



RAYMOND Industrial Ltd
利民實業有限公司



Interim Report 2004

二零零四年中期報告

MANAGEMENT STATEMENT

The Directors are pleased to present their management statement and unaudited condensed consolidated accounts for the six months ended 30th June 2004.

Business Highlights

Despite rapid sales growth, improved production efficiency and effective control of SG&A expenses, gross profit margin of the Group was still adversely affected by escalating costs of certain raw materials such as metal and plastics. Nevertheless, we are still pleased to announce that the turnover of the Group was HK\$453 million in the first six months of 2004, representing an increase of 55.4% compared with turnover at the same time last year. The Group's net profit was HK\$35.3 million, reflecting an increase of 52.4% compared with same time last year. Typically, most of our net profit has been generated in the second half of our fiscal year, so we remain cautiously optimistic about the full year results. The increase in turnover and net profit in the first half of 2004 can be attributed mainly to increased sales of new small appliance products.

Rental activities at 410 Kwun Tong Road have also improved in the first half of 2004 and rental income for the first six months was HK\$6.6 million. The entire office building, including the basement that was previously unoccupied, is now fully leased. We expect steady income from rental activities continues to make major financial contribution to the Group.

The installation of the two new cigarette paper production lines, PM3 and PM4, were completed. We have started commercial production on both machines and we hope to ramp up production during the second half of 2004 after we spent time developing new specialty papers and fine tuned the machines during the first six months of 2004. We can now produce other specialty paper such as tea bag and furniture decorative paper as well as a full range of cigarette paper.

A new production facility (approximately 250,000 sq.ft.) will be completed at our Nansha factory by end of September 2004. With the expansion, we expect to increase our current production capacity for small appliances manufacturing by approximately 50% depending on product mix of new products.

Interim Dividend

The Board of Directors has declared an interim dividend of 5 cents (2003: 4 cents) per share in respect of the six months ended 30th June 2004.

	Six months ended 30th June 2004 HK\$'000	Six months ended 30th June 2003 HK\$'000
Interim dividend proposed	<u>18,521</u>	<u>12,572</u>

The amount of proposed interim dividend is calculated on the basis of 370,414,868 shares in issue as at 30th June 2004.

This dividend will be payable on 19th October 2004, to shareholders whose names appear on the register of members at the close of business on 30th September 2004.

The transfer books and register of members will be closed from 4th October 2004 to 8th October 2004, both days inclusive, during which time no transfer of shares will be registered by the Company.

Prospects for Second Half of 2004

The Group successfully launched two new product lines during the first half of 2004, namely new air freshener and dehumidifier. Sales generated from these new product lines will make a significant contribution to the Group's turnover and profit in the second half of 2004. We are also launching three new humidifier lines for three different customers, and begin to ship a new product to a well-known consumer products conglomerate during the second half of 2004. As a result, profit from small appliance sales for 2004 is expected to be higher than that of 2003 provided that raw material prices would stabilize at the present level.

We have now entered the production phase of the PM3 high porous plug wrap paper and PM4 tipping paper at our Jinfeng cigarette paper company. We will continue our one-stop-shop strategy to expand our China sales of cigarette paper and expand our export sales through making alliances with foreign partners and agencies. We will also try to minimize the market specific risk and achieve full utilization rate of all our machines in the next 18 months by selling other high margin specialty paper such as tea bag paper and furniture decorative paper.

Financial Position

The liquidity position of the Group was satisfactory. The current ratio was 0.99 as of 30th June 2004.

Bank balances and cash were HK\$89.1 million as of 30th June 2004, representing an increase of HK\$22.4 million over that of the same period of the previous year. The change was mainly due to increased cash from the share placement in November 2003 and a decrease in cash due to capital expenditure and working capital used to procure raw materials.

Total bank borrowings amounted to HK\$357.2 million of short-term loans and HK\$64.3 million of long-term loans as of 30th June 2004. The decrease in bank borrowings results from a decrease of HK\$5 million in bank borrowings from Cheung Fung's operations. There are no other material borrowings as of the balance sheet date.

