

# Message to Shareholders and Staff



## Chairman & CEO Joint Message

To our Shareholders, Colleagues and Friends,

Year 2003 will be remembered in Leefung's history as a new chapter.

The takeover by the Singapore-based printing and publishing company, SNP Corporation Ltd ("SNP"), from Smurfit and the Yang family in July 2003 has ended the Leefung's family-run era. SNP's firm commitment, reflecting in its solid controlling stake of 67% and appointing its Group CEO to lead the post-acquisition integration, helped remove much uncertainty in Leefung's future and direction.

While there may be an initial confusion from the employees and investors in regards to what SNP's agenda would be, extensive efforts by SNP's management to explain their vision and to engage these stakeholders lifted the sentiment shortly after the completion of the takeover exercise. In particular, SNP's transparent approach, including highlighting the loss-making packaging division, strengthened the trust from these stakeholders. This was evident from the over-subscription of share placement by SNP in order to keep the listing status of Leefung, the stability of staff turnover and an improved customer satisfaction feedback.



Outside Leefung, the business environment in Year 2003 has been very challenging. The expected Iraq War and the unexpected Severe Acute Respiratory Syndrome (“SARS”) slowed down the first-half year economy and hence our markets significantly. Nevertheless, we are glad to ride through the roughness and emerge rather unscathed, particularly for our magazine printing business in China.

We have registered a 28% drop in revenue, which resulted mainly from earlier divestments of the Shanghai-based packaging subsidiary and Hong Kong – based financial printer Vite. However, our core operations remained strong and was able to compensate the above divestment effect and achieved an 23% increase in after-tax profit before capital items year-on-year. In particular, we saw a strong second half-year, which was boosted by improved export sales to USA and Europe and domestic sales in China.

In Year 2003, we continued to generate a healthy positive operating cashflow of HK\$76 million. This proves our financial position remained strong.

Our China-based magazine printing business saw a sustainable growth that justified an immediate expansion in capacity. Besides evaluating addition of new machines, we also explored alternatives including new acquisitions to improve our market share and new market penetration.

Our Dongguan-based packaging printing business remains challenging. It did not perform well over the last few years and will be further burdened by the

high-cost corrugated-box line which was installed in late 2002. We have placed the objective of turning around this business as the priority, and with a new General Manager leading the efforts, coupling with the integration with SNP to tap its extensive overseas customer base, we are hopeful that its losses will be much reduced if not breakeven in Year 2004.

The export printing division continues to show strength. In fact, the brand equity of “Leefung”, which synthesised quality delivery and competitive pricing, helped us ride through the bumpy road along threats of SARS and Iraq War. With our extensive sales efforts, we were able to recap the shortfall in turnover in the second half of 2003. Customers’ feedback had been positive towards SNP’s taking over of Leefung, which was evident from an encouraging new order volume in first quarter of 2004.

From second half of 2003, we began quarterly reporting to improve communications with and provide timely update of our progress and performance to our stakeholders. We also have put in place a new performance-based compensation scheme to our senior management members, a step which will synchronise shareholders value with management incentive.

Looking ahead, we expect to be strongly challenged by various economies and operating environments. However, we remain confident and optimistic in our Year 2004 growth-forecast that it will better its performance in 2003.



**Peter, Yang Sze Chen**  
Chairman



**Yeo Chee Tong**  
Chief Executive Officer

26 January 2004