



LEEFUNG-ASCO PRINTERS HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2002

INTERIM RESULTS

The Board of Directors of Leefung-Asco Printers Holdings Limited (the "Company") are pleased to announce the unaudited interim results for the six months ended 30 June 2002 of the Company and its subsidiaries (the "Group") together with the comparative figures for the same period as follows:

Consolidated Profit and Loss Account

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
| Turnover | | | |
| Continuing operations | | 451,635 | 467,818 |
| Discontinuing operations | 3 | 34,666 | 31,795 |
| | | <u>486,301</u> | <u>499,613</u> |
| Cost of sales | | (376,533) | (403,637) |
| Gross profit | | <u>109,768</u> | <u>95,976</u> |
| Other revenue | | 9,178 | 2,490 |
| Distribution costs | | (17,130) | (12,961) |
| Administrative expenses | | (62,823) | (60,430) |
| Amortisation of goodwill in respect of acquisition of subsidiaries | | — | (304) |
| Profit from operations | 4 | <u>38,993</u> | <u>24,771</u> |
| Finance costs | 5 | (7,006) | (14,026) |
| Share of results of associates | | 1,174 | (76) |
| Amortisation of goodwill in respect of acquisition of an associate | | (201) | (140) |
| Profit before taxation | | <u>30,526</u> | <u>10,321</u> |
| Continuing operations | | 30,526 | 10,321 |
| Discontinuing operations | 3 | 2,434 | 208 |
| | | <u>32,960</u> | <u>10,529</u> |
| Taxation | | | |
| Continuing operations | | (8,868) | (3,492) |
| Discontinuing operations | 3 | (400) | — |
| | 6 | <u>(9,268)</u> | <u>(3,492)</u> |
| Profit before minority interests | | <u>23,692</u> | <u>7,037</u> |
| Minority interests | | (3,366) | (6,478) |
| Profit attributable to shareholders | | <u>20,326</u> | <u>559</u> |
| Interim dividend | | <u>8,055</u> | <u>—</u> |
| Basic earnings per share | 7 | <u>5.05 HKcents</u> | <u>0.15 HKcents</u> |
| Interim dividend per share | | <u>2 HKcents</u> | <u>—</u> |

Notes:

1. Basis of preparation and accounting policies

The unaudited interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The accounting policies and basis of preparation used in preparing the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2001.

In the current period, the Group has adopted, for the first time, a number of new and revised Statements of Standard Accounting Practice ("SSAPs") issued by the Hong Kong Society of Accountants, which are effective for accounting periods commencing on or after 1 January 2002:

| | |
|-------------------|--|
| SSAP 1 (revised) | : Presentation of financial statements |
| SSAP 11 (revised) | : Foreign currency translation |
| SSAP 15 (revised) | : Cash flow statements |
| SSAP 25 (revised) | : Interim financial reporting |
| SSAP 33 | : Discontinuing operations |
| SSAP 34 | : Employee benefits |

The adoption of these SSAPs do not have any material impact on accounting policies and financial results of the Group except that certain comparatives figures have been reclassified to conform with the new disclosure requirements.

2. Business and geographical segments

Business segments

Segment information of the three operating divisions are as follows:

Six months ended 30 June 2002

| | Printing of books and magazines HK\$'000 | Printing of packaging products HK\$'000 | Financial printing HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|--|---|--|--------------------------------|--------------------|--------------------------|-------------------|
| Segment revenue | | | | | | |
| External sales | 325,472 | 126,163 | 34,666 | — | — | 486,301 |
| Inter-segment sales | 5,072 | 4,413 | — | — | (9,485) | — |
| | <u>330,544</u> | <u>130,576</u> | <u>34,666</u> | <u>—</u> | <u>(9,485)</u> | <u>486,301</u> |
| Result | | | | | | |
| Segment result | 37,552 | 10,862 | 2,443 | — | — | 50,857 |
| Unallocated corporate expenses | | | | | | (11,864) |
| Profit from operations | | | | | | 38,993 |
| Finance costs | | | | | | (7,006) |
| Share of results of associates | 1,200 | — | — | (26) | — | 1,174 |
| Amortisation of goodwill in respect of acquisition of an associate | (201) | — | — | — | — | (201) |
| Profit before taxation | | | | | | 32,960 |
| Taxation | | | | | | (9,268) |
| Profit before minority interests | | | | | | 23,692 |
| Minority interests | | | | | | (3,366) |
| Net profit for the period | | | | | | <u>20,326</u> |