The Group expresses its gearing ratio as a percentage of bank borrowings over total assets. As of 30th June 2004, the gearing ratio of the Group is 29% (31st December 2003: 30%).

Charge on Assets

As at 30th June 2004, certain assets of the Group with an aggregate carrying value of approximately HK\$653 million (31st December 2003: HK\$619 million) were pledged to secure loans and borrowing facilities utilised by the Group.

Staff

The Group (including Cheung Fung) currently employs approximately 75 Hong Kong staffs and operates the Mandatory Provident Fund Scheme and defined contribution pension schemes. Our Nansha, Guangdong factory (small appliance division) in China employs about 300 staff and 4,000 to 6,000 factory workers. Our Chengdu, Sichuan factory (cigarette paper division) in China on the other hand employs about 780 staff and factory workers.

The Group's remuneration policies and share option scheme remained the same as revealed in the annual accounts for the year ended 31st December 2003.

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 period.

Directors' Interests in Shares and Underlying Shares of the Company

As at 30th June 2004, the interests of the Directors of the Company in the shares and underlying shares of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company were as follows:

Name of directors	Number of shares				Share options	Total	Percentage
	Personal interests	Family interests	Corporate interests	Other interests			
<i>Executive Directors</i>							
Mr. Wilson Wong Kin Lae	3,476,008	50,000 (a)	13,431,837 (b)	77,881,760 (c)	-	94,839,605	25.60%
Mr. John Wong Ying Man	1,121,440	-	-	-	3,143,008 (g)	4,264,448	1.15%
Mr. Kennedy Wong Ying Ho	-	-	12,385,820 (d)	-	3,143,008 (g)	15,528,828	4.19%
Mr. Raymond Wong Man Hin	4,117,972	-	-	-	-	4,117,972	1.11%
<i>Non-Executive Directors</i>							
Dr. Philip Wong Kin Hang	942,902	421,000 (e)	34,126,786 (f)	-	-	35,490,688	9.58%
Mr. Huang Zhouchang	942,902	-	-	-	-	942,902	0.25%
Mr. Qiang Wenyu	942,902	-	-	-	-	942,902	0.25%
<i>Independent Non-Executive Directors</i>							
Mr. Michael Leung Kai Hung	314,300	-	-	-	-	314,300	0.08%
Mr. Anthony Fan Ren Da	314,300	-	-	-	-	314,300	0.08%
<i>Alternate Director</i>							
Mr. Xiong Zhengfeng	314,300	-	-	-	-	314,300	0.08%

(a) These shares were held by Ms. Amelia Sun Kwing Hai, spouse of Mr. Wilson Wong Kin Lae.

(b) These shares were held through Broadbridge Enterprises Limited, a company beneficially owned by Mr. Wilson Wong Kin Lae and his spouse.

- (c) These shares were held under a trust, the beneficiaries of which include the children of Mr. Wilson Wong Kin Lae.
- (d) These shares were held through Limin Corporation, a company controlled by Mr. Kennedy Wong Ying Ho.
- (e) These shares were held by Mrs. Gertrude Wong Cheng Kwok Cheung, spouse of Dr. Philip Wong Kin Hang.
- (f) These shares were held through Ho Kit Man Inc., a company controlled by Dr. Philip Wong Kin Hang and his spouse.
- (g) Share options are granted to directors under the Share Option Scheme approved by shareholders at an Extraordinary General Meeting on 6th June 2003. Please refer to details disclosed under "Share Options" below.

All the interests disclosed under this section represent long positions in the shares and share options of the Company.

Saved as disclosed above, at no time during the period was the Company or its subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or its associated corporation.

