



RAYMOND Industrial Ltd
利民實業有限公司

Interim Report **2003**
二零零三年中期報告

03

MANAGEMENT STATEMENT

The Directors are pleased to present their management statement and the unaudited condensed consolidated financial statements for the six months ended 30th June 2003.

Business Highlights

The turnover of the Group was HK\$287 million in the first six months of 2003, representing an increase of 52.8% compared with turnover at the same time last year. The Company's net profit was HK\$23.1 million, reflecting an increase of 315% compared with same time last year (Net profit, adjusted for deferred taxation was HK\$5.57 million in 2002). The increase in turnover and net profit can be attributed mainly to increased sales of new small appliance products, and financial contribution from Cheung Fung Technology (Holdings) Limited ("Cheung Fung") to the Group for the first six months of 2003 (In 2002, only 3 months of Cheung Fung financial result was consolidated).

Rental activities at 410 Kwun Tong Road has also improved in the first half of 2003 and rental income for the first six months was HK\$2.93 million. As of 20th July 2003, the entire office building was fully leased except for part of the basement retail space. We expect income from rental activities to make substantial financial contribution to the Group in the second half of 2003.

The installation of the two new cigarette paper production lines, PM3 and PM4, was on schedule and PM3 line was completely installed as of the end of August 2003, and pilot run will be run on PM3 machines in September 2003. PM4 installation is expected to be completed by year end. We expect PM3 to commence commercial production in 4th quarter of 2003 and PM4 in 1st quarter of 2004. Production capacity should be doubled by 1st quarter 2004.

A new production facility (approximately 150,000 sq. ft) was completed at our Nansha factory and is in operation now. With the expansion, we expect to increase our production capacity for small appliances manufacturing by at least 50%.

Interim Dividend

The Board of Directors has declared an interim dividend of 4 cents per share in respect of the six months period ended 30th June 2003 (2002: interim dividend 2 cents per share):—

	Six months ended 30th June 2003 HK\$'000	Six months ended 30th June 2002 HK\$'000
Interim dividend proposed	<u>12,572</u>	<u>6,286</u>

The amount of proposed interim dividend is calculated on the basis of 314,300,804 shares in issue as at 30th June of the respective years.

This dividend will be payable on 22nd October 2003, to shareholders whose names appear on the register of members at the close of business on 3rd October 2003.

The transfer books and register of members will be closed from 6th October 2003 to 10th October 2003, both days inclusive, during which time no transfer of shares will be registered by the Company.

Prospects for Second Half of 2003

The Company successfully launched almost twenty new products in the first eight months of 2003. Sales generated from these new products will make a significant contribution to the Company's turnover and profit. As a result, profit from small appliance sales for 2003 is expected to be higher than that of 2002.

During the first half of 2003, the Group has allocated more resources to engage in rental activities at 410 Kwun Tong Road. We are pleased to announce that we have fully leased out the entire building (except for part of the basement area). Once the rent free period is over, we will see steady annual rental income contribution.

We have completed installation of the PM3 high porous wrap paper equipment at our Sichuan Jinfeng Cigarette Paper Company Limited ("Jinfeng"). With satisfactory progress of the PM4 line installation, we are in line with doubling our cigarette paper production capacity by the end of 2003.

Financial Position

The liquidity position of the Company was satisfactory. The current ratio was 0.71 as of 30th June 2003. The deterioration of the current ratio was due to increased short term borrowings (project financing) from Cheung Fung/Jinfeng for the PM3 and PM4 equipments. However, according to the borrowing arrangement, Jinfeng's debt is not the liability to the parent group as it is funded by project financing, which is covered by the equipment and future cash flow generated from these equipment.

Bank balances and cash were HK\$66.7 million as of 30th June 2003 (31st December 2002: HK\$118 million), representing a decrease of HK\$51.3 million. The change was mainly due to the repayment of bank loan and purchase of fixed assets.

Total bank borrowings amounted to HK\$335 million of short term loan and HK\$28 million of long term loan as of 30th June 2003 (31st December 2002: HK\$327 million of short term loan and HK\$71 million of long term loan). The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As at 30th June 2003, the Group had a gearing ratio of 30% (31st December 2002: 33%). There are no other material borrowings as of the balance sheet date.

Charge on Assets

As at 30th June 2003, certain assets of the Group with an aggregate carrying value of HK\$624 million (31st December 2002: HK\$624 million) were pledged to secure loan and borrowing facilities utilized by the Group.

Staff

The Group currently employs approximately 70 Hong Kong staff members and operates a defined contribution pension scheme. Our factory in China employs about 300 staff members, and workers employed varied from 2,000 to 5,000 persons during the year.

