



LEEFUNG-ASCO PRINTERS HOLDINGS LIMITED

INTERIM REPORT 2001

利豐雅高印刷集團有限公司

二零零一年中期業績報告



INTERIM RESULTS

The Directors of Leefung-Asco Printers Holdings Limited (the “Company”) are pleased to announce the unaudited interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2001 together with the comparative figures for the corresponding previous period as follows:

Unaudited Condensed Consolidated Income Statement

		Six months ended 30 June	
	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000 (RESTATED)
Turnover		499,613	598,920
Cost of sales		(403,637)	(431,347)
Gross profit		95,976	167,573
Other revenue		2,490	3,240
Distribution costs		(12,961)	(17,623)
Administrative expenses		(60,430)	(63,237)
Amortisation of goodwill in respect of acquisition of subsidiaries		(304)	(7,618)
Impairment loss on goodwill in respect of acquisition of subsidiary		–	(31,655)
Profit from operations	3	24,771	50,680
Finance costs		(14,026)	(20,203)
Share of results of associates		(76)	(1,148)
Amortisation of goodwill in respect of acquisition of an associate		(140)	–
Profit before taxation		10,529	29,329
Taxation	4	(3,492)	(10,902)
Profit before minority interests		7,037	18,427
Minority interests		(6,478)	(7,148)
Profit attributable to shareholders		559	11,279
Dividends		–	12,161
Basic earnings per share	5	0.15 cent	4.10 cents

There were no gains or losses recognized other than the net profit for both periods.

SEGMENT INFORMATION

Business segments

	Printing of books and magazines <i>HK\$'000</i>	Printing of packaging products <i>HK\$'000</i>	Financial printing <i>HK\$'000</i>	Total <i>HK\$'000</i>
Six months ended 30 June 2001				
Turnover	<u>337,966</u>	<u>129,852</u>	<u>31,795</u>	<u>499,613</u>
Segment profit/(loss) before amortisation charges for goodwill	16,789	13,477	(223)	30,043
Amortisation charges for goodwill	<u>(304)</u>	<u>–</u>	<u>–</u>	<u>(304)</u>
Segment results	<u>16,485</u>	<u>13,477</u>	<u>(223)</u>	29,739
Unallocated corporate expenses				(5,605)
Interest expenses, net of interest income				<u>(13,389)</u>
Profit from operations after finance costs				<u>10,745</u>
Six months ended 30 June 2000				
Turnover	<u>340,637</u>	<u>162,313</u>	<u>95,970</u>	<u>598,920</u>
Segment profit before charges for goodwill	45,430	25,353	22,309	93,092
Amortisation charge for goodwill	(402)	(49)	(7,167)	(7,618)
Impairment loss on goodwill	<u>–</u>	<u>–</u>	<u>(31,655)</u>	<u>(31,655)</u>
Segment results	<u>45,028</u>	<u>25,304</u>	<u>(16,513)</u>	53,819
Unallocated corporate expenses				(5,320)
Interest expenses, net of interest income				<u>(18,022)</u>
Profit from operations after finance costs				<u>30,477</u>

Geographical segments

	Turnover	
	Six months ended 30 June	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Mainland China	282,584	232,139
Hong Kong	70,258	170,447
	352,842	402,586
United States of America	111,915	118,348
United Kingdom	14,926	30,356
Other areas	19,930	47,630
	499,613	598,920

Amongst the various geographical markets of the Group, the contribution of each principal activity, when measured in relation to turnover, is not significantly different.

