Mr. Yum Chak Ming, Matthew, Managing Director (Left)

Mr. Yam Hon Ming, Tommy, Executive Director (Right Top)

Mr. Yam Ho Ming, Michael, General Manager (Right Bottom)

We are as one in our goal of ensuring Hung Hing makes the best of every opportunity to build the business and enhance our well-deserved good reputation

MANAGEMENT DISCUSSION AND ANALYSIS

The year has seen varying degrees of profitability across the Group's divisions. The most encouraging growth came from paper and carton box printing and corrugated carton manufacturing. Both these divisions benefited from expanded capacity, improved quality and implemented cost efficiencies. Paper trading and our associated company Zhongshan Rengo Hung Hing Paper Manufacturing however, were adversely affected by adjustments in paper prices. The Group remains in sound financial health and, with our customary single-minded focus, continues to grow.

An analysis by business division is as follows:

	Turnover			Contribution to profit from operating activities		
	2001 HK$'000	%	% change from 2000	2001 HK$'000	%	% change from 2000
Paper and carton box printing and manufacturing	1,035,364	58	+14	240,333	69	+20
Paper trading	310,060	17	0	36,849	11	−11
Corrugated carton manufacturing	454,738	25	+12	68,549	20	+39
	1,800,162	100	+11	345,731	100	+19

PAPER AND CARTON BOX PRINTING AND MANUFACTURING

Our largest division continues to demonstrate good levels of growth at 14%, with increases in sales to both our domestic and overseas markets. US and European customers, with whom Hung Hing has a good reputation and well-established brand name, made up the majority of sales. However, business from the China domestic market continued to grow steadily, with customer demand escalating for higher quality packaging.

Part of the growth was due to greater customer interest, particularly in the US, in outsourcing production to lower-cost locations such as China in order to reduce overheads. Hung Hing is well-placed, thanks to high capacity, quality and good price products, as well as integrated service teams, to continue to benefit from this trend.

MANAGEMENT DISCUSSION AND ANALYSIS

Customer orders for children's books and other novelty paper products remained strong, especially from the US and Europe. New items such as coasters, mouse pads and coin albums received a particularly favourable response. The market for children's books has flourished with the increasing incorporation of novelty features and the consequent blurring of the distinction between books and toys. To further penetrate the market for this type of product, the Group plans to expand into the production of other high-end paper products with innovative features.

In May 2000, a 400,000 square feet production facility came into operation in Shenzhen to accommodate the growing demand for children's books and novelty paper products. A 250,000 square feet annex to the Group's Zhongshan factory was completed in March 2001. New machinery will be installed to boost production capacity significantly.

Our dedication to quality was rewarded with a prize for excellence in the children's and education book category at the Hong Kong Print Awards in 2000.

PAPER TRADING

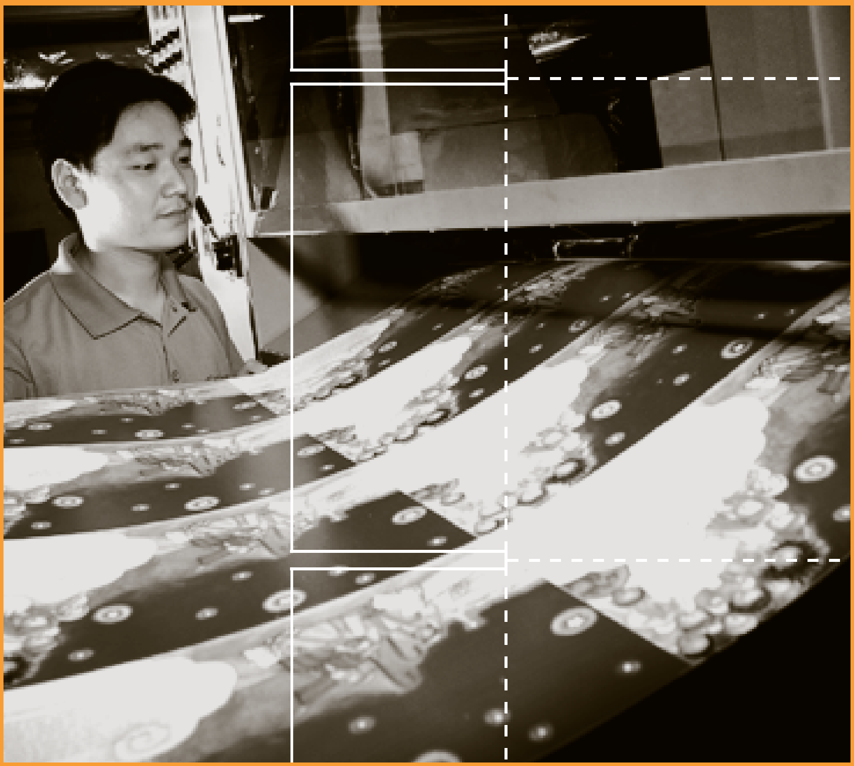
This division recorded double-digit growth in the first half. Performance in the second half of the year was adversely affected by the adjustment in paper prices and a change in market demand. Consequently, although turnover was maintained at the same level as last year at HK$310 million, profit from operating activities of this division dropped by 11%.