The Group's remuneration policies remained the same as revealed in the Annual Report for the year ended 31st December 2002. On 6th June 2003, the Company adopted a new share option scheme, which is in compliance with Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). On the same day, the old share option scheme adopted by the Company was terminated.

On behalf of the Board, I would like to extend the Board's appreciation to all our staff for their hard work and dedication throughout the year.

Directors' and Chief Executive's Interest in Shares

As at 30th June 2003, the interests or short positions of the directors and the chief executives of the Company in the equity securities of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange, were as follows:

Name of director	Personal interests	Number of shares held		
		Family interests	Corporate interests	Other interests
Mr. Wilson Wong Kin Lae	333,000	–	25,111,610 (a)	77,881,760 (b)
Mr. John Wong Ying Man	1,121,440	–	–	–
Mr. Philip Wong Kin Hang	–	821,000 (c)	46,277,013 (d)	–
Mr. Kennedy Wong Ying Ho	–	–	12,385,820 (e)	–
Mr. Raymond Wong Man Hin	974,964	–	–	–

Notes:

- (a) *These shares were held through Broadbridge Enterprises Limited, a company beneficially owned by Mr. Wilson Wong Kin Lae.*
- (b) *These shares were held through a Trust, the beneficiaries of which include the children of Mr. Wilson Wong Kin Lae.*
- (c) *These shares were held by Mrs. Wong Cheng Gertrude Kwok Cheung, spouse of Mr. Philip Wong Kin Hang.*
- (d) *Among the 46,277,013 shares, 44,971,013 were held through Ho Kit Man Inc. and 1,306,000 shares were held through Philip K.H. Wong Foundation, both Ho Kit Man Inc. and Philip K.H. Wong Foundation are controlled companies of Mr. Philip Wong Kin Hang and Mrs. Wong Cheng Gertrude Kwok Cheung, spouse of Mr. Philip Wong Kin Hang.*

(e) *These shares were held through Limin Corporation, a company beneficially owned by Mr. Kennedy Wong Ying Ho.*

Save as disclosed above, none of the directors, chief executives or their associates had any interests in the securities of the Company or any other associated corporations as defined in the SFO as at 30th June 2003.

Share Option Scheme

Share option scheme is granted to eligible persons under a Share Option Scheme (“Scheme”) approved by shareholders of the Company at the Extraordinary General Meeting held on 6th June 2003. Details of the Scheme are as follows:

Purpose

To enable the Group to grant options to the Participants as incentives or rewards for their contribution or potential contribution to the Group.

Participants

- (i) any director or proposed director (whether executive or non-executive, including any independent non-executive director), employee or proposed employee (whether full time or part time) of any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder; or
- (ii) any holder of any securities issued by any member of the Group or any Controlling Shareholder or any company controlled by a Controlling Shareholder; or
- (iii) (a) any business or joint venture partner, contractor, agent or representative of,
 - (b) any supplier of goods or services to, or
 - (c) any customer or distributor of goods or services of,any member of the Group or any Controlling Shareholder or a company controlled by a Controlling Shareholder;

and, for the purposes of the Scheme, shall include any company controlled by one or more persons belonging to any of the above classes of persons.

“Controlling Shareholder” means a person who controls the Company;

“control” means in relation to a company, the power of a person, directly or indirectly, to secure:—

- (i) by means of the holding of shares entitling him to exercise or control the exercise of 30% (or such lower amount as may from time to time be specified in the Code on Takeovers and Mergers (approved by the Securities and Futures Commission as amended

from time to time) as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of that company, or

- (ii) by means of controlling the composition of a majority of the board of directors of that company, or
- (iii) by virtue of any powers conferred by the constitutional document of that company or any other corporation, or
- (iv) by reason of any of the aforesaid relationship with another company which itself has the same power over that company (or with a series of companies each of which has the same power over another company in the series and the last one of which has the same power over that company),

that the affairs of that company are conducted in accordance with the wishes of such person;

Total number of ordinary shares available for issue under the Scheme and the percentage of issued share capital as at 30th June 2003

31,430,080 ordinary shares, representing 10% the issued capital.

Maximum entitlement of each participant

Unless approved by shareholders, the total number of securities issued and to be issued upon exercise of the option granted to each participant (including both exercised and outstanding options) in any 12-month period must not exceed 1% of the issued ordinary shares of the Company.

The period within which the ordinary share must be taken up an option

The options are exercisable from the date of grant and no option will be exercisable later than 10 years from its date of grant.

The amount payable on acceptance of the option

HK\$1.00 (or such other nominal sum in any currency as the board may determine).

The basis for determining the exercise price

Determined by the directors and shall not be less than the highest of:

- (i) the closing price of an ordinary share as in the Stock Exchange's daily quotations sheet on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of an ordinary share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of an ordinary share on the date of grant.