Unaudited Condensed Consolidated Balance Sheet

	<i>Notes</i>	30 June 2001 HK\$'000	31 December 2000 HK\$'000 (RESTATED)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		24,550	24,550
Property, plant and equipment		661,256	667,608
Goodwill	6	3,899	4,343
Interests in associates		34,169	34,245
		723,874	730,746
Current assets			
Inventories		231,472	264,672
Debtors, deposits and prepayments	7	309,846	328,535
Amounts due from associates		6,618	10,378
Marketable securities		12	12
Bank balances and cash		99,859	148,024
		647,807	751,621
Current liabilities			
Creditors and accrued charges	8	112,599	199,475
Bills payable		67,186	73,446
Taxation payable		3,209	4,005
Short-term borrowings		207,808	326,283
		390,802	603,209
Net current assets		257,005	148,412
Total assets less current liabilities		980,879	879,158
Non-current liabilities			
Bank loans – amount due after one year		133,215	156,000
Deferred taxation		9,901	9,901
		143,116	165,901
MINORITY INTERESTS		63,766	76,609
		773,997	636,648
CAPITAL AND RESERVES			
Share capital	9	40,274	30,238
Reserves	10	733,723	606,410
		773,997	636,648

Unaudited Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2001	2000
	HK\$'000	HK\$'000
Net cash inflow/(outflow)		
from operating activities	42,229	(16,011)
Net cash outflow from returns on		
investments and servicing of finance	(56,700)	(47,003)
Net tax paid	(4,288)	(4,425)
Net cash outflow from investing activities	(49,126)	(52,343)
Net cash inflow from financing activities	73,690	84,901
	<hr/>	<hr/>
Increase/(Decrease) in cash and		
cash equivalents	5,805	(34,881)
Cash and cash equivalents at		
beginning of the period	73,299	58,135
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Cash and cash equivalents at		
end of the period	79,104	23,254
	<hr/>	<hr/>
Analysis of the balance of cash		
and cash equivalents		
Bank balances & cash	99,859	92,131
Bank overdrafts	(6,902)	(881)
Trust receipt loans	(13,853)	(67,996)
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	79,104	23,254
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Notes to condensed financial statements

1. Accounting policies

The interim financial report has been prepared in accordance with the Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The segment information for six months ended 30 June 2001 is issued in compliance with the requirements of the Statements of Standard Accounting Practice 26 issued by the Hong Kong Society of Accountants.

In the current period, the Group has adopted Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") and has elected to restate goodwill previously eliminated against reserves. Accordingly, the amounts of such goodwill have been remeasured in accordance with the requirements of SSAP 30. Accumulated amortisation and impairment losses in respect of goodwill between the date of the relevant acquisitions and the date of adoption of SSAP 30 have been recognized retrospectively. Following restatement, goodwill is presented as an asset in the balance sheet. Goodwill is amortised over its estimated useful life over period of not more than 20 years. Impairment losses in respect of unamortised

balances are charged to the income statement at the time impairment losses are identified. The restatement of goodwill and related amortisation and impairment losses in prior periods have been adjusted resulting in a prior period adjustment.

In the current period, the Company has adopted Statement of Standard Accounting Practice 9 (Revised) "Events after the balance sheet date" ("SSAP 9 (Revised)") for the first time. SSAP 9 (Revised) specifies that dividends declared after the balance sheet date should not be recognised as a liability at the balance sheet date. SSAP 9 (Revised) has been applied retrospectively resulting in a prior period adjustment.

Except as stated above, the condensed financial statements have been prepared in accordance with the accounting policies consistent with those adopted by the Group in its financial statements for the year ended 31 December 2000.

2. Prior periods adjustments

The effect of changes in accounting policies on the results for the prior periods is as follows:

	Year ended 31 December 2000 <i>HK\$'000</i>	Six months ended 30 June 2000 <i>HK\$'000</i>
Net profit for the year/period attributable to shareholders		
– as originally stated	<u>70,276</u>	<u>50,552</u>
– prior period adjustments:		
Amortisation of goodwill in respect of acquisition of		
– subsidiaries	(11,319)	(7,618)
– associates	(239)	–
Impairment of goodwill in respect of acquisition of		
– subsidiaries	(63,211)	(31,655)
– an associate	(3,661)	–
Retrospective loss on disposal of associates written back for goodwill amortised prior to disposal	<u>8,959</u>	<u>–</u>
	<u>(69,471)</u>	<u>(39,273)</u>
– as restated	<u><u>805</u></u>	<u><u>11,279</u></u>

The effect of changes on the results for the current period is a total charge of HK\$444,000 against the income, being amortisation charges of goodwill previously acquired.

