s) to L & M Industries and its subsidiaries to enter into possession of and occupy such areas for a monthly licence fee to be calculated on the basis of the number of square metres of the area of such premises times HK\$8 per square metre.

The agreement was renewed on the same terms on 10th July, 2002 for a period of one year.

- f. The Group has agreed to supply and sell corrugated cardboard and carton boxes from time to time to the Handbag Group. The selling prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.
- g. Pursuant to a management agreement entered into between the Company and L & M Handbag International on 14th December, 2001, L & M Handbag International has agreed to procure its subsidiaries to provide (i) use of office facilities and equipment, (ii) use of transportation facilities and (iii) management service including administrative and financial services to the Group for a term of three years commencing 1st January, 2002 for a monthly management fee of HK\$120,000.
- h. Pursuant to two licence agreements entered into between L & M Realty, a former subsidiary of the Group, and Lee & Man Management Company Limited ("L & M Management"), a wholly-owned subsidiary of L & M Handbag International, on 14th December, 2001, L & M Realty has agreed to grant licences to L & M Management and subsidiaries of L & M Handbag International to enter into possession of and occupy certain office space of the Group for a term of three years commencing 1st January, 2002 for a total monthly licence fee of HK\$156,750.
- i. The licence fee was charged on a proportional cost basis consistent with its other licences granted.
- j. The selling prices are negotiated on a case by case basis in the ordinary course of business by reference to the prevailing market conditions.
- k. Pursuant to a service agreement entered into between Capital Nation and Mr. Lee on 14th June, 2002, Mr. Lee has agreed to manage the business of Capital Nation for a term of 10 years for a service fee of HK\$5 million per annum, which fee is payable in four equal quarterly instalment in advance. This agreement was approved in an extraordinary general meeting of the Company held on 14th June, 2002.
- l. The guarantee was provided by Mr. Lee without charge.

15. Post balance sheet events

Subsequent to 30th September, 2002, the following significant events took place:

- (i) the Group disposed of a subsidiary in the PRC for a cash consideration of HK\$10.
- (ii) the Group entered into a framework agreement with a joint venture partner to carry on the business of trading in petrochemical products and provision of storage facilities in the PRC.

AUDITORS' INDEPENDENT REVIEW REPORT

德勤·關黃陳方會計師行

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永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE BOARD OF DIRECTORS OF SC INDUSTRIAL DEVELOPMENT COMPANY LIMITED

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 3 to 14.

Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 ("SAS 700") "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30th September, 2002. Without modifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement, cash flow statement and statement of changes in equity for the six months ended 30th September, 2001 disclosed in the interim financial report have not been reviewed in accordance with SAS 700.

DELOITTE TOUCHE TOHMATSU

Certified Public Accountants

Hong Kong, 10th December, 2002

BUSINESS REVIEW AND PROSPECTS

Interim Dividend

The Company paid a special interim dividend of HK\$0.235 per share of the Company on 21st June, 2002.

Other than the foregoing, the directors do not recommend the payment of any interim dividend for the six months ended 30th September, 2002 (2001: 6.0 Hong Kong cents).

Paper Packaging Business

On 14th June, 2002, the Group disposed of 49% of paper packaging business for a consideration of HK\$93.1 million and this transaction was approved by the independent shareholders of the Company. Further details of this transaction and the related agreements are set out in the circular of the Company dated 21st May, 2002. The disposal resulted in a loss on disposal of a subsidiary of HK\$22,388,000 to the Group.

During the period under review, turnover for the paper packaging business rose by 49% to HK\$136.3 million, accounted for 92% of the Group's turnover, contributed an operating profit of HK\$9.6 million which is decreased by 38% over the corresponding period in last year. The reasons for the decrease in the contributed operating profit were mainly due to the fierce price competition and the increase in the provision of bad debts.

Given the current stagnant market conditions, it is expected that the paper packaging business would continuously under severe pressure.

Audio Cassette Business

On 14th June, 2002, the Group disposed of 100% of audio cassette business for a consideration of HK\$50 million and this transaction was approved by the independent shareholders of the Company. Further details of this transaction are set out in the circular of the Company dated 21st May, 2002. The disposal resulted in a gain on disposal of subsidiaries of HK\$3,988,000 to the Group.