Substantial Shareholders' Interests in Shares and Underlying Shares of the Company

The register of substantial shareholders maintained under section 336 of the SFO showed that as at 30th June 2004, the Company had been notified of the following substantial shareholders' interests, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Name of shareholders	Number of shares					
	Personal interests	Family interests	Corporate interests	Other interests	Total	Percentage
Ms. Amelia Sun Kwing Hai	50,000	81,357,768 (a)	13,431,837 (b)	-	94,839,605	25.60%
Haylee Inc.	-	-	-	77,881,760 (c)	77,881,760	21.03%
East Asia International Trustees Limited	-	-	-	77,881,760 (d)	77,881,760	21.03%
Silver Talent Development Limited	-	-	53,080,800	-	53,080,800	14.33%
Mrs. Gertrude Wong Cheng Kwok Cheung	421,000	942,902 (e)	34,126,786 (f)	-	35,490,688	9.58%
Ho Kit Man Inc.	-	-	34,126,786	-	34,126,786	9.21%
Invesco Asia Limited	-	-	19,995,000	-	19,995,000	5.40%

- (a) These shares were held by Mr. Wilson Wong Kin Lae, spouse of Ms. Amelia Sun Kwing Hai, of which details are set out in the "Directors' Interests in Shares and Underlying Shares of the Company" section above.

- (b) These shares were held through Broadbridge Enterprises Limited, a company beneficially owned by Ms. Amelia Sun Kwing Hai and her spouse.
- (c) Haylee Inc. held the shares for the trust disclosed in Note (c) under “Directors’ Interests in Shares and Underlying Shares of the Company” section above.
- (d) The interests of its wholly-owned corporation, Haylee Inc., disclosed in Note (c) above were attributable to East Asia International Trustees Limited.
- (e) These shares were held by Dr. Philip Wong Kin Hang, spouse of Mrs. Gertrude Wong Cheng Kwok Cheung, of which details are set out in the “Directors’ Interests in Shares and Underlying Shares of the Company” section above.
- (f) These shares were held through Ho Kit Man Inc., a company controlled by Mrs. Gertrude Wong Cheng Kwok Cheung and her spouse.

Share Options

Share options are granted to directors, employees and other eligible participants specified under the Share Option Scheme (the “Scheme”) approved by shareholders of the Company at an Extraordinary General Meeting on 6th June 2003. There are no changes in any terms of the Scheme during the six months ended 30th June 2004. The detailed terms of the Scheme were disclosed in the 2003 annual accounts.

Details of the share options outstanding as at 30th June 2004 which have been granted under the Scheme are as follows:

Name	Number of options				Exercise price HK\$	Grant date	Exercisable period
	held at 1st January 2004	granted during the period	exercised during the period	held at 30th June 2004			
<i>Executive Directors</i>							
Mr. John Wong Ying Man	3,143,008	-	-	3,143,008	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
Mr. Kennedy Wong Ying Ho	3,143,008	-	-	3,143,008	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
Mr. Raymond Wong Man Hin	3,143,008	-	3,143,008	-	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
Other employees	400,000	-	70,000	330,000	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
Suppliers	100,000	-	-	100,000	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
Other eligible persons	200,000	-	200,000	-	1.25	23rd June 2003	23rd June 2003 to 5th June 2013
	<u>10,129,024</u>	<u>-</u>	<u>3,413,008</u>	<u>6,716,016</u>			

The weighted average closing price of the shares of the Company before the exercise dates on which the options were exercised was HK\$2.46.

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 Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited 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 Association.

Purchase, Sale or Redemption of Own Shares

During the six months ended 30th June 2004, 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 Group and discussed auditing, internal control and financial reporting matters including the review of this interim report.

By Order of the Board
Wilson Wong Kin Lae
Chairman

Hong Kong, 10th September 2004

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT*For the six months ended 30th June 2004*

		(Unaudited)	
		2004	As restated
	<i>Note</i>	HK\$'000	2003
			<i>HK\$'000</i>
			<i>(note 20(a))</i>
Turnover	2	452,756	291,256
Cost of sales		(352,207)	(209,258)
Gross profit		100,549	81,998
Other revenue, net		356	25
Selling expenses		(13,721)	(10,954)
General and administrative expenses		(31,645)	(27,744)
Other operating expenses		(650)	(289)
Operating profit	4	54,889	43,036
Finance costs		(12,120)	(12,094)
Profit before taxation and share of loss of jointly controlled entities		42,769	30,942
Share of profits less losses of jointly controlled entities		(12)	-
Profit before taxation		42,757	30,942
Taxation	5	(4,524)	(3,875)
Profit after taxation		38,233	27,067
Minority interests		(2,972)	(3,936)
Profit attributable to shareholders		35,261	23,131
Dividends	6	18,521	12,572
Basic earnings per share, Hong Kong cents	7	9.6	7.4
Fully diluted earnings per share, Hong Kong cents	7	9.5	7.4

