Chief Executive Officer’s Statement

BUSINESS AND FINANCIAL REVIEW

Sweeping Changes to Build The Future

2001 was a very challenging year for Leefung-Asco, characterised by an exceptionally difficult commercial environment and the need for major restructuring. When I assumed the role of Chief Executive Officer on 17 November 2001, the Company made a commitment to meet best practice standards in commercial, operational and financial practices, and to focus sharply on the best interest of shareholders. This includes full and transparent disclosure, and the establishment of clear milestones against which to mark the Company's progress going forward. It is from this perspective that developments for the year 2001, as well as the outlook for 2002 and beyond are reported.

Leefung-Asco reports a loss of HK$95 million in 2001, compared with a restated profit of HK$1 million in 2000. Sales declined HK$120 million, down 11% from HK$1,139 million in 2000. Gross profit fell HK$171 million to HK$145 million, from HK$316 million in the prior year. Due to working capital improvements, and in particular inventory reductions, net cash inflow from operating activities declined only HK$9 million to HK$111 million.

Management has made substantial write-offs and provisions to reflect current values of inventories, equipment, bad debts, claims and real estates in Hong Kong and Shanghai. These adjustments amounted to HK$92 million, which are largely non-current in nature, reflect management's prudent approach to laying a strong financial foundation on which to build Leefung-Asco's future.

Sales Decline Driven by Three Divisions

- The Packaging Division in Dongguan lost a major order with a local exporter that deals with the US market, revenues declined 60%;

- Export sales deteriorated sharply in the Children's Book Division, reflecting the economic downturn in the States and sales dropped 29%; and

- Financial Printing suffered from the worsened conditions in the Hong Kong stock market and sales fell some 50%.

In the Packaging Division, the orders from the US retailer have, now, been recaptured and more are to come thanks to the strengthening of the relationship with the Jefferson Smurfit Group. A major revamp of the processes and of the organization has also taken place. The change will be further consolidated by the start-up, now effective, of the corrugated plant and the set-up of a new, focused management structure.

Sales Decline Driven by Three Divisions *(Continued)*

In the Children's Book Division, a more dynamic, proactive Sales and Marketing attitude will be developed through the reinforcement of the sales team. New markets and new customers will be actively sought.

For Financial Printing, 2001 has been a year of consolidation after the drain in staff suffered in previous year. A dedicated, more experienced team should bring significant improvements in a context that remains extremely challenging.

In 2001, the growth of the Magazines Printing has been sustained. The start-up of the second web press in Beijing, now effective, will further add to the sales and establish more firmly Leefung-Asco as a leading company in the area in China.

Gross Profit Suffers From Tough Price, Volume Environment And Inventory Write-Offs

The following were the main factors in the 54% decline in gross profit, which amounts to HK$171 million:

- HK$60 million – falls in pricing and volume
- HK$50 million – reductions in high cost inventories and changes in product mix
- HK$26 million – reduction in the number of IPOs for Financial Printing
- HK$35 million – provision for claims and write-offs relating to obsolete and over-valued inventories

Balance Sheet Adjustments Further Impact Profit And Loss To Reflect Current Values

HK$57 million was written off in a number of areas including : written off for obsolete equipment in a Beijing associated company; reduction in values of properties in Hong Kong and Shanghai; and as a result of bad debts on overdues, particularly in the Packaging and PRC business. Management strongly believes that the balance sheet, as adjusted now, represents a fair reflection of the Company's asset base, and will provide a solid foundation for further growth.

Financial Charges Shrink While Working Capital Improves And Cash Flow Remains Solid

Financial charges were reduced by HK$20 million thanks to lower interest rates and the share purchase by Smurfit International B.V.. This investment also preserves the net asset value of Leefung-Asco. Working capital improvements, particularly from successful inventory reductions, offset reported losses and net cash inflow from operating activities declined by only HK$9 million to HK$111 million.

Other Changes

The taxation charge decreased by HK$9 million due to the absence of a tax charge in Hong Kong as a result of the losses suffered in the current year.

The fall in profit of the 51% owned Shanghai subsidiary has lead to decrease in profit attributable to minority interests.

Reorganisation And Investment In Systems And Human Resources

A large factor in Leefung-Asco's performance has been its prime focus on rapid expansion without enough corresponding attention to reporting and control systems and operational expertise. In December 2001, an extensive reorganisation of Leefung-Asco was initiated and the first step of structuring the business into integrated business units has been completed. From 2002 onwards it will be possible to track the progress and profitability of each business unit in an adequate time frame. Financial controls have been completely revamped, with further refinements ongoing. Our goal is a fully integrated financial/commercial information system that will provide timely, reliable financial information, and accelerate data delivery to the shop floor and to our marketing operations.

In the Finance Department, top quality executives have been recruited. A clear structure has been put in place to guarantee the independence of the financial staff in performing their duties. Marketing, Manufacturing, Human Resources and Legal Affairs are areas where significant changes have already occurred.

Cost Control And Efficiency Improvements A Priority

Management is strongly committed to reducing its cost base and improving efficiency across the board. Several important cost cutting initiatives have been put in place and a Central Purchasing Department has been created to leverage the purchasing power of the Company across all its Divisions. Special emphasis will be placed on reducing direct costs and operational efficiency will be enhanced by limiting downtime and wastage through comprehensive maintenance actions.

New equipment is operational in Beijing and Dongguan and will improve efficiency, product quality and open doors for new marketing initiatives. Leefung-Asco's printing machines will be upgraded to improve both quality and productivity.

OUTLOOK

Reporting results and write-offs of this relative magnitude is necessary to rebuild Leefung-Asco's track record from a strong foundation. The prospects for the business remain strong, and will be further strengthened by our association with the Jefferson Smurfit Group through their 25% holding on our Company. We are committed to the highest standards of accounting and transparency and we expect to be reporting on progress to shareholders on a regular basis, both as financial results are announced, and when any significant and/or material development occurs. In the meantime, some immediate benefits of our restructuring programme have been reflected in the results for the first quarter of the current year, showing a welcome return to profitability. We are optimistic that this trend will continue and that Leefung-Asco will resume its forward progress for the benefit of its shareholders, its customers and its staff.

ACKNOWLEDGEMENT

On behalf of the board, I would like to express my sincere gratitude to all our staff for their dedication, hard work and contribution especially during such challenging period. In addition, we would also like to thank all our shareholders for their support of the Group and our customers for their business.

Alain Raymond Baudant
Chief Executive Officer

Hong Kong
15 April 2002