

# Business Review and Prospects

## **Interim Dividend**

The directors do not recommend the payment of any interim dividend for the six months ended 30th September 2004 (2003: nil).

## **Paper Packaging Business**

The contribution from the paper packaging business was continuously under severe pressure, though it recorded a turnover of about HK\$122.3 million for the six months ended 30th September 2004 (six months ended 30th September 2003: HK\$109.9 million) which representing an increase of 11.3% as compared with the same period in last year. The operating profit recorded a decrease of 7.1% to HK\$10.3 million for the six months ended 30th September 2004 (six months ended 30th September 2003: HK\$11.1 million).

The sales volume of the paper packaging business was comparable to last year. However, in order to maintain such volume and market share, the selling price of the corrugated packaging products to the customers had not been able to increase to the level sufficient to offset the higher raw materials prices. Therefore, the intense competition within the paper packaging industry brought severe pressure on the gross profit margin and resulted in a decrease in the operating profit.

Given the fierce competition of the paper packaging business and the current stagnant market condition, it is expected that the profit contribution of this segment will continue to consolidate in the coming period.

## **Petroleum Products Business**

For the six months ended 30th September 2004, the Group continued to be engaged in trading of fuel oil with customers in the PRC. The Group recorded a turnover of HK\$7.9 million for the six months ended 30th September 2004 (six months ended 30th September 2003: HK\$160.2 million) and an operating loss of HK\$17,000 for the same period (six months ended 30th September 2003: profit of HK\$1.1 million).

The sharp decrease in the turnover in trading of fuel oil is attributed to a highly volatile market, changing regulatory environment and increasingly fierce competition during the period under review. Despite these conditions, the Group will continue to be engaged in this business segment and seek to conduct business that will result in profitability for the Group.

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### Outlook

The Company plans to change its long-term business strategy to become a leading integrated service provider for oil and liquid petrochemical terminal and storage facilities in the PRC. As first steps in achieving this goal, the Company proposes to acquire all shares of Union Petro-Chemicals (BVI) Company Limited (“UPC”), which indirectly has 92% equity interest of Xiao Hu Island Terminal, an integrated service provider for oil and liquid petrochemical storage and transshipment located in Guangdong Province, the PRC, and exercise a put option to dispose of all of the Group’s interest in the paper packaging business. A financial adviser has been appointed to advise the Company in relation to these transactions. On 5th October 2004, the Company signed a conditional agreement for sale and purchase for this acquisition. Details of this acquisition and the exercise of the put option were included in the Company’s announcement dated 13th October 2004.

In addition, an independent board committee has been established and an independent financial adviser has been appointed by the Company to advise the independent board committee and the independent shareholders on these transactions. The proposed acquisition and the exercise of the put option of the Company are subject to independent shareholders’ approval at the extraordinary general meeting of the Company and a circular containing the details of these transactions will be dispatched in due course.

The Company believes that the acquisition of UPC and the disposal of the paper packaging business represent an attractive opportunity for the Company to venture into and focus on the terminal and storage business. In the long run, the Company strives to become a leading integrated service provider for oil and liquid petrochemical terminal and storage facilities in the PRC and intends to work vigorously towards this goal for the benefits of its shareholders.