The effect of changes to the reserves for prior periods is set out in note 10.

3. Profit from operations

During the period, profit from operations was determined after charging depreciation of HK\$29,454,000 (2000: HK\$28,430,000) in respect of the Group's property, plant and equipment.

4. Taxation

The charge comprises:

	Six months ended 30 June	
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Hong Kong Profits Tax calculated at 16% of the estimated assessable profit for the period	–	3,570
Profits tax outside Hong Kong	3,492	4,759
Deferred taxation	–	1,996
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Taxation attributable to the Company and its subsidiaries	3,492	10,325
Share of taxation of associates	–	577
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	<u>3,492</u>	<u>10,902</u>

Taxation outside Hong Kong is calculated at the rate prevailing in the respective jurisdiction.

5. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$559,000 for the six months ended 30 June 2001 (2000: HK\$11,279,000, as restated) and on the weighted average number of 379,020,696 shares (2000: 275,284,346) in issue during the period.

The Company has no dilutive potential shares in issue during the period.

6. Goodwill

	30 June	31 December
	2001	2000
	HK\$'000	<i>HK\$'000</i>
Goodwill arising on acquisitions	97,101	97,101
Less: Accumulated amortisation	(26,330)	(25,886)
Impairment losses recognised	(66,872)	(66,872)
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Carrying value	<u>3,899</u>	<u>4,343</u>

7. Debtors, deposits and prepayments

The Group allows different credit periods to its trade customers depending on the type of printing services required. Credit periods vary from 0 to 180 days in accordance with industry practice.

The following is an aged analysis of the Group's trade debtors:

	30 June 2001 HK\$'000	31 December 2000 HK\$'000
Within credit period	206,197	158,687
0 – 30 days past due	27,512	29,154
31 – 60 days past due	13,045	16,462
61 – 90 days past due	9,031	7,469
Over 90 days past due	10,715	30,754
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	266,500	242,526
Other receivables, deposits and prepayments	43,346	86,009
	<hr/>	<hr/>
	309,846	328,535
	<hr/> <hr/>	<hr/> <hr/>

8. Creditors and accrued charges

The following is an aged analysis of the Group's trade creditors:

	30 June 2001 HK\$'000	31 December 2000 HK\$'000
0 – 30 days	55,674	65,599
31 – 60 days	5,229	11,839
61 – 90 days	2,071	3,788
91 – 120 days	1,222	1,155
Over 120 days	6,124	3,480
	<hr/>	<hr/>
Trade payables	70,320	85,861
Other payables and accrued charges*	42,279	113,614
	<hr/>	<hr/>
	112,599	199,475
	<hr/> <hr/>	<hr/> <hr/>

* The amount in 2000 included HK\$30,114,000 of the balance payable in connection with the acquisition of Vite Limited.

9. Share capital

	No. of shares	Nominal value <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each	<u>500,000,000</u>	<u>50,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.10 each:		
At 1 January 2001	302,374,918	30,238
Placement of shares	100,792,000	10,079
Purchases of own shares	<u>(430,000)</u>	<u>(43)</u>
At 30 June 2001	<u>402,736,918</u>	<u>40,274</u>

On 13 February 2001, the Company issued a total of 100,792,000 new shares at a price of HK\$1.65 per share to Smurfit International B.V.. The net proceeds from the issuance amounted to approximately HK\$161,669,000 after expenses.