The remaining life of the Scheme

Remains in force until 6th June 2012.

The following shows the particulars of share options of Company granted to directors of the Company and employees of the Group that are required to be disclosed under Rule 17.07 of Chapter 17 and Rule 13(1)(b) of Appendix 16 of the Listing Rules:

Participant	Date of grant	Options held at 31st January 2003	Number of share options		Options held at 30th June 2003	Exercise price (HK\$)	Exercisable period
			Options granted during year	Options exercise during year			
<i>Chairman</i>							
Wilson Wong Kin Lae	24/6/2003	-	3,143,008	-	3,143,008	1.25	24/6/2003-6/6/2012
<i>Executive Directors</i>							
Kennedy Wong Ying Ho	24/6/2003	-	3,143,008	-	3,143,008	1.25	24/6/2003-6/6/2012
John Wong Ying Man	24/6/2003	-	3,143,008	-	3,143,008	1.25	24/6/2003-6/6/2012
Raymond Wong Man Hin	24/6/2003	-	3,143,008	-	3,143,008	1.25	24/6/2003-6/6/2012
<i>Non-Executive Directors</i>							
Philip Wong Kin Hang	24/6/2003	-	942,902	-	942,902	1.25	24/6/2003-6/6/2012
Huang Zhouchang	24/6/2003	-	942,902	-	942,902	1.25	24/6/2003-6/6/2012
Qiang Wenyu	24/6/2003	-	942,902	-	942,902	1.25	24/6/2003-6/6/2012
<i>Independent Non-Executive Directors</i>							
Anthony Fan Ren Da	24/6/2003	-	314,300	-	314,300	1.25	24/6/2003-6/6/2012
Michael Leung Kai Hung	24/6/2003	-	314,300	-	314,300	1.25	24/6/2003-6/6/2012
<i>Alternate Director</i>							
Xiong Zhengfeng	24/6/2003	-	314,300	-	314,300	1.25	24/6/2003-6/6/2012
<i>Others</i>							
Participants excluding Directors	24/6/2003	-	15,086,442	-	15,086,442	1.25	24/6/2003-6/6/2012

The closing price of the ordinary shares of the Company on 23rd June 2003, being the trading day immediately before the date on which the options were granted in 2003, was HK\$1.25.

The options are exercisable in accordance with the terms of the Scheme within ten years from the date of grant. No options were exercised, lapsed or cancelled during the reported period.

Substantial Shareholders

Other than the interests disclosed above in respect of certain directors, the register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that the Company was notified of the following interest representing 5% or more of the issued share capital of the Company as at 30th June 2003:

	Personal interests	Family interests	Corporate interests	Other interests	% of issued share capital
Sun Kwing Hai Amelia	-	333,000 (a)	25,111,610 (b)	77,881,760 (c)	32.87%
Haylee Inc	-	-	77,881,760 (d)	-	24.78%
East Asia International Trustees Limited	-	-	-	77,881,760 (e)	24.78%
Silver Talent Development Limited	-	-	61,080,800	-	19.43%
Wong Cheng Gertrude Kwok Cheung	821,000	-	46,277,013 (f)	-	14.99%
Ho Kit Man Inc	-	-	44,971,013	-	14.31%
Broadbridge Enterprises Limited	-	-	25,111,610	-	7.99%

Notes:

- (a) *These shares were held by Mr. Wilson Wong Kin Lae, director of the Company and spouse of Ms. Sun Kwing Hai Amelia.*
- (b) *These shares were held through Broadbridge Enterprises Limited, a controlled company of Mr. Wilson Wong Kin Lae, director of the Company and his spouse Ms. Sun Kwing Hai Amelia.*
- (c) *These shares were held through a Trust, the beneficiaries of which include the children of Mr. Wilson Wong Kin Lae.*
- (d) *Haylee Inc. is a controlled company of the trustee of a Trust, the beneficiaries of which include the children of Mr. Wilson Wong Kin Lae.*
- (e) *East Asia International Trustees Limited is the trustee of the Trust holding these shares for the beneficiaries of which include the children of Mr. Wilson Wong Kin Lae.*
- (f) *Among the 46,277,013 shares, 44,971,013 were held through Ho Kit Man Inc. and 1,306,000 shares were held through Philip K.H. Wong Foundation, both Ho Kit Man Inc. and Philip K.H. Wong Foundation are controlled companies of Mr. Philip Wong Kin Hang, director of the Company and his spouse Mrs. Wong Cheng Gertrude Kwok Cheung.*

Code of Best Practice

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the period, except that the independent non-executive directors of the Company are not appointed for specific terms. Independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's articles of associations.