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30th June 2004

		(Unaudited) 30th June 2004 HK\$'000	(Audited) 31st December 2003 HK\$'000
Non-current assets			
Goodwill	8	7,523	8,094
Fixed assets	9	837,037	807,213
Interests in jointly controlled entities	10	37,117	31,450
Deferred tax assets		161	161
		<u>881,838</u>	<u>846,918</u>
Current assets			
Inventories		159,858	148,213
Debtors, net	11	252,698	193,632
Bills receivable		4,336	6,928
Deposits, prepayments and other receivables		30,410	30,947
Amounts due from related companies	19(a)	9,497	25,089
Bank balances and cash		89,134	180,077
		<u>545,933</u>	<u>584,886</u>
Current liabilities			
Creditors	12	(109,391)	(65,893)
Accrued charges		(39,521)	(47,599)
Bills payable		(9,153)	(15,218)
Taxation payable		(4,848)	(9,239)
Dividends payable		(595)	(324)
Amounts due to related companies	19(a)	(3,483)	(4,272)
Amounts due to jointly controlled entities	19(a)	(25,431)	(42,346)
Short-term bank loans		(357,160)	(362,165)
		<u>(549,582)</u>	<u>(547,056)</u>
Net current (liabilities) assets		<u>(3,649)</u>	<u>37,830</u>
Total assets less current liabilities		<u>878,189</u>	<u>884,748</u>

CONDENSED CONSOLIDATED BALANCE SHEET *(continued)**As at 30th June 2004*

		(Unaudited)	(Audited)
		30th June	31st December
		2004	2003
	<i>Note</i>	HK\$'000	HK\$'000
Non-current liabilities			
Non-current rental deposits payable		(880)	(585)
Long-term bank loans	13	(64,328)	(64,328)
Deferred tax liabilities		(8,998)	(8,361)
		<u>(74,206)</u>	<u>(73,274)</u>
		<u>803,983</u>	<u>811,474</u>
Financed by:			
Share capital	14	185,207	183,501
Reserves	15	528,124	527,344
Shareholders' funds		713,331	710,845
Minority interests		90,652	100,629
		<u>803,983</u>	<u>811,474</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th June 2004*

		(Unaudited)	
		2004	As restated
	<i>Notes</i>	HK\$'000	2003
			<i>HK\$'000</i>
			<i>(note 20(b))</i>
Total equity as at 1st January		710,845	534,646
Exchange differences arising on translation of the financial statements of foreign subsidiaries and jointly controlled entities	15	<u>—</u>	<u>(89)</u>
Net losses not recognised in the profit and loss account		—	(89)
Profit for the period	15	35,261	23,131
Dividends	15	(37,041)	(22,001)
Exercise of share options	14, 15	<u>4,266</u>	<u>—</u>
Total equity as at 30th June		<u>713,331</u>	<u>535,687</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30th June 2004

	(Unaudited)	
	2004	2003
	HK\$'000	HK\$'000
Operating activities		
Net cash inflow generated from operations	10,847	48,744
Hong Kong profits tax paid	–	(196)
Overseas tax paid	(8,278)	(3,800)
	<u>2,569</u>	<u>44,748</u>
Net cash inflow from operating activities	<u>2,569</u>	<u>44,748</u>
Investing activities		
Purchase of fixed assets	(44,159)	(25,079)
Purchase of land use rights	–	(1,162)
Interest received	276	182
	<u>(43,883)</u>	<u>(26,059)</u>
Net cash outflow from investing activities	<u>(43,883)</u>	<u>(26,059)</u>
Net cash (outflow) inflow before financing	<u>(41,314)</u>	<u>18,689</u>
Financing activities		
Exercise of share options	4,266	–
Additions of short-term bank loans	181,385	61,103
Repayment of short-term bank loans	(186,390)	(54,000)
Repayment of long-term bank loans	–	(42,836)
Interest paid	(12,120)	(12,093)
Dividends paid	(36,770)	(21,743)
	<u>(49,629)</u>	<u>(69,569)</u>
Net cash outflow from financing	<u>(49,629)</u>	<u>(69,569)</u>
Decrease in cash and cash equivalents	(90,943)	(50,880)
Cash and cash equivalents, beginning of period	180,077	118,441
Effect of foreign exchange rate changes	–	(847)
	<u>89,134</u>	<u>66,714</u>
Cash and cash equivalents, end of period	<u>89,134</u>	<u>66,714</u>

