Chairman's Statement

"Despite various marco-economic factors, Hung Hing's focus on quality and reliability allowed the Group to outperform competition to achieve an increase of 4% in profit." — Yam Cheong Hung, Chairman

TO OUR SHAREHOLDERS:

The financial year 2005/06 experienced continuing improvement in consumer confidence levels across the globe. This phenomenon drove demand for quality paper products, and corporations around the world continued to look to companies such as Hung Hing for quality outsourcing partners.

The year also saw adjustments in oil prices, which in turn affected transportation, paper and raw material costs. Labour costs continued to increase, especially driven by government regulations in southern China. Despite these macro-economic factors, Hung Hing's focus on quality and reliability allowed the Group to outperform competition to achieve an increase of 4% in profit.

During the year, the Group achieved an overall revenue growth of 27%. A key factor driving the increase was the inclusion of the full-year consolidated sales of the two Zhongshan paper manufacturing companies following the increase in the Group's stake in them. Apart from the impact of this inclusion, the Group's growth was driven by an increase in demand for quality paper products as the macro economic environment continued to improve.

The first and second quarters of the year saw steady growth due to robust economic performance across the globe. The third quarter saw a slight decline in customer confidence, leading to a short-term impact on orders. Customer confidence once again improved during the later part of the fourth quarter, reflected in an increase in order levels.

The year under review saw the Group increase revenue in all its major markets. The robust economy in China resulted in the Group improving both revenue and profit from mainland Chinese customers. The Group's business from Hong Kong-based exporters also grew by nearly 24%. Following aggressive marketing efforts and a broadening of the products and services offered, particularly in countries such as the UK and Germany, the Group increased its revenue in Europe by 25%. The Group also consolidated its business in the US with a revenue increase of 2%.

Highlights of 2005/06

Issue of convertible bonds: In March 2006, the Group issued HK$750 million five-year zero coupon convertible bonds (CB). The capital raised through the CB issue will give the Group the flexibility to expand and manage its financial strategy in order to take best advantage of market conditions.

Completion of Phase 1 of Heshan plant: Construction was completed on Phase 1 of the Group's Heshan plant and machinery is being installed. Production is expected to commence in July 2006.

Steady progress in paper manufacturing division: During the year, the Group made further progress with the operations of the two paper manufacturing companies following the acquisition. Key management personnel were put into place, and improvements in consistency of product quality were achieved, resulting in increases in both business volume and profitability.

Resumption of production in Hong Kong: The Group installed an eight-colour printing press at its Hong Kong headquarters and production was resumed on a small scale in May 2006. The Hong Kong facility is expected to offer us further flexibility to better serve customer needs and enable us to upscale capacity as needed.

Growth in printing of conventional books: The trend to outsource the printing of conventional books became more marked during the year, and the Group grew its revenues from the conventional book printing business. The Hong Kong printing facility is expected to help cater to this side of the business.

Diversification of our customer base: During the year under review, the Group's paper trading and corrugated carton manufacturing divisions, as well as the Wuxi plant successfully expanded their customer bases, especially in mainland China. The paper trading division also expanded the range of paper it offers to meet growing internal and external demand. It sold more kraft liner and medium paper sourced from the paper manufacturing division to customers, and offered more art paper to the printing division as demand for conventional books increased.

The Board of Directors is proposing a final dividend of HK20.0 cents per share, bringing total dividends for the year to HK29.5 cents per share. Subject to shareholders' approval, the final dividend will be paid on 12 September 2006 to shareholders whose names appear on the Register of Members of the Company on 28 August 2006.

Outlook

With the Chinese government encouraging domestic consumption and the global macro-economic environment continuing its strong performance, the Group believes that the potential for both domestic and international growth exists in 2006/07.

However, the year ahead will also see several challenges. The RMB remains strong, and at the same time, labour costs in China, particularly southern China, continue to rise. The Shenzhen government has announced an increase in minimum wage effective July 2006. Labour and power shortages, which have been a phenomenon in southern China for the past 12 months, might persist. Oil price adjustments might mean that paper and other raw material costs will be impacted. Hence continuous innovation will be needed to stay competitive from a price standpoint.

The trend for consolidation in the industry will likely continue with both challenges and opportunities for strong, well managed players. The Group's prudent management policies render it well placed to capitalize on the growth opportunities the market offers.

The Group will focus on higher-margin business and aggressive marketing in overseas markets. Through strategic capacity enhancements in Heshan and Hong Kong, the Group is well poised to meet increased demand.

We will continue with our efforts to remain the employer of choice through continuous improvement of the working environment, competitive salaries, bonuses and skill enhancement. During the year, the Group continued to provide training to its workers in the Shenzhen factory on health and safety measures, and succeeded in further raising the awareness of its staff on safety and environmental factors.

In closing, I would like to thank our dedicated and talented workers whose hard work has made our achievements possible.

Yam Cheong Hung
Chairman

Hong Kong, 7 July 2006