

Chairman's Statement



“While Hung Hing achieved solid results on the business front in 2006/07, it was also a successful year for environmental programs and sustainable development.”

Yam Cheong Hung, Chairman

To our shareholders:

2006/07 was a year of steady growth for Hung Hing, which benefited from a number of strategic initiatives as well as the improvement in global economy. The Group achieved revenue growth in all its business divisions, particularly during the second half of the year, to achieve overall revenues of HK\$3,142 million, an increase of 6% over 2005/06.

A number of challenges persisted in mainland China. These included the rising cost of sales due to oil and material price adjustments, and the minimum wage increase in China which affected our labour costs. While the trend of supplier consolidation has become well established in mainland China, competition is still intense, which has invariably affected prices. Although the Group continued to face pressure on margins as a result of these factors, interest income and exchange gains from the strong RMB helped increase operating profit by 3%.

With the implementation of a uniform corporate income tax of 25% in China starting January 2008, the Group increased the provision for deferred tax for its China subsidiaries. As a result, the Group's overall tax expenditure increased 10% to HK\$50 million.

In the year under review, the Group recognized a significant gain of HK\$55 million as a result of change in the fair value of the derivative component of its convertible bond. This gain has led to an increase in profit for the year of 11%.

Hung Hing continued its strategy of diversification and made steady progress:

Product portfolio: The printing and paper trading businesses received positive customer response for the diversification of their product range through the printing of more conventional books as well as offering new brands of paper.

Geographic markets: The Group continued to expand its customer base geographically and increased its presence in its non-traditional markets, making inroads into Australia, Canada, Eastern Europe, Germany and South America. The Group also took advantage of the strong domestic economy to make additional progress in the mainland China market.

Manufacturing base: The Group continued to make strategic investments to expand and enhance its facilities in Wuxi and Heshan to serve the China and overseas markets more effectively and also to expand its cost base.

While Hung Hing achieved solid results on the business front in 2006/07, it was also a successful year for environmental programs and sustainable development. Every business division strives to integrate environmental considerations into the entire production process through the adoption of new technologies, materials and design that minimize impact on the environment at every stage. Environmental awareness programs for our employees and a regular review of company performance ensure that we are on the right track.

The Group achieved Forest Stewardship Council (FSC) certification in May 2007. This is the world's leading environmental certification that provides a guarantee that a product comes from well-managed, sustainable forests. We are very proud of this accomplishment, which also enables us to accept FSC orders from our customers.

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Earning per share was HK46.1 cents. The Board of Directors is proposing a final dividend of HK20 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 27 September 2007 to shareholders whose names appear on the Register of Members of the Company on 31 August 2007.

Outlook

The Group is cautiously optimistic about the prospects of continued growth in the year ahead. The first half of the coming financial year is expected to be stable, with a potential slowing down of customer orders in the latter half of the year on the back of a slowdown in the US economy. The steady expansion in geographic markets has helped the Group reduce its reliance on any one market.

The macro economic factors associated with doing business on mainland China will likely improve over the long term. During the year ahead, due to strong demand in mainland China, slight labour cost adjustments might persist. Other challenges including price based competition as well as power shortages are likely to continue. The Group's prudent and forward looking strategies as well as its continued investment in long term growth will help it sustain its business and reputation as a value added and reliable partner.

The Group will continue to focus on value-added business and aggressive marketing overseas. We will also make further strategic investments to capitalize on future growth, especially in Heshan and Wuxi.

We remain committed to being an employer of choice and to employing a sustainable business model that is sensitive to environmental considerations.

In closing, I would like to thank our employees around the world whose hard work is the foundation of Hung Hing's success.

Yam Cheong Hung

Chairman

Hong Kong, 9 July 2007