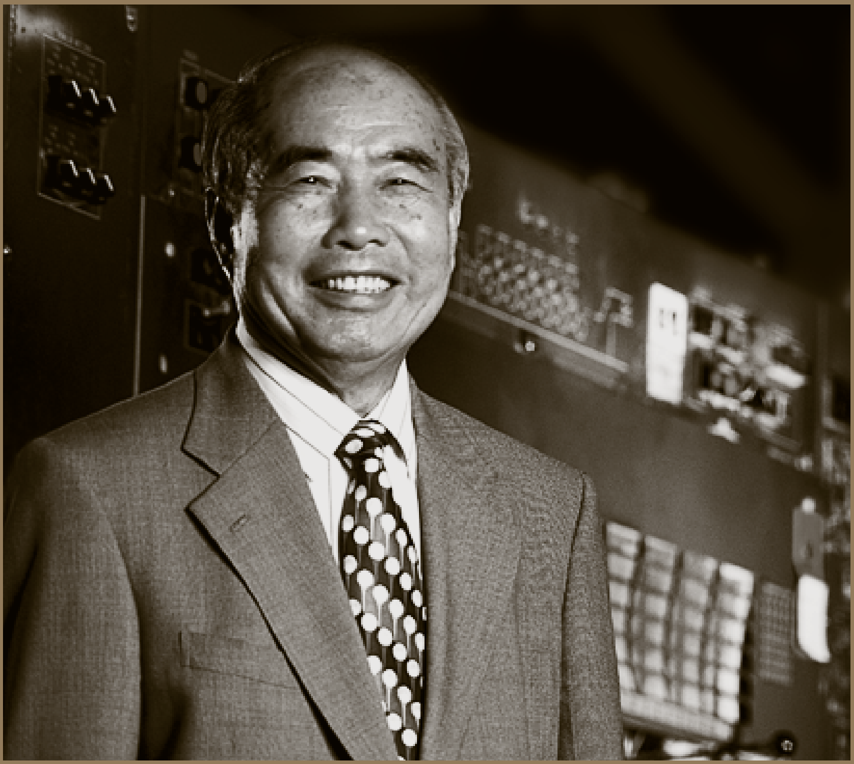
Mr. Yam Cheong Hung, Chairman



Our consistent and prudent management approach has brought us steady growth and solid financial results over the years, and has done so yet again

CHAIRMAN'S STATEMENT

TO OUR SHAREHOLDERS

In the year to 31 March 2001, turnover increased 11% to HK$1,800 million. Net profit attributable to shareholders was HK$274 million representing a 9% increase from the previous year. Earnings per share rose 9% to HK47.7 cents.

The Board of Directors is proposing a final dividend of HK19 cents, bringing the total dividend for the year to HK28.5 cents, an increase of 10%. Subject to shareholders' approval, the final dividend will be paid on 30 August 2001 to shareholders whose names appear on the Register of Members of the Company on 22 August 2001.

These solid results have been ensured by good planning, improving quality, implementing cost efficiencies and expanding capacity.

The impact of the economic downturn in the US was partly offset by growth in orders from American and multinational companies operating in China, particularly for our paper and carton box printing services and corrugated carton products. However, the US slowdown, adjustment in paper prices in the second half of the year and the declining Euro had a negative impact on profit margins for the whole industry. The gradual lapse of the tax preferential period for our China plants meant an increased tax burden and a consequent narrowing in profit despite turnover growth.

The US downturn also brought some positive effects. Outsourcing has become a trend among many US companies as they look to lower-cost locations such as China to fulfill their print and production needs. As a result we saw an increase in customer orders for our print and packaging services, which in turn fueled demand for our corrugated carton products. On the other hand, the US economy affected exports of our domestic PRC and other export-oriented manufacturers, resulting in lower demand for paper products. Both our paper trading division and paper manufacturing joint venture were affected.

During the year, Hung Hing took full advantage of the rapidly growing Chinese economy. Chinese economic growth has spurred demand for quality packaging which the Group's established facilities in China were uniquely positioned to meet.

CHAIRMAN'S STATEMENT

Real expansion has taken place principally in children's books and in corrugated carton manufacturing. During the year a new 400,000 square feet plant for printing children's books and other novelty paper products began operation. Direct exports of children's books to Europe and North America represented the largest growth in our sales worldwide. Full capacity utilisation, stringent cost controls and high operating efficiency in our corrugated carton manufacturing division generated the highest profit growth among all divisions.

The adjustment of paper prices impacted on the profitability of the paper trading division as well as our 35%-owned paper manufacturing joint venture, Zhongshan Rengo Hung Hing. However, the adjustment allowed our manufacturing divisions to benefit from lower material costs.

The year has seen certain changes in finance costs. The Group has increased the use of low-interest Renminbi loans to maintain financial flexibility for local expansion, while retaining more cash for fixed-rate deposits in the Hong Kong SAR.

The Group's consistent and prudent planning and investment approach has resulted in an outlay of some HK$100 million in capital expenditure. The bulk of this sum was spent on machinery that will further augment output, thereby bringing opportunities for greater profitability.

OUTLOOK

The Group is cautiously optimistic for the near future and long term. Modest expansion is expected, and our planned growth programme is founded on a prudent management philosophy that has already seen the company through both good and bad times.

Overseas orders are rising, and Hung Hing predicts the increase in business from key customers in the US and Europe will continue. Furthermore, the China market will develop further as a source of revenue.

The corrugated carton manufacturing division will expand its profit potential when a new corrugator, capable of doubling the current capacity, comes online later this year as part of a new 120,000 square feet facility in Shenzhen. A new paper manufacturing production line is also being installed at the Group's paper manufacturing joint venture in Zhongshan.

The China domestic market continues to offer expansion opportunities, especially during the US downturn. Hung Hing is well prepared to take advantage of the further economic growth forecast. We are building on our existing presence in China and we plan to foster links to new and existing customers in southern China. A further step in this process has been the setting up of a sales support office for the paper trading division in Shenzhen. Employing its customary prudent approach to developing situations, the Group is also actively exploring options for operations outside southern China.

The Group remains in a good position to benefit from the industry trends seen particularly in North America. More outsourcing to low-cost production locations such as China has already brought extra business to Hung Hing, and will continue to do so. Broader implementation of supply chain management by overseas customers also enhances the appeal of the Group, thanks to its capability to produce a range of superior paper products and packaging. We have become the supplier of choice not only to our overseas customers, but also their vendors.

Hung Hing is confident, through shrewd and prudent management, coupled with a clear focus on its goals and consistent dedication to hard work, it will continue to enjoy steady growth.

In closing, I would like to personally thank our staff for their consistency and persistence throughout the year in working to achieve the Group's goals.

Yam Cheong Hung
Chairman

Hong Kong, 10 July 2001

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