10. Reserves

	<i>HK\$'000</i>
At 1 January 2000	
– as originally stated	501,174
– prior period adjustments:	
Derecognition of liability for 1999 final dividend	19,213
Restatement as assets being goodwill arising on acquisitions previously charged against reserve	88,807
Retrospective recognition of accumulated amortisation charges of goodwill in respect of acquisitions	<u>(14,328)</u>
– as restated	594,866
Final dividend for 1999	(19,213)
Premium paid on repurchases of own shares	(3,036)
Premium on placement of shares	45,060
Interim dividend for 2000	(12,072)
Profit for the year (Note 2)	<u>805</u>
At 31 December 2000 — as restated	606,410
Final dividend for 2000	(24,190)
Premium paid on repurchases of own shares	(646)
Premium on placement of shares	151,590
Profit for the period	<u>559</u>
At 30 June 2001	<u>733,723</u>

11. Operating lease commitments

At 30 June 2001, the Group was committed to pay following amounts within a year under non-cancellable operating leases for the following:

	Land and buildings		Office equipment	
	30 June 2001	31 December 2000	30 June 2001	31 December 2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In respect of operating leases expiring				
– Within one year	280	325	–	–
– In the second to fifth year inclusive	4,488	3,683	972	972
	<u>4,768</u>	<u>4,008</u>	<u>972</u>	<u>972</u>

12. Capital commitments

	30 June 2001	31 December 2000
	HK\$'000	HK\$'000
Capital expenditure in respect of plant, property and equipment		
– contracted for but not provided in the financial statements	49,986	33,973
– authorised but not yet contracted	15,940	–
	<u>65,926</u>	<u>33,973</u>
Capital expenditure in respect of investment in an associate		
– contracted for but not provided in the financial statements	21,060	–
	<u>86,986</u>	<u>33,973</u>

13. Contingent liabilities

	30 June 2001	31 December 2000
	HK\$'000	HK\$'000
Export bills discounted with recourse	<u>35,730</u>	<u>71,343</u>
Guarantees given to banks in respect of banking facilities granted to associates	<u>40,560</u>	<u>40,560</u>

14. Related party transactions

- (a) During the period, the Group incurred subcontracting expenses of approximately HK\$340,000 (2000: HK\$28,999,000) for printing services provided by Sing Kee Printing Factory Limited ("Sing Kee"), company in which the spouse of a director of a wholly-owned subsidiary of the Company has a controlling interest. Sing Kee ceased to be a connected party of the Group since February 2001 when that director resigned from the wholly-owned subsidiary of the Company.

The transactions with Sing Kee were carried out on terms similar to those applicable to transactions with unrelated parties.

- (b) During the period, the Group purchased paper amounting to approximately HK\$29,687,000 (2000: HK\$21,296,000) from 上海金葉包裝材料有限公司, a company in which 上海紡印印刷包裝有限公司 holds 37% interest. 上海紡印印刷包裝有限公司 holds 41% interest in a subsidiary of the Company. The purchase prices were determined between the Group and the vendor by reference to fair market prices.
- (c) During the period, the Group received interest income of approximately HK\$219,000 (2000: Nil) from 上海紡印印刷包裝有限公司 for an interest-bearing advance from the Group. The advance was fully settled in March 2001.

DIVIDEND

The Board has resolved not to pay an interim dividend (2000: HK\$4.0 cents per share), but will review the distribution of dividend for 2001 based on the full year's trading performance.