Six months ended 30 June 2001

| | Printing of books and magazines HK\$'000 | Printing of packaging products HK\$'000 | Financial printing HK\$'000 | Others HK\$'000 | Eliminations HK\$'000 | Total HK\$'000 |
|--|---|--|--------------------------------|--------------------|--------------------------|-------------------|
| Segment revenue | | | | | | |
| External sales | 337,966 | 129,852 | 31,795 | — | — | 499,613 |
| Inter-segment sales | 4,896 | 4,922 | — | — | (9,818) | — |
| | <u>342,862</u> | <u>134,774</u> | <u>31,795</u> | <u>—</u> | <u>(9,818)</u> | <u>499,613</u> |
| Result | | | | | | |
| Segment result | 16,789 | 13,477 | (223) | — | — | 30,043 |
| Unallocated corporate expenses | | | | | | (4,968) |
| Amortisation of goodwill in respect of acquisition of subsidiaries | (304) | — | — | — | — | (304) |
| Profit from operations | | | | | | 24,771 |
| Finance costs | | | | | | (14,026) |
| Share of results of associates | 692 | — | — | (768) | — | (76) |
| Amortisation of goodwill in respect of acquisition of an associate | (140) | — | — | — | — | (140) |
| Profit before taxation | | | | | | 10,529 |
| Taxation | | | | | | (3,492) |
| Profit before minority interests | | | | | | 7,037 |
| Minority interests | | | | | | (6,478) |
| Net profit for the period | | | | | | <u>559</u> |

Geographical segments

| | Turnover Six months ended 30 June 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
|--------------------------|---|---------------------------------|
| Mainland China | 270,261 | 282,584 |
| Hong Kong | 61,181 | 70,258 |
| | <u>331,442</u> | <u>352,842</u> |
| United States of America | 123,226 | 111,915 |
| United Kingdom | 21,984 | 14,926 |
| Other areas | 9,649 | 19,930 |
| | <u>486,301</u> | <u>499,613</u> |

Contribution to profit by geographical market has not been presented as the contribution to profit from each market is substantially in line with the overall Group's ratio of profit to turnover.

3. Discontinuing operations

On 2 August 2002, the Company entered into a sales and purchase agreement with an independent third party pursuant to which the Company procure to dispose the entire interests in Vite Limited, a wholly owned subsidiary of the Company, for a total consideration of HK\$34 million. The principal activity of Vite Limited is financial printing and the segmental information of the subsidiary has been presented in note 2 to the condensed consolidated financial statements. The transaction was completed on 8 August 2002 and the profit arising from the disposal amounted to approximately HK\$25 million will be reflected in the result in the second half of the year. For disclosure purposes, the results of the subsidiary to be disposed in August 2002 were classified as discontinuing operations in the consolidated profit and loss account for the period ended 30 June 2002.

As at 30 June 2002, the carrying amounts of the total assets and liabilities of the subsidiary to be disposed of were HK\$22.3 million (2001: HK\$72 million) and HK\$16.1 million (2001: HK\$17 million), respectively. For the six months ended 30 June 2002, the other revenue and total expenses attributable to the discontinuing operations amounted to HK\$0.7 million (2001: HK\$1.7 million) and HK\$33.7 million (2001: HK\$33.6 million), respectively. The net cash inflows/(outflows) attributable to the operating, investing and financing activities of the discontinuing operations for the current period amounted to HK\$4.3 million (2001: HK\$(3.3 million)), HK\$(0.6 million) (2001: HK\$(0.8 million)) and nil (2001: HK\$(48 million)), respectively.

4. Profit from operations

The profit from operations has been arrived at after charging:

| | Six months ended 30 June 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
|---|---|---------------------------------|
| Staff costs, including directors' remuneration | 58,478 | 66,472 |
| Provident fund | 940 | 1,073 |
| Less: Forfeited contribution | (81) | (320) |
| Net contribution | <u>859</u> | <u>753</u> |
| Total staff costs | <u>59,337</u> | <u>67,225</u> |
| Auditors' remuneration | 590 | 487 |
| Amortisation of goodwill | 201 | 444 |
| Loss on disposal of properties, plant and equipment | 756 | — |
| Exchange loss | — | 1,412 |
| Operating leases charges: | | |
| Premises | 1,370 | 2,148 |
| Plant and machinery | 529 | 1,749 |
| | <u>1,899</u> | <u>3,897</u> |
| Depreciation | <u>30,513</u> | <u>29,454</u> |
| And after crediting: | | |
| Gain on disposal of properties, plant and equipment | — | 330 |
| Rental income | 251 | 200 |
| Interest income | 109 | 637 |
| | <u>109</u> | <u>637</u> |

5. Finance costs

| | Six months ended 30 June 2002 (Unaudited) HK\$'000 | 2001 (Unaudited) HK\$'000 |
|--|---|---------------------------------|
| Interest on bank borrowings and other loans wholly repayable within five years | 7,006 | 13,714 |
| Interest on other loans | — | 312 |
| | <u>7,006</u> | <u>14,026</u> |

6. Taxation

The charge comprises of:

| | Six months ended 30 June 2002 | 2001 |
|---|-------------------------------|--------------|
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Hong Kong Profits Tax calculated at 16% on the estimated assessable profit for the period | 400 | — |
| Profits tax outside Hong Kong | 8,868 | 3,492 |
| Taxation charge for the period | <u>9,268</u> | <u>3,492</u> |

Taxation outside Hong Kong are calculated at the rates prevailing in the respective jurisdictions.

7. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of HK\$20,326,000 for the six months ended 30 June 2002 (2001: HK\$559,000) and on the weighted average number of 402,736,918 (2001: 379,020,696) shares in issue during the period.

The Company has no dilutive potential shares in issue during the period.

8. Reserves

| | Share premium | Property revaluation reserve | Capital redemption reserve | Translation reserve | Other reserves | Retained profits | Total |
|--|----------------|------------------------------|----------------------------|---------------------|----------------|------------------|----------------|
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance as at 1 January 2002 | 326,499 | 14,107 | 2,514 | (16,114) | 8,101 | 302,848 | 637,955 |
| Capitalisation of reserves of a subsidiary | — | — | — | — | 1,849 | (1,849) | — |
| Net profit for the period ended 30 June 2002 | — | — | — | — | — | 20,326 | 20,326 |
| Proposed dividend | — | — | — | — | — | (8,055) | (8,055) |
| Balance as at 30 June 2002 | <u>326,499</u> | <u>14,107</u> | <u>2,514</u> | <u>(16,114)</u> | <u>9,950</u> | <u>313,270</u> | <u>650,226</u> |

The other reserves of the Group represent the Group's share of the statutory reserves of a subsidiary in the PRC. These statutory reserves represent appropriations of the subsidiary's profits for designated purposes and are not distributable.

9. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

DIVIDEND

The Board has resolved to declare an interim dividend of HK2 cents per share for the period ended 30 June 2002 (2001:nil) payable on Wednesday, 23 October 2002, to shareholders whose names appear on the register of members of the Company on Wednesday, 9 October 2002.

CLOSURE OF REGISTER

The register of members of the Company will be closed from Monday, 7 October 2002 to Wednesday, 9 October 2002, both days inclusive, during which period no transfer of shares will be registered. All transfers of shares accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Registrars in Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, not later than 4:00 p.m. on Friday, 4 October 2002.

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

I am pleased to report that in continued challenging business circumstances, Leefung-Asco is reporting a net profit of HK\$20.3 million and will pay an interim dividend of 2 cents per share.

The improvement in our core printing and packaging operations is well over HK\$20 million. On the other hand, our cigarette packaging business in Shanghai started paying full income taxes in 2002. This together with lower selling prices has caused the profit for this business segment to drop by almost HK\$3 million.

This turnaround reflects restructuring during the 9 months starting in September 2001, in particular at our Shenzhen and Dongguan plants. Supported by the comprehensive management changes implemented early this year, it bears evidence of the successful execution of the policies aiming at strengthening the organization, trimming costs and enhancing the overall efficiency of the management.

Sales

At the end of June 2002, sales amounted to HK\$486 million down from HK\$499 million last year. The decrease was largely caused by a drop in cigarette packaging sales in Shanghai by 8%. In our core printing and packaging business, average unit prices declined, however, volumes increased reflecting a good performance in a very competitive environment during the first half.

The sales of the Export and Children's Books Division have increased by 6%, despite the loss of a major German customer.

In the Packaging Division, sales are 23% up from last year thanks to the Colour Box Department, which has resumed its trading with the USA. The Corrugated Box Department started up during the second quarter and concentrated first on manufacturing boxes for the Export and the Children's Books Divisions. It is now fully operational and has captured both domestic and foreign customers.

Although Vite posts a 9% increase in sales from 2001 as the IPO activity was higher, the disposal of Vite in the second half year should not have a significant impact on the Group's annual turnover.

Regarding our PRC business, severe competition and a more selective approach to customers with reference to debt collection have brought the sales 10% down. In Beijing, our plant was able to adjust the volume of orders subcontracted previously and to operate the two web presses at capacity.

Costs down, efficiency up

The profit increase is, for the most part, due to the progress in operational efficiencies. The key elements are:

- Reduction of direct material costs through centralized purchasing and lower wastage rates;
- Restructuring and reduction of headcount at all staff level in both our Shenzhen and Dongguan facilities; and
- A 20% increase in productivity resulting from changes to our technical staff and management systems.

The Company also benefits from the reduction of the finance costs by HK\$7 million due to the drop in interest rates and bank loan levels.

Strengthening of management

After consolidating the Finance Department, we have put a special emphasis on Human Resources during the second quarter. All aspects of the function have been addressed and streamlined. We have also added a significant number of professional staff in support and operating departments.

