Chairman's Statement

Mr. Yam Cheong Hung
Chairman

"As the China market grows more sophisticated, we anticipate that customers will increase the value they place on factors such as quality consciousness, delivery and reliability — factors at which Hung Hing has an advantage."

TO OUR SHAREHOLDERS:

The year 2002–2003 saw the challenging macro-economic environment of the previous year persist. Hung Hing Printing Group Limited maintained its strategy of continuing with prudent management policies in order to continue to deliver value to its shareholders and customers. As a result, the Group achieved a sound performance both operationally and financially.

For the year ended 31 March 2003, the Group's turnover increased 12% to HK$1,818 million, primarily due to growth in mainland China and overseas markets. Pre-tax profit increased 2% to HK$309 million. Tax changes and provisions for taxation in prior years led net profit attributable to shareholders to experience a drop of 5% to HK$245 million. Earnings per share also showed a decline of 5% to HK42.7 cents.

The Board of Directors is proposing a final dividend of HK19 cents per share, bringing the total dividend for the year to HK28.5 cents per share, in line with last year. Subject to shareholders' approval, the final dividend will be paid on 27 August 2003 to shareholders whose names appear on the Register of Members of the Company on 20 August 2003.

Looking back on the financial year ended 31 March 2003, several factors continued to affect the world economy, including the global recession and the war on Iraq. In the face of these factors, consumer confidence, especially in the US and parts of Europe, was affected.

The key trend that emerged specific to the industry was price pressure due to strong competition coupled with fluctuations in demand. In addition, oil price fluctuations resulted in adjustments in freight and energy costs, which in turn impacted on the price of paper, especially during the latter half of the year.

The preferential tax rates enjoyed by two of our China subsidiaries due to their classification as advanced technology enterprises ended in December 2001 and December 2002 respectively, resulting in additional tax expenditure for the Group and impacting its bottom line.

The Group is currently in discussions with the Hong Kong Inland Revenue Department regarding tax assessments on certain subsidiaries of the Group for the years 1996/1997 to 2001/2002. Based on the information available up to the date of approval of these financial statements, the Company's directors consider adequate provision of HK$8.14 million has been made pending the result of these tax assessments. This has further impacted our results.

STAYING FOCUSED

In the face of these external challenges, the Group renewed its focus on the sound management principles that have guided it since inception.

Firstly, the Group intensified its marketing efforts and diversified its customer base, maintaining its focus on export markets as well as on the growing market of mainland China, to record steady growth. Secondly, we continued with our approach of adding value to our customers and treating ourselves as partners for their projects. Associated with this was our stringent control on costs, delivery and quality of goods.

As a result of these measures, we were able to make significant inroads into the mainland China market, and also grow our market share in key export markets. In terms of industry sectors, we were able to further expand our reach into the household appliance and electronic product sectors. All our divisions achieved steady growth, with the corrugated carton manufacturing division recording the largest increase in turnover, thanks to the robust Chinese economy and our ongoing marketing efforts. The paper and carton box printing and manufacturing division also achieved growth with increased orders of children's books and packaging.

Our vertically integrated business model worked to our benefit in the face of the paper price adjustments prevalent through the year. We were able to effectively control operating costs through the economies of scale generated by our facilities in China, prudent day-to-day management and sound inventory practices.

Our measured investments in equipment and facilities continue, with appropriate adjustments made in our planned expenditures to account for the changing market situation. The Group incurred capital expenditures of HK$125 million against a planned expenditure of HK$180 million. The balance will be invested in the year 2003–2004. We will continue with our planned approach to capital investments in the coming year.

OUTLOOK

In early 2003, the outbreak of Severe Acute Respiratory Syndrome (SARS) caused some customers to become more cautious in placing additional orders. We believe, however, that its impact on our business will be minimal.

We are confident of steady performance during the coming year, and hope that the end to the Iraqi war would signal a gradual recovery in consumer confidence in export markets. As the China market grows more sophisticated, we anticipate that customers will increase the value they place on factors such as quality consciousness, delivery and reliability — factors at which Hung Hing has an advantage.

We continue with our measured approach to capital investment in new facilities, as well as upgrades to our existing facilities, as market needs arise. We will continue with our market development efforts both in mainland China and in other export markets.

We reemphasize our focus on competitiveness, quality, efficiency and service in order to best capitalize on the opportunities offered by the current economic scenario, as well as when the economy shows signs of improvement.

In closing, I would like to personally thank our staff for their commitment, loyalty and dedication during the year in working to achieve the Group's goals.

Yam Cheong Hung

Chairman

Hong Kong, 8 July 2003