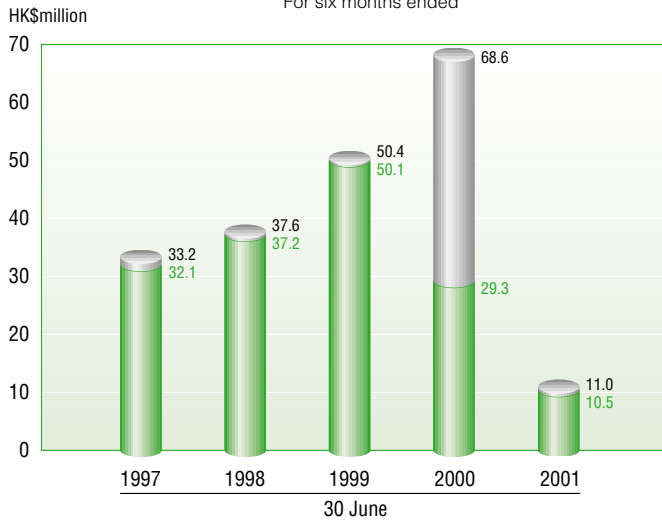
Turnover

For six months ended



Profit before taxation

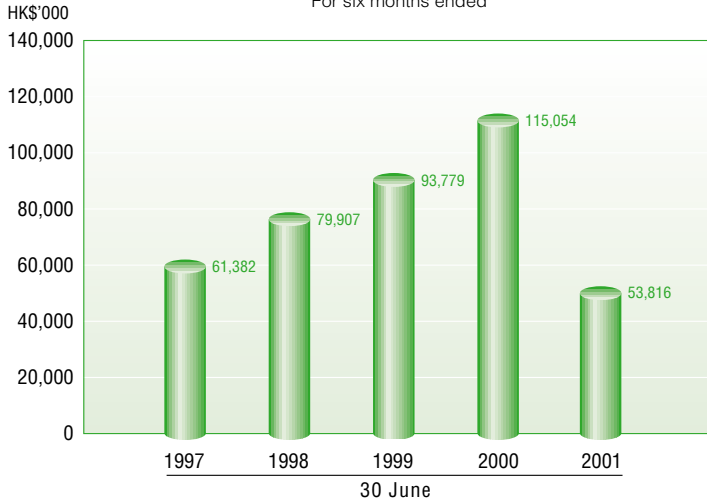
For six months ended



- Previously reported amount
 - Restated amount (effect on adoption of new SSAP 30 regarding goodwill treatment)

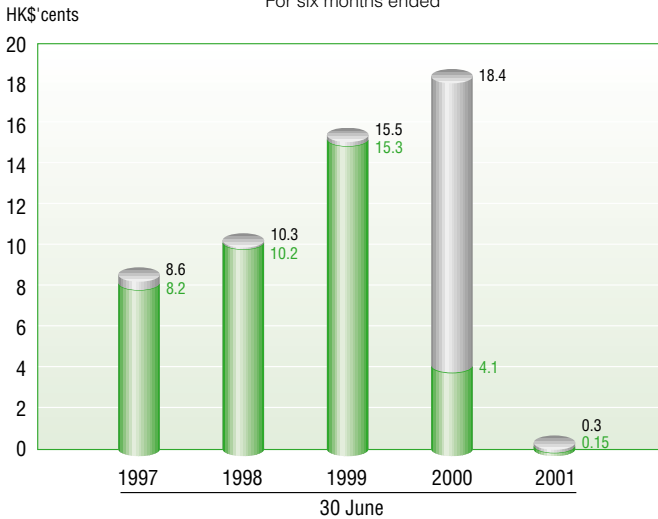
EBITDA

(Earnings before interest, taxation, depreciation & amortisation)
For six months ended



Earnings per share

For six months ended



- Previously reported amount

- Restated amount (effect on adoption of new SSAP 30 regarding goodwill treatment)

MANAGEMENT DISCUSSION & ANALYSIS

The result for the first six months was disappointing since total turnover of the Group decreased by 16.5% to HK\$500 million compared with the same period last year. This drop in turnover was mainly attributable to the weak U.S. and European markets. Additionally, sluggish demand has forced most of our competitors to cut prices in order to compete for orders to maintain higher capacity utilization. Although the average paper price has declined by 15%, back to the level at the end of 1999, most customers have used this as an excellent reason for negotiating an immediate price cut. As a result, the pressure on our profit margin in the first half of the year was especially heavy since we satisfied most of our customers' orders with relatively high priced paper from our closing inventory last year.