Purchase, sale or redemption of own shares

During the six months ended 30th June 2003, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

Audit Committee

The Audit Committee of the Company has reviewed with the management the accounting practices and principles adopted by the Company and discussed auditing, internal control and financial reporting matters including the review of the interim report.

By Order of the Board
Wilson Wong Kin Lae
Chairman

Hong Kong, 9th September 2003

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30th June 2003

		2003	2002
		(unaudited)	(unaudited
	<i>Note</i>	HK\$'000	and restated)
			<i>HK\$'000</i>
Turnover	4	287,487	188,134
Cost of sales		(208,422)	(141,311)
Gross profit		79,065	46,823
Other revenue, net		2,958	198
Selling expenses		(10,954)	(6,274)
General and administrative expenses		(27,744)	(24,892)
Other operating expenses		(289)	(512)
Operating profit	5	43,036	15,343
Finance costs		(12,094)	(7,252)
Profit before taxation and share of results of an associate		30,942	8,091
Share of results of an associate		–	2,193
Profit before taxation		30,942	10,284
Taxation	6	(3,875)	(3,378)
Profit after taxation		27,067	6,906
Minority interests		(3,936)	(1,338)
Profit attributable to shareholders		23,131	5,568
Dividend:			
Interim dividend declared after the balance sheet date	7	12,572	6,286
Earnings per share	8		
– Basic		7.4 cents	1.8 cents
– Fully diluted		7.4 cents	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2003

		30th June 2003	31st December 2002
		(unaudited)	(audited and restated)
	<i>Note</i>	HK\$'000	HK\$'000
Non-current assets			
Goodwill	9	8,491	9,051
Fixed assets-property, plant and equipment		499,428	487,526
Investment property	10	290,000	290,000
Interests in jointly controlled entities	11	31,642	31,662
Non-current deposits		450	450
		<u>830,011</u>	<u>818,689</u>
Current assets			
Inventories		136,785	123,905
Debtors, net	12	161,768	131,491
Bills receivable		–	4,100
Deposits, prepayments and other receivables		11,915	8,575
Amounts due from related companies		17,284	21,194
Amounts due from jointly controlled entities		3,479	–
Bank balances and cash		66,714	118,441
		<u>397,945</u>	<u>407,706</u>
Current liabilities			
Creditors	13	(61,265)	(41,548)
Accrued charges		(59,869)	(61,216)
Bills payable		(14,050)	(14,613)
Taxation payable		(2,681)	(4,301)
Dividends payable		(498)	(240)
Amounts due to related companies		(4,284)	(5,612)
Amounts due to jointly controlled entities		(81,925)	(65,369)
Amounts due to shareholder		(40)	–
Current portion of long-term bank loan	14	–	(35,819)
Short-term bank loans		(334,738)	(327,729)
		<u>(559,350)</u>	<u>(556,447)</u>
Net current (liabilities)		<u>(161,405)</u>	<u>(148,741)</u>
Total assets less current liabilities		<u>668,606</u>	<u>669,948</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)**As at 30th June 2003*

		30th June 2003	31st December 2002
		(unaudited)	(audited and restated)
	<i>Note</i>	HK\$'000	HK\$'000
Non-current liabilities			
Non-current rental deposits		(1,290)	(823)
Long-term bank loans	<i>14</i>	(28,174)	(35,205)
Deferred taxation		(2,454)	(2,194)
		<u>(31,918)</u>	<u>(38,222)</u>
		<u>636,688</u>	<u>631,726</u>
Financed by:			
Share capital	<i>15</i>	157,150	157,150
Reserves	<i>16</i>	383,843	382,802
Shareholders' funds		540,993	539,952
Minority interests		95,695	91,774
		<u>636,688</u>	<u>631,726</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30th June 2003

		2003	2002
		(unaudited)	(unaudited
	<i>Note</i>	HK\$'000	and restated)
			<i>HK\$'000</i>
Total equity as at 1st January as previously reported		541,428	403,118
Change in accounting policy with respect to deferred tax	20	<u>(1,476)</u>	<u>(383)</u>
Total equity as at 1st January as restated		539,952	402,735
Surplus on revaluation of investment properties		–	158,769
Exchange differences arising on translation of the financial statements of foreign subsidiaries		<u>(89)</u>	<u>(1,403)</u>
Net gains not recognised in the profit and loss account		539,863	560,101
Profit for the period		23,131	5,568
Dividends		<u>(22,001)</u>	<u>(18,858)</u>
Total equity as at 30th June		<u>540,993</u>	<u>546,811</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2003