In particular, the structure and the management systems of the Export Division and of the Packaging Division have been entirely reengineered with almost immediate benefits. The Maintenance Department has been reorganized, its skills enhanced to support the operations more quickly and more efficiently.

Synergies have been created between the Shenzhen and Dongguan plants to fully utilize the production capacity. A tighter integration will be further developed.

Financial Review

The Group's net assets was generally financed by internal resources through share capital and reserves. As at 30 June 2002, the Group's cash and bank balances amounted to HK\$62 million while the total assets and the net assets were approximately HK\$1,302 million and HK\$ 699 million, representing a 4% and 3%, respectively increase over the balances as at 31 December 2001. As at 30 June 2002, the total borrowings from banks include term loans, trust receipts loans, overdrafts amounted to approximately HK\$338.6 million, of which 70.5%, 5.9% and 23.6% were repayable within one year, the second year and the third to five years respectively. Of the total borrowings, approximately HK\$84 million was borrowed in Renminbi, approximately HK\$28 million and HK\$1 million were denominated in US dollars and EURO and approximately HK\$225.6 million was denominated in Hong Kong dollars. The currency exposure has been hedged against the Group's Renminbi assets and Renminbi revenue as generated by the subsidiaries in China.

The current ratio as at 30 June 2002 has increased from 1.02 to 1.27 due to the conversion of the short term bank borrowings into long term liabilities upon the restructuring of the bank facilities lines. The net asset value per share increased from HK\$1.68 at the end of 2001 to HK\$1.73 as at 30 June 2002.

As at 30 June 2002, the Group's net gearing ratio based on total debts to equity was 39.6%, slightly up from 33% as at 31 December 2001. The increase in borrowings is partly due to the seasonal effect of our business cycle together with the payment for the corrugated production line in our Dongguan plant. The Group currently has aggregate banking facilities of approximately HK\$960 million, of which HK\$382 million has been utilised as at 30 June 2002. The Group's borrowings are denominated in either Hong Kong dollars, US dollars or Renminbi and principally on a floating rate basis. When appropriate, hedging instruments including swaps are used in managing the interest rate exposure.

In the current period, the Group has already restructured the short term loan with an amount of HK\$100,000,000 into a 4 years term loan in order to take advantage of the current low interest rates environment. The amount is to be repayable from year 2004 until year 2006. Subsequently to the period end date, the Group has further entered into a 3.5 years term loan agreement amounted to HK\$50,000,000. Both new facilities have been used to extend the maturity profile of its borrowings and at the same time lowered the borrowing costs.

Employees policy

At the end of June 2002, the Group employed a total of approximately 150 employees in Hong Kong and a workforce of approximately 2,900 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, contributions to staff's provident fund and discretionary training subsidies. Share options and bonuses are also available to employees of the Group at the discretion of the directors and depending upon the financial performance of the Group.

Pledge of assets

As at 30 June 2002, the Group pledged its investment properties and land & buildings with an aggregate carrying value of approximately HK\$4 million and HK\$185 million respectively as securities for generating banking facilities granted to the Group.

Contingent liabilities

The Group did not have any significant contingent liabilities as at 30 June 2002 (31 December 2001: HK\$31.2 million which is bank guarantees given to an associate and HK\$18 million which is exported bills discounted with recourse).

Post Balance Sheet Event

Subsequent to the period end date, the Company has disposed of the entire interests in a wholly owned subsidiary, Vite Limited, which is engaged in financial printing in August 2002. Further details have been included in note 3 to the condensed consolidated financial statements.

PROSPECTS

Trading conditions remained good during the summer months and the outlook for the remainder of 2002 is positive.

We expect to continue to see the positive benefits of strict working capital management in the second half of the year. At the end of June 2002, the inventories are HK\$135 million down from HK\$231 million in June 2001. They remain stable compared to the balance at December 2001. The debtors balance is stable compared to June last year in our core printing and packaging business, but shows an increase in Shanghai. Overall, the deterioration versus December 2001 is due to the higher level of activity and hence a higher debtor figure in the summer months. This adding to the investments in the Packaging Division in Dongguan explains why the borrowings have increased. However, we are confident in our ability to improve this position going forward. Despite investments in two printing presses, our focus on strict working capital management and the addition of the proceeds of the disposal of Vite, means that Leefung-Asco should have a much strengthened and healthier balance sheet going forward.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and the unaudited financial statements for the six months ended 30 June 2002.

REPURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited throughout the period, except that the non-executive directors of the Company are not appointed for specific terms but are subject to retirement and re-election at each annual general meeting of the Company in accordance with the bye-laws of the Company.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited will be subsequently published on the Stock Exchange's website in due course.

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 during the period. In addition, we would like to thank all our shareholders for their support of the Group and our customers for their business.

By Order of the Board
Alain Raymond Baudant
Chief Executive Officer

Hong Kong
18 September 2002