BOOKS AND MAGAZINES PRINTING

		Turnover for six months ended 30 June	
		2001	2000
	+/-%	HK\$' million	HK\$' million
Case-bound books	-5%	162	171
Magazines	+34%	113	84
Children's books	-31%	48	70
Colour separation & publishing	-6%	15	16
		<hr/>	<hr/>
	-1%	338	341
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Our printing production capacity has experienced change in its usage allocation, i.e. among books and magazines. We are still facing the tough conditions for exporting case-bound and children's books that started in the second half of last year. Fortunately, the hardship was lessened by more case-bound books and magazines being printed for the PRC market. Magazines printed for the PRC market continued to record encouraging growth. This was attributable mainly to the web-offset press that was installed in the Beijing Joint Venture in the fourth quarter of last year, which has on one hand released printing capacity in the Shenzhen plant and on the other hand has proved a fast and cost effective way to service magazine titles in the northern part of the PRC.

PACKAGING PRINTING

Although cigarettes packaging printing remained stable, the sales of other packaging products disappointed due to the unexpected loss of sizable U.S. export and re-export orders. Other major competitors were willing to quote prices below our cost and thus were beyond our competition.

FINANCIAL PRINTING

The fall in the Hong Kong financial market has been directly reflected in a sharp decline in the demand for IPO prospectuses. However, we are still able to maintain our market share in the area of financial reports although the market is highly competitive.

FINANCIAL REVIEW

The retrospective adoption of certain SSAPs as set out in note 1 has no material effect to the net asset value of the Group at both the interim period end and the last financial year end.

Cash flow position for the Group at the interim date was strong, earnings before interest, taxation, depreciation and amortisation (EBITDA) from operations for the period amounted to approximately HK\$54 million. In addition, the placement of 100,792,000 new shares at a price of HK\$1.65 per share in the company to Smurfit International B.V. in February 2001 has brought in net proceeds of approximately HK\$162 million. As a consequence of the increased equity base, net borrowings of the Group decreased by HK\$93 million with gearing ratio reduced from 53% to 31% comparing the interim period end with the last financial year end. In view of the Group's ability to generate cash from its operations, together with approximately HK\$500 million unutilised bank cash line facilities at the interim date, the Board considers the Group has sufficient financial resources to satisfy its capital expenditure plans, further details of which are contained in the "Prospects" section below. The Group will also work keenly towards better working capital management in further reducing the inventory level and tightening its measures on the trade receivables.

PROSPECTS

Because of the market potential in magazine printing in the PRC, we have decided to add another web-offset press together with other printing and binding equipment to meet the upcoming demand in the North through an increase of US\$5 million in the capital of our Beijing JV during the second half of the year. Our share of the investment will be US\$2.7 million, making the Beijing JV a 47 % associate company. At the same time we will investigate cautiously the feasibility of adding the fifth web-offset press of the Group, either in Shenzhen or in another region with high market potential such as Shanghai. In the meanwhile, the Group remains the largest colour magazine printer in the PRC. The Group will also explore the opportunity of the PRC market for financial printing business based on our expertise as one of the leading financial printers in Hong Kong.

With the paper price gradually declining, we expect to soon pick up a larger volume export packaging orders. In February, the company issued HK\$166 million worth of new shares to Smurfit International B.V. of which more than HK\$100 million is planned for investing in the packaging business over the

next two years. Initially, the Group has planned to spend around HK\$50 million on building a corrugated plant and a corrugated production line in Dongguan, adjacent to our existing packaging plant. The project which will commence in the fourth quarter this year will provide production space of about 190,000 square feet and generate a monthly maximum output of 5,000 tones. With the financial contribution and expertise from Smurfit, we believe such investment will enable us to expand our packaging business in 2002.