	2003 (unaudited) HK\$'000	2002 (unaudited) HK\$'000
Operating activities		
Net cash inflow generated from operations	48,744	75,127
Hong Kong profits tax paid	(196)	(49)
Overseas tax paid	(3,800)	(2,909)
Net cash inflow from operating activities	<u>44,748</u>	<u>72,169</u>
Investing activities		
Purchase of fixed assets	(25,079)	(8,324)
Purchase of land use rights	(1,162)	–
Interest received	182	198
Interests in jointly controlled entities	–	(23,449)
Cash acquired from the reorganisation of an associate	–	39,767
Net cash (outflow) inflow from investing activities	<u>(26,059)</u>	<u>8,192</u>
Net cash inflow before financing	<u>18,689</u>	<u>80,361</u>
Financing activities		
Additions of short-term bank loans	61,103	–
Repayment of short-term bank loans	(54,000)	(32,315)
Repayment of long-term bank loans	(42,836)	(16,463)
Interest paid	(12,093)	(7,287)
Dividends paid	(21,743)	(18,774)
Net cash outflow from financing	<u>(69,569)</u>	<u>(74,839)</u>
(Decrease)/Increase in cash and cash equivalents	(50,880)	5,522
Cash and cash equivalents, beginning of period	118,441	50,276
Effect of foreign exchange rate changes	(847)	(1,061)
Cash and cash equivalents, end of period	<u>66,714</u>	<u>54,737</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th June 2003

1. BASIS OF PRESENTATION

The condensed financial statements have been prepared under the historical cost convention.

The condensed financial statements have been prepared in accordance with the requirements of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (The "Stock Exchange"), including compliance with Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants.

2. PRINCIPLE ACCOUNTING POLICIES

The accounting policies adopted are consistent with those used in the preparation of the Group's most recent published audited annual financial statements for the year ended 31st December 2002, except as described below.

In the current period, the Group has adopted, for the first time, the following SSAP issued by the Hong Kong Society of Accountants.

SSAP 12 (revised) Income taxes

3. SEGMENT INFORMATION

(a) Geographical segments

	Turnover Six months ended 30th June 2003 (unaudited) HK\$'000	Turnover Six months ended 30th June 2002 (unaudited) HK\$'000	Segment Result Six months ended 30th June 2003 (unaudited) HK\$'000	Segment Result Six months ended 30th June 2002 (unaudited) HK\$'000
United States of America	134,810	98,274	26,194	17,095
Canada	2,747	3,513	534	611
PRC	75,426	36,363	19,165	9,272
Europe	32,852	26,131	6,383	4,546
Australia	7,363	8,330	1,430	1,449
Others	34,289	15,523	6,663	2,700
	<u>287,487</u>	<u>188,134</u>	<u>60,369</u>	35,673
Interest income			182	198
Unallocated corporate expenses			(29,049)	(27,268)
Amortisation of Cheung Fung Goodwill			(560)	(512)
Share of profit of associates			-	2,193
Profit before tax			<u>30,942</u>	<u>10,284</u>

3. SEGMENT INFORMATION *(continued)*

(b) Business segments

	Turnover Six months ended 30th June 2003 (unaudited) HK\$'000	Turnover Six months ended 30th June 2002 (unaudited) HK\$'000	Segment Result Six months ended 30th June 2003 (unaudited) HK\$'000	Segment Result Six months ended 30th June 2002 (unaudited) HK\$'000
Electrical home appliances	213,158	153,871	41,417	26,766
Cigarette papers	<u>74,329</u>	<u>34,263</u>	<u>18,952</u>	<u>8,907</u>
	<u>287,487</u>	<u>188,134</u>	60,369	35,673
Interest income			182	198
Unallocated corporate expenses			(29,049)	(27,268)
Amortisation of Cheung Fung Goodwill			(560)	(512)
Share of profit of associates			<u>-</u>	<u>2,193</u>
Profit before tax			<u>30,942</u>	<u>10,284</u>

4. TURNOVER

	Turnover Six months ended 30th June 2003 (unaudited) HK\$'000	Turnover Six months ended 30th June 2002 (unaudited) HK\$'000
Turnover		
Sale of electrical home appliances	213,158	153,871
Sale of cigarette paper	<u>74,329</u>	<u>34,263</u>
	<u>287,487</u>	<u>188,134</u>

5. PROFIT BEFORE TAX

During the period, depreciation of HK\$12,214,802 (2002: HK\$9,438,293) was charged to the income statement in respect of the Group's property, plant and equipment. Amortisation of HK\$560,000 (2002: HK\$512,000) was charged to the income statement in respect of the Group's goodwill. Amortisation of HK\$67,000 (2002: HK\$204,769) was charged to the income statement in respect of the Group's land use rights.