NOTES TO THE CONDENSED ACCOUNTS

For the six months ended 30th June 2004

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated accounts 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 Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim Financial Reporting" issued by the Hong Kong Society of Accountants ("HKSA").

These condensed accounts should be read in conjunction with the 2003 annual accounts.

The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December 2003.

2. TURNOVER

	Six months ended 30th June 2004 HK\$'000	As restated Six months ended 30th June 2003 HK\$'000 (note 20(a))
Sale of electrical home appliances	367,447	213,158
Sale of cigarette paper	78,750	74,329
Property leasing	6,559	3,769
	<u>452,756</u>	<u>291,256</u>

3. SEGMENT INFORMATION

(a) Geographical segments

	Turnover	Turnover As restated	Segment results	Segment results As restated
	Six months ended 30th June 2004	Six months ended 30th June 2003	Six months ended 30th June 2004	Six months ended 30th June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
The United States of America	143,957	134,810	20,553	26,194
Canada	3,247	2,747	463	534
The PRC	79,914	75,426	17,939	19,165
Japan	107,048	-	15,284	-
Europe	92,957	32,852	13,272	6,383
Australia	6,996	7,363	999	1,430
Others	18,637	38,058	8,242	9,596
	<u>452,756</u>	<u>291,256</u>	<u>76,752</u>	<u>63,302</u>
Interest income			276	182
Unallocated corporate expenses			(21,568)	(19,888)
Amortisation of Cheung Fung goodwill			(571)	(560)
Operating profit			54,889	43,036
Finance costs			(12,120)	(12,094)
Share of profits less losses of jointly controlled entities			(12)	-
Profit before taxation			42,757	30,942
Taxation			(4,524)	(3,875)
Profit after taxation			38,233	27,067
Minority interests			(2,972)	(3,936)
Profit attributable to shareholders			<u>35,261</u>	<u>23,131</u>

3. SEGMENT INFORMATION *(continued)*

(b) Business segments

	Turnover	Turnover As restated	Segment results	Segment results As restated
	Six months ended 30th June 2004	Six months ended 30th June 2003	Six months ended 30th June 2004	Six months ended 30th June 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Electrical home appliances	367,776	213,158	52,509	41,417
Cigarette paper	78,421	74,329	17,726	18,952
Property leasing	6,559	3,769	6,517	2,933
	<u>452,756</u>	<u>291,256</u>	<u>76,752</u>	<u>63,302</u>
Interest income			276	182
Unallocated corporate expenses			(21,568)	(19,888)
Amortisation of Cheung Fung goodwill			(571)	(560)
Operating profit			<u>54,889</u>	<u>43,036</u>

4. OPERATING PROFIT

Operating profit was arrived at after charging depreciation of properties, plant and equipment, amortisation of land use rights and amortisation of goodwill of approximately HK\$14,054,000 (2003: HK\$12,215,000), HK\$236,000 (2003: HK\$67,000) and HK\$571,000 (2003: HK\$560,000) respectively.

5. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. Taxation on overseas and PRC 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.

