

Chairman's Statement



Mr. Yam Cheong Hung
Chairman

During the year, we attained a number of important milestones, including the completion of our Wuxi plant and Shenzhen distribution and warehouse facility, our tenth anniversary in the UK operation and our top ranking in the Top 100 of the Printing Industry of Guangdong.

TO OUR SHAREHOLDERS:

The fiscal year 2003–2004 had two distinct phases – the first half was marked by challenging conditions, and the second saw a turnaround in the macro-economic environment. Hung Hing Printing Group Limited capitalized on the upswing in the economic conditions and its internal efficiencies to achieve double digit growth in turnover.

The Group also attained a number of milestones during the year.

- The commissioning of our new printing and corrugating facility at Wuxi marked the culmination of one of our most significant investment in recent years. The commissioning is timely, at a time of overall economic recovery and we believe that the plant would facilitate our making further inroads into domestic China, as well as export markets.
- Construction was completed on the Group's Shenzhen distribution and warehouse facility, and it became operational.
- Our Shenzhen subsidiary, Hung Hing Printing (China) Co Ltd., was ranked first in the Top 100 of the Printing Industry of Guangdong, a ranking organized by the Printing Association of Guangdong Province. This is a gratifying expert testament to the excellent performance of the facility's operations.
- Internationally, the UK operations of the Group celebrated their 10th anniversary.

RESULTS

For the year ended 31 March 2004, the Group's turnover increased 12% to HK\$2,029 million, primarily due to growth in direct and indirect exports out of China. Profit from operating activities increased 10% to HK\$337 million. Earnings per share grew by 9% to reach HK46.3 cents.

The Board of Directors is proposing a final dividend of HK20 cents per share, bringing the total dividend for the year to HK29.5 cents per share, an increase of 4% over last year.

TRENDS IMPACTING THE INDUSTRY

Trends affecting the industry included paper price adjustments especially during the second half of the year, and price pressure from competitors based in mainland China.

Our strong cost controls, economies of scale, and ongoing marketing rendered us well placed to capitalize on the upswing in economic conditions. Several of the policies and investments made in the past helped us achieve growth during the year under review.

KEY STRATEGIES FOR GROWTH

Diversification: The Group continued to diversify its customer base into different industry sectors. This strategy not only helped the Group achieve robust growth but also helped it hedge against sector-specific market fluctuations.

Continuing investment: The Group continued to invest in machinery and facilities even during the previous challenging economic conditions. As a result we were well prepared to capture new customers with end-to-end service delivery needs as the market took off.

Maintenance of margins: The Group's history of prudent fiscal and cost management stood it in good stead while competing with aggressive and price-based competitors from mainland China. Our vertically integrated business model also helped us maintain our margins despite the paper price adjustments that emerged in the second half of the year.

Ongoing marketing: The Group continued to aggressively increase its presence in mainland China as well as export markets such as Europe and the US. These campaigns combined with the overall economic upswing to yield increased turnover. We also successfully worked with more marketing partners to secure packaging programs based on the breadth and depth of our manufacturing facilities.

- *China:* The Group enhanced its capabilities to service the mainland China market significantly with the completion of its distribution and warehouse at Shenzhen and the commissioning of its new plant at Wuxi with increased manpower. We also broadened our customer base with the addition of new clients in the information technology, telecommunication, food and beverage and cosmetics sectors.
- *Europe:* The Group established relationships with newly appointed agents in order to be better placed to obtain more revenue from new clients. We also benefited from a resurgence in consumer confidence during the second half of the year under review, as well as from a strong Euro to achieve an increase of 17% in revenue achieved from the region.
- *US:* The second half of the year saw a significant upswing in demand for children's books and other paper products, resulting in an increase of 23% in revenue from this market.

The Group entered a new market with the printing of hardcover books as a measure to offer a more comprehensive range of services to US and European publishers.

The success of the above strategies is reflected in the satisfactory results that we were able to achieve during the year under review.

OUTLOOK

We are confident of steady performance during the coming year, and expect that barring unforeseen circumstances, the recovery in export markets will continue. Cost of raw materials and freight costs will also move upwards along with the economy, which will have an impact on cost of goods sold in the coming years. The increasing emphasis placed by multinational customers across sectors on end-to-end service delivery and high quality control will lead to consolidation among printers in mainland China – with the potential to relieve pricing pressure.

My warmest thanks to each member of our dedicated staff whose commitment and hard work has made it possible to achieve our goals.

Yam Cheong Hung
Chairman

Hong Kong, 6 July 2004