6. TAXATION

	Six months ended 30th June 2003	Six months ended 30th June 2002
	(unaudited)	(unaudited and restated)
	HK\$'000	HK\$'000
Hong Kong profits tax		
– under provision in prior years	–	1,440
– current year	2,367	1,176
Overseas taxation – current year	1,508	566
	3,875	3,182
Share of overseas taxation attributable to an associate	–	196
	3,875	3,378

Hong Kong profits tax was provided at the rate of 17.5% (2002: 16%) on the estimated assessable profits arising in or derived from Hong Kong. Overseas taxation has been calculated on the estimated assessable profit for the year at the rates prevailing in the respective jurisdictions.

7. DIVIDENDS

	Six months ended 30th June 2003	Six months ended 30th June 2002
	(unaudited)	(unaudited)
	HK\$'000	HK\$'000
Dividend paid		
2002 final dividend of 7 cents (2001 – 6 cents) per share approved and paid in 2003	22,001	18,858
Dividend declared		
Interim dividend declared after the balance sheet date of 4 cents (2002 – 2 cents) per share	12,572	6,286

8. EARNINGS PER SHARE

	Six months ended 30th June 2003 (unaudited) <i>HK\$'000</i>	Six months ended 30th June 2002 (unaudited and restated) <i>HK\$'000</i>
Earnings		
Net profit attributable to shareholders for the period for the purpose of basic earnings per share and diluted earnings per share	<u>23,131</u>	<u>5,568</u>
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earning per share	314,300,804	314,300,804
Effect of dilutive potential ordinary share: Share options	<u>48,546</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of diluted earning per share	<u>314,349,350</u>	<u>314,300,804</u>

9. GOODWILL

	Six months ended 30th June 2003 (unaudited) <i>HK\$'000</i>	Year ended 31st December 2002 (audited) <i>HK\$'000</i>
Beginning of the period	9,051	9,316
Additions	–	856
Amortisation	<u>(560)</u>	<u>(1,121)</u>
End of the period	<u>8,491</u>	<u>9,051</u>

10. INVESTMENT PROPERTIES

	Six months ended 30th June 2003 (unaudited) <i>HK\$'000</i>	Year ended 31st December 2002 (audited) <i>HK\$'000</i>
Beginning of the period and at end of the period	<u>290,000</u>	<u>290,000</u>

The investment properties are situated in Hong Kong and are held on medium-term leases.

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Share of net assets	<u>31,642</u>	<u>31,662</u>
Unlisted shares, at cost	<u>31,642</u>	<u>31,662</u>

(I) A joint venture company, Sichuan Jinfeng Innovation Industry Limited, incorporated in PRC and 16.73% owned by the Group. The principle activities of the company are manufacturing and sale of cigarette paper.

(II) A joint venture company, Sichuan Jinfeng Spike Paper Products Company Limited, incorporated in PRC and 26.77% owned by the Group. The principle activities of the company are manufacturing and sale of cigarette paper.

12. DEBTORS

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
An aging analysis of the debtors is as follows:		
Within 3 months	111,024	68,412
Between 3 to 6 months	18,365	38,443
Between 6 to 12 months	26,137	16,122
Over 12 months	6,242	8,514
	<u>161,768</u>	<u>131,491</u>

13. CREDITORS

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
An aging analysis of the creditors is as follows:		
Within 3 months	46,202	40,040
Between 3 to 6 months	12,466	893
Between 6 to 12 months	2,120	448
Over 12 months	477	167
	<u>61,265</u>	<u>41,548</u>

14. LONG-TERM BANK LOANS

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Repayable within a period		
– In the second year	14,039	21,066
– In the third to fifth year	14,135	14,139
	28,174	35,205
Current portion of long-term bank loan	–	35,819
	28,174	71,024

15. SHARE CAPITAL

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Authorised:		
500,000,000 (2002: 500,000,000) ordinary shares of HK\$0.50 each	250,000	250,000
Issued and fully paid:		
314,300,804 (2002: 314,300,804) ordinary shares of HK\$0.50 each	157,150	157,150

