

## INTERIM DIVIDEND

The Directors have declared the payment of an interim cash dividend of HK1.5 cents per share for the six months ended 30th June, 2001 payable on or about 18th October, 2001 to shareholders whose names appear on the Register of Members of the Company on 9th October, 2001.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Thursday, 4th October, 2001 to Tuesday, 9th October, 2001 (both dates inclusive) during which period no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates, must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited, 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not later than 4:00 p.m. on Wednesday, 3rd October, 2001.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### **Satisfactory Results of Operations**

For the six months ended 30th June, 2001, turnover of the Group amounted to approximately HK\$331,376,000, representing an increase of 69.35% over the corresponding period in 2000. Growth rates of turnover from the packaging printing business and the distribution business were 16.37% and 277.50% respectively. The packaging printing business is the core business of the Group, accounting for 54.42% of the Group's total turnover for the six months ended 30th June, 2001.

Earnings before net interest, tax, depreciation and amortisation (EBITDA) was approximately HK\$53,436,000. For the six months ended 30th June, 2001, profit attributable to shareholders was approximately HK\$20,143,000, representing an increase of 7.75% as compared to the corresponding period of last year. Overall gross profit margin was 16.61%, while gross profit margin for packaging printing business was 28.14% to maintain a stable level as compared to that of the previous year.

### **The Promising PRC Tobacco Market**

During the period under review, printed packaging goods for cigarettes, the principal product of the Group's packaging printing business, accounted for 96.24% of the total turnover from this business.

During the first half of 2001, the industrial and commercial tax revenue from the PRC's tobacco industry was approximately RMB64,000,000,000, representing an increase of 17% over the same period in 2000. In addition, sales volume of PRC's cigarettes for the period was 16,950,000 master cartons, surging by 3.8% from the figure of the first half of 2000.

### **Aggressive Marketing Strategies**

The Group has established a market positioning to differentiate its products and services, as well as create and communicate a unique perception of its products and services to distinguish itself from its competitors. The Group aims to create an image as a provider of high quality variegated products and just-in-time printing services at a competitive price with excellent reputation.

During the period under review, the Group has successfully expanded its customer base by attracting new customers within the PRC tobacco and wine industries, such as Shaanxi Hanzhong Tobacco Group Cigarette Factory No. 1 and Yunnan Red Wine Company Limited.

### **Comprehensive Production Facilities**

During the period under review, three advanced production machines for hot-foil stamping, embossing and die-cutting were deployed in the Group's Yunnan production plant as an effort to enhance the capacity of post-press operations.

As of 30th June, 2001, the Group had three rotogravure printing production lines and three sheet-fed offset printing production lines with the capability to realise an on-line eight-colour printing operation.

### **Leading Production Technology and Stringent Quality Control**

Due to the Group's devoted efforts to develop production technologies to improve quality control and to enhance the overall efficiency of the operation, advanced and qualitative technologies such as double-sided printing, gradually lightened printing, 3-dimensional hologram, ultraviolet varnishing and printing after hot-foil stamping were all successfully applied.

In addition, the Group has effectively implemented cost containment measures and quality management for the period under review. As a result, the overall production yield rate achieved an impressive 96%.

### **Proper Human Resources Development**

As at 30th June, 2001, the Group employed a total of over 800 employees, and among which, approximately 700 employees were hired by the Group's Yunnan production plant.

In addition to enrolling its staff in renowned external management courses, the Group also provided comprehensive on-the-job training and process/product orientation for the staff so as to improve their overall qualifications and to continuously keep them abreast of industry changes.

### **Steady Growth in Distribution Business**

During the period under review, turnover from the distribution business amounted to approximately HK\$150,138,000, maintaining a satisfactory level as compared to the second half of 2000.

The global economic downturn has impacted on the demand of computer and electronic products. However, leveraging on its extensive experience and a strong sales network, the Group was able to maintain a steady growth.

## **Future Prospects**

### *Encouraging Market Development*

With the PRC expecting to join the World Trade Organisation by the end of this year, coupled with the estimated growth rate of approximately 7% for PRC's gross domestic product this year, the consumer products market in the PRC, which is the major market segment of the Group, foresees a prosperous future.