The amount of taxation charged to the consolidated profit and loss account represents:

	Six months ended 30th June 2004 HK\$'000	Six months ended 30th June 2003 HK\$'000
Current taxation:		
– Hong Kong profits tax	828	2,367
– Overseas and PRC taxation	3,059	1,508
Deferred taxation relating to the origination and reversal of temporary difference	637	–
Taxation charge	<u>4,524</u>	<u>3,875</u>

6. DIVIDENDS

	Six months ended 30th June 2004 HK\$'000	Six months ended 30th June 2003 HK\$'000
Interim, proposed, of 5 cents (2003: 4 cents) per share	<u>18,521</u>	<u>12,572</u>

Notes:

- (a) At a meeting held on 19th April 2004, the directors proposed a final dividend of 10 cents per share for the year ended 31st December 2003, which was paid on 18th June 2004 and has been reflected as an appropriation of retained earnings for the six months ended 30th June 2004.
- (b) At a meeting held on 10th September 2004, the directors declared an interim dividend of 5 cents per share for the year ending 31st December 2004. This proposed dividend is not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained earnings for the year ending 31st December 2004.

7. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK\$35,261,000 (2003: HK\$23,131,000).

The basic earnings per share is based on the weighted average number of 368,887,438 (2003: 314,300,804) shares in issue during the period. The diluted earnings per share is based on 372,512,732 (2003: 314,349,350) shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 3,625,294 (2003: 48,546) shares deemed to be issued at no consideration if all outstanding options had been exercised.

8. GOODWILL

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Beginning of the period/year	8,094	9,235
Amortisation charge	(571)	(1,141)
	<hr/>	<hr/>
End of the period/year	<u>7,523</u>	<u>8,094</u>

9. FIXED ASSETS

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Beginning of the period/year	807,213	777,525
Additions	44,159	55,734
Revaluation	–	10,038
Disposals	–	(7,708)
Depreciation/Amortisation charge	(14,290)	(26,854)
Write-off	(45)	(1,522)
	<hr/>	<hr/>
End of the period/year	<u>837,037</u>	<u>807,213</u>

10. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Share of net assets	<u>37,117</u>	<u>31,450</u>
Unlisted shares, at cost	<u>37,341</u>	<u>31,450</u>

10. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(continued)*

In February 2004, pursuant to an agreement between a joint venture partner and a non-wholly owned subsidiary of the Group, the joint venture partner transferred its 26.51% interest in one of the jointly controlled entities to the subsidiary for settlement of amounts due by the joint venture partner and a related company to the subsidiary. The transfer had been approved by the relevant government authorities. After the transfer, the effective interest of the Group in the jointly controlled entity increased from 16.73% to 24.80%.

Notes:

- (a) A jointly controlled entity, Sichuan Jinfeng Innovation Industry Company Limited, was incorporated in the PRC and its 24.80% effective interests are held by the Group. Its principal activities are manufacturing and trading of cigarette paper.
- (b) A jointly controlled entity, Sichuan Jinfeng Spike Paper Products Company Limited, was incorporated in the PRC and its 26.17% effective interests are held by the Group. Its principal activities are manufacturing and trading of cigarette paper.

11. DEBTORS, NET

The ageing analysis of debtors after provision for bad debts as at 30th June 2004 was as follows:

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	181,126	136,889
Over 3 months but less than 6 months	44,181	20,993
Over 6 months but less than 1 year	27,268	26,330
Over 1 year	123	9,420
	<u>252,698</u>	<u>193,632</u>

The normal credit periods granted by the Group are on average 1 to 12 months from the date of invoice.

12. CREDITORS

	30th June 2004	31st December 2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 3 months	104,279	64,206
Over 3 months but less than 6 months	4,299	1,176
Over 6 months but less than 1 year	302	67
Over 1 year	511	444
	<u>109,391</u>	<u>65,893</u>

13. LONG-TERM BANK LOANS

At 30th June 2004, the Group's long-term bank loans were repayable as follows:

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
In the second year	14,139	14,139
In the third to fifth year	50,189	50,189
	<u>64,328</u>	<u>64,328</u>

14. SHARE CAPITAL AND SHARE OPTIONS

(a) Share capital

	30th June 2004		31st December 2003	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
<i>Authorised:</i>				
Ordinary shares of HK\$0.50 each				
Beginning of the period/year	500,000,000	250,000	500,000,000	250,000
Increase in authorised ordinary share capital	500,000,000	250,000	-	-
End of the period/year	<u>1,000,000,000</u>	<u>500,000</u>	<u>500,000,000</u>	<u>250,000</u>
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.50 each				
Beginning of the period/year	367,001,860	183,501	314,300,804	157,150
Issue of shares	-	-	31,400,000	15,700
Exercise of share options	3,413,008	1,706	21,301,056	10,651
End of the period/year	<u>370,414,868</u>	<u>185,207</u>	<u>367,001,860</u>	<u>183,501</u>