16. RESERVES

	Six months ended 30th June 2003 (unaudited)								Year ended 31st December 2002 (audited and restated)	
	Share Capital	Investment Share premium account	Investment revaluation reserve	Exchange reserve	Capital reserve	Retained earning	The PRC statutory reserve	Other reserve	Total	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Beginning of the period	157,150	62,669	116,362	(6,094)	3,080	199,833	9,185	(757)	541,428	403,118
Prior period adjustments in respect of deferred tax liabilities (note 20)	-	-	-	-	-	(1,476)	-	-	(1,476)	(383)
Balance as at beginning of period as restated	157,150	62,669	116,362	(6,094)	3,080	198,357	9,185	(757)	539,952	402,735
Surplus on revaluation of investment properties	-	-	-	-	-	-	-	-	-	116,362
Exchange differences	-	-	-	(89)	-	-	-	-	(89)	350
Appropriation to the PRC statutory reserve	-	-	-	-	-	(3,288)	3,288	-	-	-
Expenses incurred in connection with a contemplated public listing of a subsidiary's shares	-	-	-	-	-	-	-	-	-	(757)
Profit for the period	-	-	-	-	-	23,131	-	-	23,131	46,406
Dividends	-	-	-	-	-	(22,001)	-	-	(22,001)	(25,144)
End of the period	<u>157,150</u>	<u>62,669</u>	<u>116,362</u>	<u>(6,183)</u>	<u>3,080</u>	<u>196,199</u>	<u>12,473</u>	<u>(757)</u>	<u>540,993</u>	<u>539,952</u>

17. COMMITMENTS

- (a) Capital commitment not provided for in the financial statements is as follows:

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Commitments for capital contribution to subsidiaries		
Contracted but not provided for	19,500	11,310
Authorised but not contracted for	—	19,500
	<u>19,500</u>	<u>30,810</u>
Commitments for construction costs		
Contracted but not provided for	<u>1,377</u>	<u>15,695</u>
	<u>20,877</u>	<u>46,505</u>
The Group's share of capital commitments of the jointly controlled entities themselves not included in the above are as follows:		
Contracted but not provided for	16,822	66,228
Authorised but not contracted for	35,024	27,870
	<u>51,846</u>	<u>94,098</u>

- (b) **Commitments under operating leases**

At 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Plant and machineries		
Not later than one year	<u>94</u>	<u>565</u>

18. BANKING FACILITIES

	Six months ended 30th June 2003 (unaudited) HK\$'000	Year ended 31st December 2002 (audited) HK\$'000
Banking facilities for trade financing, loans and overdrafts as at end of the period	<u>425,967</u>	<u>422,052</u>
Unused facilities as at end of the period	<u>44,235</u>	<u>23,118</u>

19. CONTINGENT LIABILITIES

	30th June 2003 (unaudited) HK\$'000	31st December 2002 (audited) HK\$'000
Debtors factored with recourse	37,704	37,704
Guarantees for bank loans of third party companies	184,555	184,575
Counter guarantees for bank loans of a third party company	<u>32,991</u>	<u>32,991</u>
	<u>255,250</u>	<u>255,270</u>

As at 30th June 2003, the Group has provided guarantees for bank loans of third party companies amounting to HK\$184,555,000.

Among such guarantees, two amounts in the total sum of HK\$175,129,000 (the "Guarantees"), were granted by two equity joint venture enterprises of the Group in the People's Republic of China (the "PRC"), Sichuan Jinfeng Spike Paper Company Limited (四川錦豐斯貝克紙品有限公司) ("Spike") (in which a subsidiary of the Company, Cheung Fung Technology (Holdings) Limited (the "Subsidiary"), whose 50.746% share interests are held by the Company, holds 51.56% equity interests) and Sichuan Jinfeng Innovation Industry Company Limited (四川錦豐創新實業有限公司) ("Innovation") (in which the Subsidiary holds 32.97% equity interests) in favour of the Bank of China (the "BOC") to secure the repayment of two bank facilities granted to 四川劍南春融信投資有限公司 (Sichuan Jian Nan Chun Finance and Credit Investment Company Limited) ("Jian Nan Chun") in the respective amounts of US\$14,600,000 (equivalent to HK\$113,880,000) and RMB65,000,000 (equivalent to HK\$61,249,000).

The remaining balance of the HK\$9,426,000 guarantee provided to another third party does not represent guarantee given on behalf of an entity exceeding the 25 per cent of the Company's audited net assets threshold and details of which are not required to be separately disclosed save as have been disclosed herein.

19. CONTINGENT LIABILITIES (continued)

Jian Nan Chun is a licensed financier in the PRC and is a provider of credit and finance as well as the lessor of production facilities required for the manufacturing business (the "Production Facilities") of Spike and Innovation respectively. In order to finance the acquisition by Jian Nan Chun on behalf of Spike and Innovation of the Production Facilities, at the request of the BOC, Spike and Innovation each entered into an arrangement with Jian Nan Chun to whom the BOC granted banking facilities that were to be guaranteed by Spike and Innovation respectively. The considerations for the acquisition of the Spike and Innovation Production Facilities were US\$14,600,000 (equivalent to HK\$113,880,000) and RMB65,000,000 (equivalent to HK\$61,249,000) respectively.