During the period from 1st April, 2002 to the date of disposal, it recorded a turnover of HK\$12.1 million and contribution to operating profit of about HK\$2.9 million.

Outlook

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 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. Building on the experience and connection of the directors, the Group is in a well position to capture these opportunities when they arise from time to time.

MANAGEMENT DISCUSSION AND ANALYSIS

Results of Operation

Turnover and loss attributable to shareholders for the six months ended 30th September, 2002 were HK\$148.4 million and HK\$5.9 million, as compared to a turnover of HK\$530.2 million and a profit of HK\$79.3 million for the corresponding period in last year. The loss per share for the period was 0.7 Hong Kong cents when compared with a earnings per share of 9.6 Hong Kong cents for the corresponding period in last year.

Capital Structure and Liquidity

At 30th September, 2002, the Group had a net cash balance of HK\$38.9 million. Most of the funds were held in Hong Kong dollars and Renminbi. Meanwhile, the Group had a very low level of debt. At 30th September, 2002, the Group had a current ratio of 3.9 and a gearing ratio of zero (long term liabilities to shareholders' fund plus long term liabilities).

The disposal of the businesses and payment of a special interim dividend during the period under review resulted in a decrease in the Group's consolidated net assets and total shareholders' fund of the Group as at 30th September, 2002 to approximately HK\$154.5 million (31st March, 2002: HK\$316.9 million) after deducting a minority interest of HK\$113.7 million (31st March, 2002: nil).

During the period, the Company raised approximately HK\$37.3 million by issuing 165 million new shares of the Company to independent investors for general working capital purpose.

Charge on Group Assets

At 30th September, 2002, the Group did not have any assets charged for general banking facilities.

Capital Commitments and Contingent Liabilities

At 30th September, 2002, the Group had no capital commitments as well as material contingent liabilities.

Funding Policy

The Group's transactions and the monetary assets are principally denominated in Hong Kong dollars, Renminbi or United States dollars. As a result, the directors believe that it has minimal exposure to foreign exchange risk.

Employees

The Group had a workforce of approximately 800 people. Salaries of employees are maintained at competitive level and are performance driven.

OTHER INFORMATION

Review of the Interim Financial Report

The Group's interim financial report for the six months ended 30th September, 2002 has not been audited but has been reviewed by the Company's auditors, Messrs. Deloitte Touche Tohmatsu.

Directors' Interests in Securities

As at 30th September, 2002, the interests of directors and their associates in the ordinary shares of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance") were as follows:

Name of director	Number of ordinary shares held Corporate interests
David An	609,773,980

Note: Mr. David An was deemed to have corporate interests in the shares of the Company by virtue of his beneficial interest in the share of Extreme Wise Investments Limited, a substantial shareholder of the Company.

Save as disclosed above, none of the directors or any of their associates had any interest in the securities of the Company as at 30th September, 2002 as defined in the SDI Ordinance.

Directors' Rights to Acquire Shares or Debentures

At no time during the period was the Company, its holding company or any of its fellow subsidiaries or subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debts securities (including debentures) of, the Company or any other body corporate and none of the directors, their spouses or children under the age of 18, had any rights to subscribe for securities of the Company, or had exercised any such rights.

A share option scheme was adopted by the Company on 12th May, 1997, under which the directors of the Company may be granted options to subscribe for shares in the Company. No option was granted to any of the directors or employees of the Company or its subsidiaries during the period.

Substantial Shareholders

As at 30th September, 2002, the register of substantial shareholders maintained by the Company pursuant to Section 16(1) of the SDI Ordinance showed that, other than the interests disclosed under the heading "Directors' Interests in Securities", the Company has not been notified of any interest representing 10 per cent or more of the Company's issued share capital.

Purchase, Sale or Redemption of the Company's Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2002.

Audit Committee

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim results for the six months ended 30th September, 2002.

Code of Best Practice

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 period for the six months ended 30th September, 2002, in compliance with the Code of Best Practice ("Code") as set out in the Listing Rules by the Stock Exchange except that the existing non-executive directors of the Company were not appointed for a specific term as required by paragraph 7 of the Code but are subject to retirement by rotation in accordance with the Company's articles of association.

On behalf of the Board
David An
Chairman

Hong Kong, 10th December, 2002