By a special resolution passed on 2nd June 2004, the authorised ordinary share capital of the Company was increased from HK\$250,000,000 to HK\$500,000,000 by the creation of an additional 500,000,000 shares of HK\$0.50 each.

14. SHARE CAPITAL AND SHARE OPTIONS (continued)

(b) Share options

Movement of the number of share options during the period is as follows:

	Number of options
As at 1st January 2004	10,129,024
Exercised	<u>(3,413,008)</u>
As at 30th June 2004	<u><u>6,716,016</u></u>

Share options were granted on 23rd June 2003 at the exercise price of HK\$1.25 per share and will expire on 5th June 2013.

15. RESERVES

	30th June 2004							31st December 2003	
	Investment properties		Exchange reserve	Capital reserve	Retained earnings	The PRC		Total	Total
	Share premium	revaluation reserve				statutory reserve	Other reserve		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Beginning of the period/year	139,290	141,085	(6,091)	3,080	239,264	11,473	(757)	527,344	377,496
Exercise of share options	2,560	-	-	-	-	-	-	2,560	15,976
Issue of shares	-	-	-	-	-	-	-	-	62,800
Surplus on revaluation of investment properties									
- gross	-	-	-	-	-	-	-	-	10,038
- taxation	-	-	-	-	-	-	-	-	(12)
Increase in revaluation surplus arising from the adjustment to the construction costs of investment property upon completion of all related construction works	-	-	-	-	-	-	-	-	14,697
Share issue expenses	-	-	-	-	-	-	-	-	(2,155)
Exchange differences	-	-	-	-	-	-	-	-	3
Appropriation to the PRC statutory reserves	-	-	-	-	(4,499)	4,499	-	-	-
Profit for the period/year	-	-	-	-	35,261	-	-	35,261	83,886
Dividends	-	-	-	-	(37,041)	-	-	(37,041)	(35,385)
End of the period/year	<u>141,850</u>	<u>141,085</u>	<u>(6,091)</u>	<u>3,080</u>	<u>232,985</u>	<u>15,972</u>	<u>(757)</u>	<u>528,124</u>	<u>527,344</u>

16. BANKING FACILITIES

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Banking facilities for trade financing, loans and overdrafts	<u>482,684</u>	<u>434,860</u>
Unused facilities	<u>33,878</u>	<u>22,724</u>

17. CONTINGENT LIABILITIES

	30th June 2004 <i>HK\$'000</i>	31st December 2003 <i>HK\$'000</i>
Guarantees for bank loans of third party companies (<i>note</i>)	275,097	296,764
Counter guarantees for bank loans of a third party company	<u>42,417</u>	<u>42,417</u>
	<u>317,514</u>	<u>339,181</u>

Note:

At 30th June 2004, the Group has provided guarantees for bank loans of third party companies amounting to approximately HK\$275,097,000 (31st December 2003: HK\$296,764,000).

Among such guarantees, three amounts in the total sum of approximately HK\$230,795,000 (31st December 2003: HK\$232,667,000) (the "Guarantees"), representing 32% (31st December 2003: 33%) of the Group's net assets of approximately HK\$713,331,000 (31st December 2003: HK\$710,845,000) at 30th June 2004, were granted by a subsidiary of the Company, Sichuan Jinfeng Paper Company Limited ("Jinfeng"), whose 30.42% effective interests are held indirectly by the Company and two jointly controlled entities of the Group in the PRC, Sichuan Jinfeng Spike Paper Products Company Limited (四川錦豐斯貝克紙品有限公司) ("Spike") (in which Jinfeng holds 86% equity interests) and Sichuan Jinfeng Innovation Industry Company Limited (四川錦豐創新實業有限公司) ("Innovation") (in which Jinfeng holds 81.51% equity interests) in favour of the Bank of China (the "BOC") to secure the repayment of three bank facilities ("Bank Loan") 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\$113,903,000), RMB65,000,000 (equivalent to HK\$61,269,000) and EUR5,900,000 (equivalent to HK\$55,623,000).