Jian Nan Chun is an independent third party not connected with the Company, directors, chief executives or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates within the definition of the Listing Rules.

Pursuant to two separate sets of agreements each comprising 融資租賃合同 ("Finance and Lease Agreement"), 資金封閉運行協議 ("Restriction on Application of Funds Agreement"), 委托購買合同 ("Entrust Purchase Agreement") and 合作協議 ("Cooperation Agreement"), entered into among, inter alias, Jian Nan Chun and Spike on 11th July 2002 and Jian Nan Chun and Innovation on 1st August 2002 respectively, Jian Nan Chun as the lessor will lease the Production Facilities to Spike and Innovation respectively for a term of five years (the "Five Year Lease") after which title to the respective Production Facilities will be assigned to the respective lessee, in consideration of, inter alias, the provision of two guarantees in the respective amounts of US\$14,600,000 and RMB65,000,000 by Spike and Innovation respectively on behalf of Jian Nan Chun to the BOC to secure the respective loan facilities granted to Jian Nan Chun over five years (the "Five Year Loan"). It is a term in the two Restriction on Application of Funds Agreements that Jian Nan Chun must apply the respective bank loans drawn from BOC for the acquisition of the Production Facilities for further leasing to Spike and Innovation respectively.

The rentals of the Five Year Lease for the respective Production Facilities acquired for Spike and Innovation from Jian Nan Chun mirror the respective loan repayment schedules of the Five Year Loan from BOC to Jian Nan Chun. The Five Year Loan in respect of the Spike Production Facilities provides for an annual interest rate of 4.1343% over the five year term whereas the Five Year Loan in respect of the Innovation Production Facilities provides for an annual interest rate of 6.696% over the five year term. The aggregates of all rental payments over the Five Year Lease for Spike and Innovation will be composed of i) the principal of the respective Five Year Loan which is US\$14,600,000 (equivalent to HK\$113,880,000) for Spike and RMB65,000,000 (equivalent to HK\$61,249,000) for Innovation; and ii) the respective interests payment calculated on the annual rate of 4.1343% for Spike and 6.696% for Innovation over the five year term. Both Production Facilities acquired for Spike and Innovation by Jian Nan Chun will be pledged to the BOC as a collateral. In return for its services as the financier, Jian Nan Chun will charge Spike and Innovation a handling fee calculated as 4% of the respective principal amounts of the Five Year Loan.

The board of directors of Spike and Innovation both consider the aforesaid arrangements would enable the acquisition of their respective Production Facilities to materialise at a low cost of fund achievable.

The Guarantees given on behalf of Jian Nan Chun in the amounts of US\$14,600,000 (equivalent to HK\$113,880,000) and RMB65,000,000 (equivalent to HK\$61,249,000) were executed on 11th July 2002 and 30th October 2002 respectively. The said aggregate amount of HK\$175,129,000 exceeded 25% to become 32.9% of the Company's net assets of HK\$532,502,000 as at 30th June 2003.

20. ADOPTION OF NEW ACCOUNTING STANDARDS IN HONG KONG

A revised SSAP issued by the HKSA, SSAP 12 (revised) "Income taxes", became effective for accounting period beginning on or after 1st January 2003. SSAP 12 prescribes the accounting and disclosures for current and deferred taxes.

The underlying principle of the revised SSAP 12 is that financial statements should show the current and future tax consequences of transaction, and other events such as revaluations, recognised in the current period. On adoption of the revised SSAP 12, deferred taxation is provided in full, using the liability method, on temporary difference arising between tax bases of assets and liabilities and their carrying amounts in the accounts.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In previous years, deferred taxation was accounted for in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

In order to comply with the revised requirement of SSAP 12 (revised), the Group has made the following adjustments to its financial results for the six-month period ended 30th June 2003 which are relevant to the Group:

	Balance as at 1st January 2003 HK\$'000	Balance as at 1st January 2002 HK\$'000
Retained profit as previously reported	199,833	179,210
Prior period adjustment in respect of deferred tax		
– for the periods prior to 1st January 2002	(383)	(383)
– for the six months ended 30th June 2002	(546)	–
– for the six months ended 31st December 2002	(547)	–
Retained profit as restated	<u>198,357</u>	<u>178,827</u>

21. RELATED PARTY TRANSACTIONS

- (a) The balances with related companies and jointly controlled entities were unsecured, non-interest bearing and repayable within one year.
- (b) During the period, no management and sales representation service fee paid to Silverstream, a related company, (2002: HK\$292,500). Silverstream is a related company since a director of the Company controls 50% of the voting power and is the managing director of Silverstream.
- (c) During the period, rental expenses for plant and machineries paid to related companies, amounted to approximately HK\$172,000 (2002: HK\$169,000).