Regardless of keen competition and thin profit margins, we managed to maintain our leadership in the market due to strong technical know-how, our sound infrastructure and well established presence in the PRC. In order to cope with the existing weak export demand and keen price competition, we shall continue to implement cost cutting measures, strengthen our cost structure and strive for competitiveness while waiting for the export markets to recover.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2001, the interests of Directors and chief executives in the shares of the Company as recorded in the register maintained under section 29 of Hong Kong's Securities (Disclosure of Interests) Ordinance were as follows: –

Directors	Number of ordinary shares			
	Personal interests	Family interests	Corporate interests	Other interests
John, Yang Yat Kwei	14,219,400	9,469,432(a)	–	121,625,095(b)
Peter, Yang Sze Chen	900,000	–	16,514,867(c)	–
David, Shen Ming Sun	4,260,000	–	–	–
Rebecca, King Yung Jye	–	–	–	–
Quincy, Tang Yiu Kwan	–	–	–	–
Stanislaus, Tsao Kwang Ngo	–	–	–	–
Walter, Ma King Wah	–	–	–	–
Anthony John Nevill Russell	300,000	–	–	–
Norman, Ho Man Kei	–	–	–	–
Kyle Arnold Shaw Jr.	–	–	12,728,000(d)	–
Gerard William McGann	–	–	–	–
Michael Smurfit Jr.	–	–	–	–
Alain Raymond Baudant	–	–	–	–
Gabriel Joseph McCarrick	–	–	–	–

- (a) These shares were held by the spouse of Mr. John, Yang Yat Kwei.
- (b) These shares were held through companies controlled by Margentin Limited which is 100% owned by The Yang Family Trust, of which Mr. John, Yang Yat Kwei is a discretionary object. Of the 121,625,095 shares, 19,334,867 shares are held by Randburg Limited, 74,316,900 shares are held by United Rise Investments Limited, 25,793,328 shares are held by Eggbutt Knitwear Limited and 2,180,000 shares are held by Friendfield Label Manufacturing Limited. Randburg Limited and United Rise Investments Limited are controlled by Margentin Limited. Friendfield Label Manufacturing Limited is 51% owned by Eggbutt Knitwear Limited and 74% of the issued capital of Eggbutt Knitwear Limited is owned by Randburg Limited.
- (c) These shares were held through Team Long Development Limited, a company beneficially owned by Mr. Peter, Yang Sze Chen.
- (d) These share were held by Shaw, Kwei & Partners (Asia) Ltd., in which Mr. Kyle Arnold Shaw Jr. has a beneficial interest.

Saved as disclosed above and other than certain nominees' shares in subsidiaries held by Mr. John, Yang Yat Kwei in trust for the Group, none of the Directors, chief executives, or their associates had any interest in any shares of the Company or any of its associated corporations as at 30 June 2001.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2001, the following shareholders were interested in 10% or more of the issued share capital of the Company as shown in the register of substantial shareholders maintained under Section 16(1) of the Securities (Disclosure of Interests) Ordinance:

	Number of Ordinary shares	%
Smurfit International B.V.	100,792,000	25.0
United Rise Investments Limited	74,316,900	18.5
Randburg Limited	47,308,195	11.7

Saved as disclosed above, the directors of the Company are not aware of any other person having an interest of 10% or more in the issued share capital of the Company at 30 June 2001.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the six months ended 30 June 2001, the Company repurchased a total of 430,000 shares of HK\$0.10 each on the Stock Exchange of Hong Kong Limited and paid an aggregate price of approximately HK\$689,000 for the purchases.

The details are as follows:

Month	Number of Shares	Price per share		Total Cost <i>HK\$'000</i>
		Highest <i>HK\$</i>	Lowest <i>HK\$</i>	
March	180,000	1.62	1.60	290
April	250,000	1.60	1.59	399

An amount of HK\$43,000 has been transferred from retained profits to the capital redemption reserve and the premium paid on redemption of these repurchased shares amounting to HK\$646,000 has been charged to the share premium account.

Saved as disclosed above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended 30 June 2001.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and the unaudited financial statements for the six months ended 30 June 2001.

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 of the Listing Rules of the Stock Exchange of Hong Kong Limited throughout the period.

By Order of the Board
John, Yang Yat Kwei
Chairman

30 August 2001