



*Chief Executive
Officer's Statement*

LFA 利豐雅高包裝印刷(東莞)有限公司
LEEFUNG-ASCO PACKAGING & PRINTING (DONG GUAN) CO., LTD.





Chief Executive Officer's Statement

BUSINESS AND FINANCIAL REVIEW

On the right track going forward

In a neutral commercial environment, 2002 was an exceptionally busy year at Leefung-Asco. Amid intense restructuring we have met the commitments outlined in the year 2001 Annual Report to abide by best practice standards in commercial, operational, financial and administrative matters and to focus on the long-term interest of the shareholders. Through an open and precise disclosure process, investors and the business community as a whole have been able to follow the progress of the Group going forward. It is in the same spirit of candid and professional communication that developments for the year 2002, as well as the outlook for 2003 are reported.

Leefung-Asco reports a net profit of HK\$40.1 million in 2002, compared with a loss of HK\$95.2 million in 2001. Total sales were virtually unchanged at HK\$1,021.8 million versus HK\$1,019.1 million in 2001, yet taking into account that the turnover of Vite Limited ("Vite") (which was disposed in 2002) was only recorded until July. The gross profit increased HK\$86.8 million to HK\$232.0 million, from HK\$145.2 million the previous year. Due to the restored profitability and further working capital improvements, net cash inflow from operating activities remained strong. This together with the disposal of Vite and partial disposal of Shanghai Fang Yin Leefung-Asco Printing and Packing Co., Ltd. (the "Shanghai JV"), lead to a HK\$113.3 million reduction in the total borrowings to HK\$202.1 million. The net gearing of the Group was 15% at 31 December 2002 compared with 33% at 31 December 2001.

Sales levels maintained

The sales of the Group were negatively impacted by HK\$21.6 million as a result of the disposal of Vite in August 2002.

Sales of the PRC Division were at the same level as last year as a result of the Management's decision to rigorously screen the customers and depart from the previous priority of building market share.

Export has been identified as a growth area in early part of 2002. Yet, the increase in sales was limited to HK\$20.7 million (2002: HK\$339.6 million versus 2001: HK\$318.9 million) as the Management was adamant that the new dynamism of the sale force should be accompanied by a strict selection of customers.

The Packaging Division reported an increase in sales of HK\$18.8 million to HK\$284.2 million from HK\$265.4 million. The strengthening of the relationship with key customer, made it possible to recapture subcontract work for the important American market. The new boxplant was commissioned after the peak sales season.



The new corrugated machine in Dongguan plant



Chief Executive Officer's Statement

Therefore it did not contribute significantly to the sales of the Group. The increase originated in the Colour Box section, where the box making process combines litho printing with laminating whilst the boxplant associates flexo printing with corrugating.

Success in controlling costs and enhancing efficiency

The following are the main factors in the 60% increase in Gross Profit, which amounts to HK\$86.8 million:

- HK\$24.1 million – reduction in paper cost
- HK\$36.5 million – reduction in stock write-offs in respect of obsolescence and overstatements
- HK\$18.5 million – reduction in staff cost
- HK\$7.7 million – various other cost savings



A corner of the press room in Dongguan plant.

The Administrative Expenses were down HK\$27.6 million to HK\$126.9 million, in 2002 as a result of the policy of constraining and reducing all type of expenses. Included in the Administrative Expenses, the Provision for bad and doubtful debts in particular is down by HK\$21.0 million to HK\$22.2 million. The provisions recorded in 2001 have enabled the Group to write off the past balances. The new policy of carefully selecting the customers experienced early successes. Management will continue to tighten credit control with the objective of further lowering the exposure for bad debts.

The Finance costs were HK\$10.6 million down in 2002 to HK\$12.8 million reflecting both the fall in interest rates and the drop in net borrowings.

The Share of associates results before tax shows a HK\$6.8 million improvement due in most part to our Beijing operation. In 2001, adjustments and write-offs in this operation had generated a net loss.

Capital items

In 2002, the capital gain generated from the disposal of Vite of HK\$25.5 million was largely offset by reduction in carrying value of certain properties and specific write-off due to the closure of non-core operations. Therefore, the result of 2002 does not benefit from the gains on capital items and primarily reflects the improvement in operations.



Chief Executive Officer's Statement

2002 – A transition year: Sharpening the edge of Leefung-Asco

Progress in the 2002 results were due to the success of the cost reduction actions made possible by the implementation of the following programmes:

- Strengthening of controls at operational and functional levels, in particular in areas like paper purchasing, capital expenditure and disposals;
- Reorganisation of the Group in business units (PRC, Export, Packaging Divisions) and Management changes. The changes brought quick and robust benefits in the Export Division, and strong improvements in the PRC Division. The Packaging Division had a complex year. Success was achieved in fixing the Colour Box Department, starting up the Boxplant, building an entirely new team so as to make the Packaging Division a division in its own right. This process did not come to an end until the last quarter of 2002;
- Recruitment at all levels. The skills and professionalism of the new staff gave the Group a much-needed fillip while bringing about many solutions and preparing for more improvement going forward.

In the meantime, Management decided to redefine the scope of the Group's business areas and to focus it on Magazines, Books and Packaging Printing. The criteria that were applied were the following:

- To focus on manufacturing activities, which resulted in the exit from those service related activities such as Vite and Racing World Publications Limited;
- To have synergies at the operational and strategic level, which brought about the reduction of the share of Leefung-Asco in the Shanghai JV from 51% to 25%.

In addition to focusing Leefung-Asco on a reduced number of activities and processes, making it possible to achieve synergies, those disposals contributed HK\$65.4 million in cash/receivables and further strengthened the balance sheet of the Group.



The hand-assembly division in Dongguan plant.



Chief Executive Officer's Statement

OUTLOOK

In 2003, the Group will continue to consolidate therefore creating the basis for a future growth in profitability.

On the strategic side, the relatively capital intensive businesses of Leefung-Asco necessitate a dramatic increase in sales, prioritising new types of customers and new markets. Progress is being made in all three divisions to restructure the sales forces accordingly. In particular, efforts are being made on the marketing and organisation sides to strengthen the synergies between Printing and Packaging, and capitalise on the unique features of the Dongguan Plant.

Internally, the turnaround of the Group will be more and more process driven. Now that Finance and Reporting disciplines have been strengthened, Purchasing and Manufacturing will become the focus of the attention. Based on selective appointments, the objectives will be:

- To work through an effective logistic chain. The objective will be to minimise the costs of materials and reduce the inventories to the optimal level on a sustainable basis;
- In Manufacturing, to set the standards to:
 - Optimise the number of people employed at a time of new Labor Legislation in China;
 - Enhance the operational efficiency, in particular to reduce wastage.

In parallel, the procedures will be gradually integrated into a vastly improved Information System, which is under development under the responsibility of the freshly created Information System Department.

The Impact of the objectives listed above will be progressive over the medium term. In the shorter term, the Group enjoys stable trading conditions in the PRC Division and confirms its drive toward improvement. The other two Divisions are dealing with a more difficult environment in view of their reliance on Exports, especially to the United States. Consequently, the near term business environment is more challenging than anticipated.

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 a challenging year. 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
9 April 2003