With our strong financial base and our consistent approach to prudent growth, we have shown that we can manage effectively during difficult times.

Management Discussion and Analysis

Mr Yum Chak Ming, Matthew
Managing Director

Mr Yam Ho Ming, Michael
General Manager

Global economic conditions during the year were difficult but business for our paper and carton box printing and manufacturing division remained steady. Encouraging growth continued to come from our sales in China. Fluctuating paper prices impacted negatively on paper trading and our associated company Zhongshan Rengo Hung Hing Paper Manufacturing. With our strong financial base and our consistent approach to prudent growth, we have shown that we can manage effectively during difficult times. As the world economy improves, and with a declining U.S. dollar, we anticipate stronger growth in the year ahead.

An analysis by business division is as follows:

	Turnover			Contribution to operating profit		
	2002 HK$'000	%	% change from 2001	2002 HK$'000	%	% change from 2001
Paper and carton box printing and manufacturing	1,033,394	64	–	226,156	75	-7
Paper trading	230,090	14	-26	23,428	8	-35
Corrugated carton manufacturing	365,072	22	-20	56,562	19	-19
Intersegment elimination	–	–	–	301	–	-77
	1,628,556	100	-10	306,447	102	-13
Interest, dividend income and unallocated gains				14,180	4	-3
Corporate and unallocated expenses				(17,318)	-6	-13
				303,309	100	-12

Mr Yam Hon Ming, Tommy
Executive Director

PAPER AND CARTON BOX PRINTING AND MANUFACTURING

Our largest division experienced steady growth in both the overseas and the China domestic market. The division accounted for 64 % of the Group's turnover and 75 % of the Group's profit from operating activities.

Paper consumption for this division increased 13 %, reflecting strong customer demand, growth in volume and lower paper prices.

Although business was slow in the United States and Europe, these markets accounted for the majority of the division's sales. An important area of growth in the United States was demand for appealing and reasonably priced products for the discount retail market. Overall, demand was strong for stationery and greeting cards, children's books and novelty paper products.

Multinational firms continue to outsource production to lower-cost locations such as China and Hung Hing will continue to benefit from this trend because of our high capacity, quality products, proper pricing, and integrated service teams.

The German manufactured corrugator installed at our Shenzhen plant is the only one of its kind in China.

PAPER TRADING

This division was adversely affected by the adjustment in paper prices. Sales volume dropped by 7% reflecting a general decline in demand as the printing industry continued to consolidate. The division's turnover declined by 26% for the year and profit from operating activities dropped by 35%. The fluctuating prices also had an impact on the range of paper offered as inventory was kept to a minimum.

We acquired a 530,000 square foot site in Shenzhen and are in the process of building a distribution and warehouse facility with paper converting capabilities. When completed in the first quarter of 2003, the facility will greatly increase the division's ability to quickly deliver the right sized paper to customer factories. This will improve the competitiveness of the trading division and enable the division to sell directly to China's domestic market.

Our sales and support office in Shenzhen, established in March 2001, improves customer service and further develops the southern China market. We also are developing relationships with larger firms to take advantage of the consolidation in the printing industry.

CORRUGATED CARTON MANUFACTURING

The division registered a decrease in sales of 20%, accounting for 22% of the Group's turnover. The division's profit from operating activities declined 19% due to the slow economy and the intense competition that resulted in lower prices.

Sales volume also dropped as the Group tightened its credit controls by being very selective in extending credit to customers.

A German manufactured corrugator, the only one of its kind in China, was installed at our Shenzhen plant doubling our present capacity and expanding our profit potential. The increased capacity will satisfy the growing demand for high-end packaging products. Also, the economies of scale and improved efficiencies that the machine provides enable us to become very price competitive.

Growing sales in China and the new corrugator in Shenzhen will improve the division's profitability picture as well the benefits derived from the Group's vertical integration.

ASSOCIATED COMPANIES

Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited
Zhongshan Ren Hing Paper Manufacturing Company Limited

The adjustment in paper prices adversely affected the performance of this 35%-owned joint venture Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited which recorded a drop of 60% in the Group's share of profit to HK$ 5.3 million. Competition from new, large-scale paper mills in China, funded by overseas investments, also impacted performance. The joint venture received a tax credit for its investment in locally manufactured machinery and this benefitted its bottom line.

A fourth paper making production line at our joint venture Zhongshan Ren Hing Paper Manufacturing Company Limited came on stream in May 2002. This has increased the plant's capacity and makes it one of the largest recycle kraft liner and medium paper mills in China with an annual output of 330,000 tons.

As paper prices increase during 2002, the profitability of the joint ventures should strengthen. The Group's investments will enable us to capitalize on the anticipated future growth in China and in our overseas markets when economy recovers.

NEW PRINTING AND CORRUGATING FACILITY IN WUXI

A wholly owned printing and corrugating facility is planned for our 1.5 million square foot site in Wuxi near Shanghai that is expected to be operational by the first quarter of 2003. Wuxi is centrally located in the Yangtze River delta region, a market with a population of 100 million people.

Located in a technology and industrial park, we initially plan to build a production building on the site with a floor area of 500,000 square feet.

We plan to supply quality printing and packaging products to local customers in the Shanghai/Nanjing market and to international brand name manufacturers in this region.

FINANCIAL AND CAPITAL RESOURCES

The Group's capital expansion and improvement expenditures during the year amounted to HK$152 million. Approximately HK$ 131 million was spent on machinery and equipment and HK$ 21 million was spent on plant construction in Shenzhen and Zhongshan.

Most of the spending in machinery and equipment was invested in our new corrugated plant in Shenzhen, comprising the new corrugator and the supporting flexo printers and related equipment. We also added three off-set presses to our paper and carton box printing division.

At 31 March 2002, we had total bank borrowings of HK$154 million of which HK$5 million was in Renminbi and HK$39 million was in U.S. dollars. To take advantage of the lower interest rates in Hong Kong, we utilized more of our Hong Kong dollar loan facilities and repaid our Renminbi borrowings which reduced our borrowing costs. Our exposure to foreign currency borrowings was minimal as we were adequately hedged with corresponding foreign currency assets.

Of our total bank borrowings, HK$85 million were classified as long term loans with a repayment schedule falling within two to four years duration. Our total bank borrowings as a ratio to shareholders' equity was 10%, representing a low gearing ratio as we continue to pursue prudent financial management.

Of significance, we improved our incoming cash flow by strengthening our receivables collections and by maintaining a low inventory level in response to the adjustments in paper prices which continued during most of the year. Consequently, we had more cash on hand, which amounted to HK$399 million at 31 March 2002, and realized a 47% decline in our finance costs to HK$7 million.

Our warehousing capability enables Hung Hing to manage inventory levels to meet diverse customer needs.

Our adequate cash position has enabled us to maintain the same dividend payment to shareholders as the previous year and increased our dividend payout ratio from 60% to 63%.

With a cash net of debt position of HK$245 million and unused banking facilities of HK$473 million, we have sufficient financial resources to fund our capital investment in Wuxi and Shenzhen and to meet our working capital requirements.

EMPLOYEES

As at 31 March 2002, the Group (excluding its associated companies) employed a total of 7,033 staff in Hong Kong and China. Of the total, 265 were employed in Hong Kong and 6,768 in China.

The Group continues to provide technical, management and safety training to employees to increase their profession knowledge and contribute to career development.

The management recognizes that the achievement of Hung Hing's goals is entirely dependent on the dedication and commitment of our staff for which we thank them and look forward to working with them in the year ahead.

Yum Chak Ming, Matthew
Managing Director

Hong Kong, 9 July 2002