Management Discussion & Analysis

BUSINESS AND FINANCIAL REVIEW

2003 was a historical and challenging year to SNP Leefung. SNP Corporation Ltd. ("SNP Corp"), a leading printing and publishing Company based in Singapore with printing operations in Singapore, Malaysia, Thailand, China and Australia, acquired 67.26% interest in SNP Leefung in July this year. In the second half year, the integration between SNP Leefung and SNP Corp has almost been completed. Since the acquisition by SNP Corp, the Group's core businesses remained strong and were able to recap the shortfall in turnover in the first half of the year. The integration effect started to emerge in the fourth quarter of the year and the Group benefited not only from the cross-selling opportunities and marketing functions but also the costs savings from centralisation of procurement and administration.

During the year under review, we were able to attain sound operating and financial results under a very competitive market environment. The Group recorded a turnover of HK$735 million, down from HK$1,022 million, representing a decline of HK$287 million, approximately 28% over last year. The reason for the decline was attributed to the combined effects of the exclusion of the turnovers contributed by the disposed subsidiaries amounted to HK$216 million for the Shanghai cigarette packaging joint venture and HK$41 million from

(left to right) Tan Jin Yan, Peter Yang, Yeo Chee Tong, Lo Kin Cheung

financial printing. Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") and Iraq War which rendered the business environment extremely difficult, our core printing businesses continue to provide positive contributions in terms of operating profits and cashflows. After taking into account the integration cost of approximately HK$3 million, the net operating profit before capital items amounted to HK$36 million as compared to HK$29 million for the year of 2002.

Despite the inclusion of the fixed overheads of our newly set up corrugated production lines, we were still able to maintain our gross profit margin at 22%, which was comparable with that of last year. Cost savings were achieved through effective reduction in selling and overheads expenses. Administrative expenses had also dropped by HK$44.6 million in current year due to stringent cost control, low bad debt level and the exclusion of the expenses of HK$24 million of the disposed subsidiaries.

Finance costs was dramatically reduced by approximately HK$9.3 million in current year as the Group was able to take advantage of the ongoing reduction in interest rates, improved treasury management and the exclusion of the interest costs of HK$4.7 million of the disposed Shanghai joint venture.

(left to right) Chiang Chin Tien, Jin Ling, Dennis Chu

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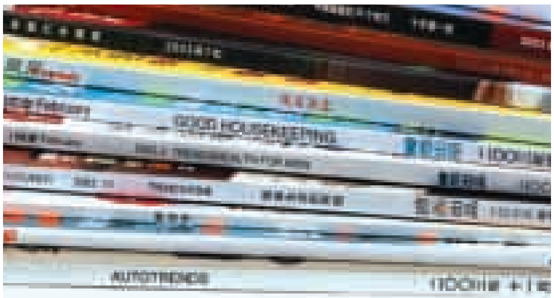

China Division

Being a well-known printing group in Mainland China, we are focusing on providing high-quality magazines and hardcover books. With our continuous proactive marketing efforts, we were able to maintain our sales level at approximately HK$350 million despite the difficult market condition in the first half of the year. Going forward, we plan to inject new capital for expanded capacities for future growth.

Export Division

The outbreak of SARS and Iraq War happened early this year had prevented overseas customers conducting proof checks in our China-based plants and delayed their print buying from the Far East. This led to a decline in turnover in the first half year. With our extensive sales efforts, we were able to recover rapidly in the second half of 2003. Further, we benefited from the integration with the SNP Group and received some orders from its existing customers in the fourth quarter.

Packaging Division

Our newly set up corrugator production line, providing a new potential profit stream, completed its full installation in September 2002. As the corrugated business was still at the start-up stage early this year, the unexpected SARS had rendered its initial business development much more difficult than planned. The insufficient sales volume was not able to cover the significant fixed cost including depreciation charges. We have restructured the management team in the fourth quarter with the objective to turnaround the operation in 2004.

Capital Investments

During the year, we have invested approximately HK$53 million in upgrading our existing facilities and increase our production capacities. This indicates our determination in reinforcing our production capability and commitment to offer high-quality services. It is contemplated that further investments in advanced printing machines will be made in coming years in order to ensure our prompt responsiveness to the increasing demand from our valuable customers. We are confident that we are well equipped to consolidate our position as one of the leading printers in printing industry.

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LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2003, the Group's cash and bank balances amounted to HK$81 million while the total assets and the net assets were approximately HK$1,094 million and HK$722 million respectively.

The current ratio at year end improved from 1.95 to 2.04 and the total bank borrowings had decreased by HK$30 million. The net gearing ratio based on total debts to equity improved from 15% to 13% as at year end. In view of the Group's ability to generate cash from its operations, together with approximately HK$461 million unutilised bank facilities at the balance sheet date, the Board considers that the Group has sufficient financial resources to finance future capital expenditure plans.

CAPITAL STRUCTURE

As at 31 December 2003, the Group's net assets were financed by internal resources through share capital and reserves. Total equity attributable to shareholders was HK$722 million, which is comparable with that of last year.

To further strengthen our balance sheet position, in December 2003, the Group had successfully refinanced its existing HK$150 million term loans at competitive interest rates. As at 31 December 2003, the Group's bank borrowings was amounted to HK$172.0 million (31 December 2002: HK$202.1 million) which represents 24% (31 December 2002: 28%) of the shareholders' equity. HK$47 million, HK$40 million and HK$85 million will be repayable within one year, the second year, the third to fifth years, respectively.

TREASURY POLICIES

The Group maintains a conservative approach on foreign exchange exposure management. The Group's borrowings at year end were all in Hong Kong dollars.

The Group's borrowings are principally on the floating rate basis. When appropriate and at times of interest rate uncertainty or volatility, hedging instruments including swaps are used in managing the interest rate exposure.

PLEDGE OF ASSETS

As at 31 December 2003, the Group did not pledge any of its assets (2002: nil) as securities for generating banking facilities granted to the Group.

NUMBER OF EMPLOYEES AND REMUNERATION POLICY

At the end of 2003, the Group employed a total of approximately 80 employees in Hong Kong and a workforce of approximately 2,800 in the PRC.

The Group's remuneration policies are primarily based on prevailing market salary levels and the performance of the respective companies and individuals concerned. In addition to salaries, the Group provides staff benefits including medical insurance, contribution to staff's provident fund, share options and discretionary training subsidies. Discretionary bonuses are also available to employees of the Group depending upon the financial performance of the Group.

OUTLOOK

Following the streamlined exercises by divesting the non-core operations such as financial printing, publishing, e-business, etc in recent years, the Group has reinforced the prime focus on the development of the core printing business. With the full integration with SNP Corp, we are optimistic that we will have encouraging growth in year 2004. Based on our present access to the domestic market in Mainland China, we expect that there are growing demand for quality packaging and printing services, especially after China's entry into the World Trade Organisation.

In addition to organic growth, the Group will continuously explore any possible value-enhancing merger and acquisition opportunities. We will also look at possibilities of vertical or horizontal integration within the SNP Group, so as to enlarge and strengthen our size, capacity and more importantly, our market share in the industry.

We continue to place priority on staff development. There will be continual talent recruitment and training for our staff. Technical and inter-company posting within the Group will be provided to enrich the professional knowledge of our dedicated employees.