With advanced equipment, leading production technologies, comprehensive sales channel and excellent publicity, the Directors are confident that the Group can secure the new orders from at least two large-scale consumer product manufacturers and launch three new products for the coming year.

### *Investment in Production Facilities*

With a reduction in set-up time, the smooth and efficient arrangement in production schedule and the improvement of pre-press operations, the Directors believe that the production efficiency can improve by 10%.

In addition to investing in new pre-press machines, the Group is looking to set up another design company in Chengdu City, located in Sichuan Province of the PRC, as an effort to enhance its product development and design capability, to strengthen its intelligence on market development as well as to provide excellent services to its customers.

A six-colour sheet-fed offset printing press in conjunction with an on-line ultraviolet system for varnishing and the off-line double ultraviolet coating machine are expected to be installed in the Group's Yunnan production plant by November 2001 to achieve an analogical flexography printing effect on the products.

### *Opportunity in Anti-counterfeiting Business*

In May 2001, the Group entered into a cooperative agreement with Hainan Guoke Telesense Anti-counterfeit Science & Technology Company Limited to provide nationwide authentication services in the PRC. Other than using high quality printing techniques like 3-dimensional hologram, anti-counterfeiting digit code is another measure used to prevent the forgery of products. The synergistic effect of this cooperation will likely be reflected by the end of this year.

### *Flexible Marketing Strategies*

The Group will continue to develop new printed packaging products for different consumer goods and to diversify its customer base geographically.

Looking ahead, the Directors are confident that two business segments will enjoy a healthy growth, while every team member will continue to look for further investment opportunities to improve the overall performance to maximize profitability.

### LIQUIDITY AND FINANCIAL RESOURCES

The Group has maintained a stable financial position for the period. As at 30th June, 2001, the net debt to equity ratio (Interest bearing liabilities less cash/ Shareholders' equity plus minority interests) was reduced from 44.48% to 34.36%, thereby representing a significant improvement. The interest coverage ratio of the Group's earnings before net interest, tax, depreciation and amortisation (EBITDA) to net interest expenses was 8.25 times, which was the same as 2000.

## DIRECTORS' INTERESTS IN SECURITIES

As at 30th June, 2001, one of the Directors had the following interests in the share capital of the Company as recorded in the register maintained by the Company under Section 29 of the Securities (Disclosure of interests) Ordinance (the "SDI Ordinance") or as notified to the Company:

<b>Name</b>	<b>Nature of interest</b>	<b>Number of shares</b>
Mr. Hui King Chun, Andrew	Family ( <i>Note</i> )	199,500,000

*Note:* These shares are registered in the name of Accufit Investment Inc., a company indirectly wholly-owned by a discretionary trust, the beneficiaries of which are the family members of Mr. Hui King Chun, Andrew.

Save as disclosed herein, none of the Directors, their associates or chief executives of the Company had any beneficial or non-beneficial interests in the share capital of the Company or any of its associated corporations as defined in the SDI Ordinance as at 30th June, 2001.

## SUBSTANTIAL SHAREHOLDERS

As at 30th June, 2001, other than the interests in shares disclosed under the heading "Directors' interests in securities", no other person was recorded in the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance as having an interest of 10% or more in the issued share capital of the Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months period ended 30th June, 2001, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## CORPORATE GOVERNANCE

During the six months period ended 30th June, 2001, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that the non-executive directors are not appointed for specific terms. They are subject to retirement and re-election at the annual general meeting of the Company in accordance with Article 87 of the Company's Bye-Laws.

## PRACTICE NOTE 19 OF THE LISTING RULES ("PN 19")

In accordance with the disclosure requirements of Paragraph 3.2.1 to 3.2.3 of PN 19, the Company makes the following disclosures in relation to the details of advance to an entity:

Yunnan Zhaotong Cigarette Factory (the "YZCF") is one of the principal customers of Yunnan Qiaotong Package Printing Company Limited, a 60% owned subsidiary of the Company. As at 30th June, 2001, the trade receivable resulted from the sales made to YZCF was approximately HK\$64,879,000, which represented 27.72% of the Group's net asset value as at that date. The amount is unsecured, interest-free and repayable in accordance with the credit terms as agreed with YZCF.

## AUDIT COMMITTEE

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

By Order of the Board

**Hui King Chun, Andrew**

*Chairman*

Hong Kong, 19th September, 2001