The remaining balance of the Group's guarantee of approximately HK\$44,302,000 (31st December 2003: HK\$64,097,000) provided to another third party does not represent guarantee given on behalf of an entity exceeding the 25% of the Group's audited net assets threshold and details of which are not required to be separately disclosed save as have been disclosed herein.

17. CONTINGENT LIABILITIES (continued)

Note: (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. 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, Innovation and Jinfeng each entered into an arrangement with Jian Nan Chun to whom the BOC granted banking facilities that were to be guaranteed by Spike, Innovation and Jinfeng. The details of the banking facilities as at 30th June 2004 are as follows:

<u>Date of agreement</u>	<u>Guaranteed by</u>	<u>Amount</u>	<u>Interest rate</u>
11th July 2002	Jinfeng, Spike and Innovation	US\$14,600,000 (equivalent to HK\$113,903,000)	3.654% p.a.
30th October 2002	Jinfeng, Spike and Innovation	RMB65,000,000 (equivalent to HK\$61,269,000)	6.417% p.a.
12th August 2003	Jinfeng, Spike and Innovation	EUR5,900,000 (equivalent to HK\$55,623,000)	6-month interest rate LIBOR/HIBOR + 1.3%

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 agreements among Jian Nan Chun, Spike and Innovation, Jian Nan Chun will lease the Production Facilities to Spike and Innovation for a term of five to six years after which title to the respective Production Facilities will be assigned to Spike and Innovation ("Lease Arrangement"). The rentals of the Lease Arrangement mirror the respective loan repayment schedules of Bank Loan. The aggregates of all rental payments over the Lease Arrangement for Spike and Innovation will be composed of i) the principal of the respective Bank Loan; and ii) the respective interests payment. Both Production Facilities acquired for Spike and Innovation by Jian Nan Chun will be pledged to the BOC as a collateral.

18. COMMITMENTS

(a) Capital commitment

	30th June 2004 HK\$'000	31st December 2003 HK\$'000
Commitments for capital contribution to subsidiaries		
Contracted but not provided for	-	-
Authorised but not contracted for	<u>38,151</u>	<u>-</u>
	<u>38,151</u>	<u>-</u>
Commitments for construction costs		
Contracted but not provided for	<u>-</u>	<u>16,214</u>
	<u>38,151</u>	<u>16,214</u>

(b) Other commitments

In 2003, the Group entered into an agreement with Acron International Technology Ltd. for the set up of a pilot plant. At 30th June 2004, the Group had future commitment in regards of the agreement of HK\$699,000 (31st December 2003: HK\$1,749,000).

19. Related party transactions

- (a) The balances with related companies and jointly controlled entities were interest-free, unsecured and repayable within one year.
- (b) During the period, the Group sold raw materials of approximately HK\$2,115,000 (2003: Nil) to jointly controlled entities.
- (c) In February 2004, pursuant to an agreement between a joint venture partner and a non-wholly owned subsidiary of the Group, the joint venture partner transferred its 26.51% interest in one of the jointly controlled entities to the subsidiary for settlement of amounts due by the joint venture partner and a related company to the subsidiary. The transfer had been approved by the relevant government authorities. After the transfer, the effective interest of the Group in the jointly controlled entity increased from 16.73% to 24.80% (see note 10).
- (d) At 30th June 2004, certain banking facilities of the Group were secured by corporate guarantees of approximately HK\$75,310,000 (31st December 2003: HK\$72,723,000) provided by minority shareholders of a non-wholly owned subsidiary.

20. Comparative figures

- (a) Gross rental income of approximately HK\$3,769,000 has been reclassified from other revenue to turnover to conform to the current period's presentation.
- (b) Opening retained earnings at 1st January 2003 have been restated to conform with those disclosed in the annual accounts for the year ended 31st December 2003.