To take advantage of the consolidation within the printing sector, the division has focused its efforts on developing closer relationships with larger and well managed firms.

The Group continued to expand its base of suppliers in Europe, South America and Asia for sourcing raw material, a move that ensured a broader range of paper choice while lessening the effects of price competition.

It is enhancing its position in tough conditions by offering more choice and better customer support. In March 2001, a sales and support office was set up in Shenzhen to serve customers better and to expand trade in China.

Improved efficiencies and an increase in paper consumption from the Group's own manufacturing divisions also helped counter the effects of paper price adjustments on the profitability of the division.



We work together with our customers

to supply integrated print and packaging solutions

MANAGEMENT DISCUSSION AND ANALYSIS

CORRUGATED CARTON MANUFACTURING

The division registered an increase in sales of 12%, accounting for 25% of the Group's turnover. Among the three divisions, it recorded the Group's highest profit growth, thanks to full capacity utilisation and effective cost control.

Greater demand was seen from existing food and beverage, toy and electronic appliance manufacturers. Orders from branded consumer product manufacturers in China were particularly strong, due to the country's burgeoning economy and increased consumer spending.

The existing Shenzhen plant can, however, no longer meet growing demand. To increase capacity, the Group has invested HK$60 million in a 120,000 square feet plant to house a new state-of-the-art corrugating machine. The machine, the only one of its kind in China, will start operation by the end of 2001. An additional HK$25 million outlay is anticipated to buy machinery to complement the corrugator at the facility, which will incorporate equipment capable of printing sharper and finer images.

The division has benefited from the synergy effects of the Group's vertical integration. Higher sales in the paper and carton box division have increased demand for corrugated carton for export packaging, as well as the consumption of our single-face corrugated paper.

Continued expansion of our transportation fleet has produced significant cost savings.

ASSOCIATES

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

Competition from local and overseas suppliers, and adjustment in paper prices affected the performance of this 35%-owned joint venture Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited. It recorded a drop of 31% in the Group's share of profit to HK$13 million. The joint venture's two-year tax free period has expired and it now pays tax at a rate of 12%.

The joint venture's strategy, which is already taking effect, is to strengthen management, to adjust prices, to improve paper quality by importing higher standard raw materials and to sell to the high end of the paper market.

The existing three production lines are running at near full capacity. In anticipation of further customer demand, Zhongshan Ren Hing Paper Manufacturing Company Limited has been formed to invest in a new paper production line. When installation of this fourth production line is complete by the end of 2001, the factory will become one of the largest recycled kraft liner and medium paper mills in China.

The Group is committed to environmental concerns and has acquired a patent for new wastewater treatment technology.

FINANCIAL AND CAPITAL RESOURCES

The Group has kept up its capital expansion and improvement plans, with HK$100 million spent in the year. Some HK$60 million of that was invested in equipment, including two offset printing presses and a four-colour flexo printer. The balance of HK$40 million was spent in construction of the corrugated carton plant in Shenzhen and the new annex production building in Zhongshan.

A further sum of HK$40 million was invested in the new paper manufacturing joint venture Zhongshan Ren Hing as the Group's 35% contribution to share capital. The new capital will be used to build and operate the new paper production line.

During the year, Hung Hing obtained two different term loans of RMB40 million and HK$60 million to support ongoing capacity expansion projects in China. The loans were for three and five years, with scheduled repayment dates within the term loan period.

At 31 March 2001, the Group's total bank borrowings were HK$142 million. This represents 10% of the shareholder equity of HK$1,368 million, indicating the Group's relatively low gearing ratio.

Care and attention is put into every piece of **work by our skillful and experienced workforce**

MANAGEMENT DISCUSSION AND ANALYSIS

Of the total bank borrowings, HK$92 million was borrowed in Renminbi. The currency exposure in Renminbi borrowings has been hedged against the Group's Renminbi asset and Renminbi revenue as generated by the subsidiaries in China. With the decline of Hong Kong interest rates since January 2001, the Group will make use more of its Hong Kong dollar loan facilities to reduce its borrowing cost.

At 31 March 2001, the Group's cash on hand amounted to HK$308 million, the majority of which was placed on short-term deposit. Hung Hing maintained sufficient cash and financial resources to fund its capital expenditure programme and its working capital requirements.

For the sixth consecutive year, the Group has increased its dividend paid to shareholders. Total dividend payments for the year would amount to HK$163 million, representing an annual increase of 9%. The current return on average shareholders' equity for the year was 21%, demonstrating the Group's continued commitment to delivering satisfactory returns to shareholders.

EMPLOYEES

As at 31 March 2001, the Group (excluding its associated companies) employed a total of 7,070 staff in Hong Kong and China. The figure represents a 15% increase over the previous year. Of the total, 300 staff were employed in Hong Kong and 6,770 staff in China.

The Group maintained low staff turnover during the year, and expects to take on more personnel in China during 2001 and 2002 to operate new facilities and production lines.

In line with its commitment to staff empowerment, the Group continues to strive to provide relevant and practical technical, management and safety training to augment the professionalism and careers of its employees.

As ever, we recognise that our staff's professional attitude, dedication, commitment and flexibility are vital to Hung Hing's continuing success.

Yum Chak Ming, Matthew
Managing Director

Hong Kong, 10 July 2001