Management Discussion and Analysis

"The Group continued to invest strategically to meet future growth requirements. Construction of Phase 1 of the Heshan facility was completed. The Hong Kong headquarters also resumed production allowing the Group to capture opportunities in Hong Kong and spread its production base." — Yum Chak Ming, Matthew, Managing Director

During the period under review, Hung Hing took advantage of the continuing trend of outsourcing the production of quality paper products to China to achieve revenue of HK$2,957 million, an increase of 27% over the previous year. This marked the first time that the full year results of the two paper manufacturing companies in Zhongshan were consolidated with the Group's results, following the increase of the Group's stake in them. This factor also contributed significantly to the increase in revenue.

In tandem with the strong macro economic environment, the Group achieved revenue and profit growth in most of its businesses. The paper and carton box printing and manufacturing division continued its strong performance and contribution to the Group's overall business and achieved an increase of 9% in revenue. The paper trading and paper manufacturing divisions also recorded increases in revenue of 18% and 310% respectively.

Driven by government directives as well as the robust economy, labour costs in southern China increased significantly during the year under review. Worldwide adjustments in oil prices continued, resulting in higher transportation and raw materials costs. Consolidation of the full year results of the paper manufacturing companies resulted in further increases in the Group's cost of sales and administrative expenses. As a result, the Group's overall cost of sales increased by 30%.

During the year under review, power shortages in southern China affected the business efficiency of our mainland Chinese customers, which inevitably impacted orders. Intense competition continued to exert pressure on margins through the year and this trend is expected to persist.

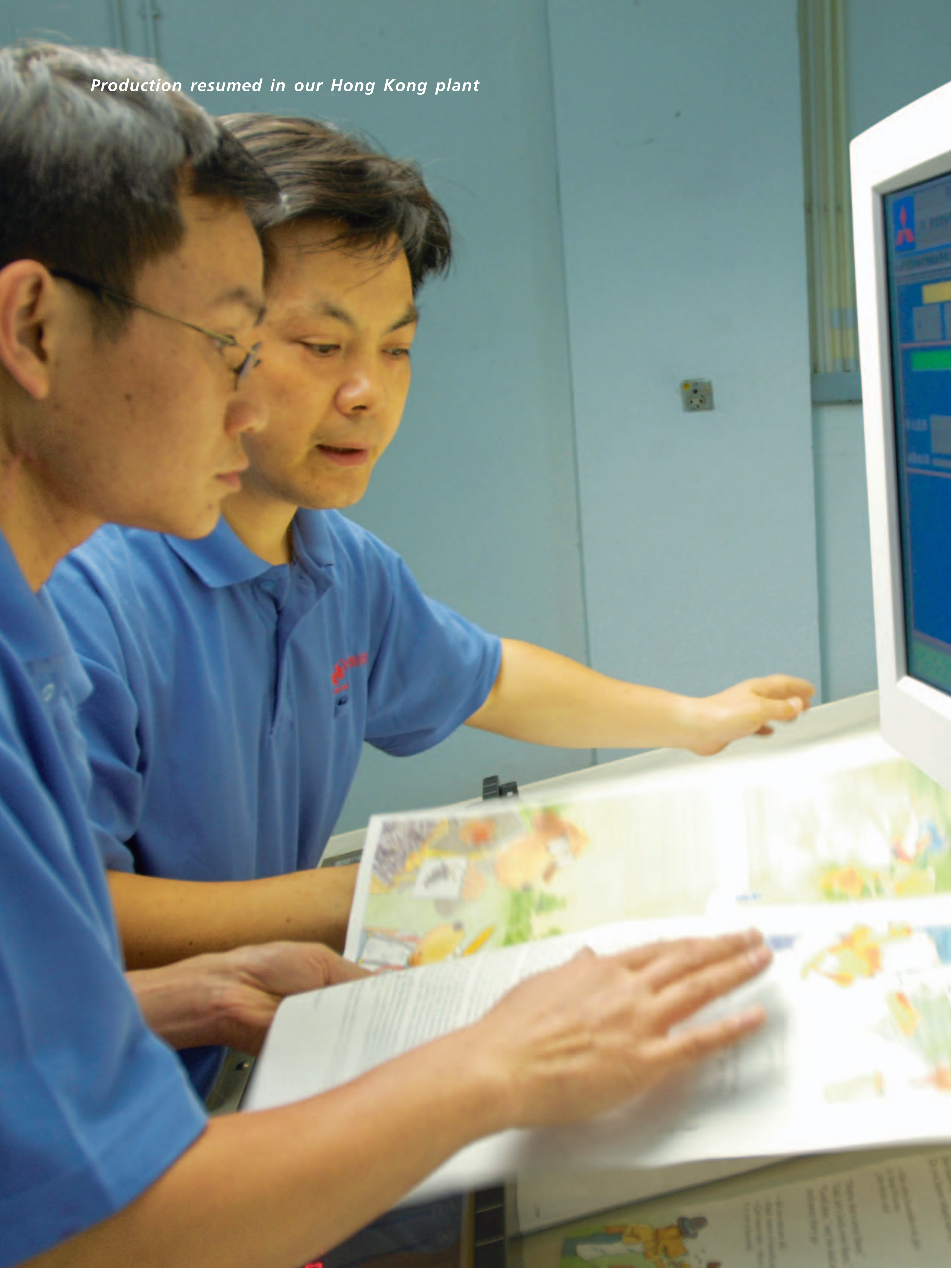
The Group's profit was further impacted by the inclusion of HK$4.7 million associated with the issue of the HK$750 million five-year zero coupon convertible bond (CB) into other expenses, in accordance with the new accounting rules stipulated in the Hong Kong Financial Reporting Standards (HKFRS). This amount comprised HK$2.9 million as part of the CB issue charge, and HK$1.8 million as an adjustment in the fair value of the derivative component of the CB.

Despite these factors, the Group successfully diversified its customer base and product range to achieve revenue growth. The ongoing emphasis on quality, value-added services and efficiency, as well as a focus on higher margin business, led to an increase of 11% in profit from operating activities. Net profit attributable to equity holders of the parent increased to HK$249 million. Earnings per share were HK42.5 cents.

An analysis by business division is as follows:

	Revenue			**Contribution to operating profit**		
	2006 HK$'000	%	% change from 2005	**2006 HK$'000**	%	% change from 2005
Paper and carton box printing and manufacturing	**1,556,040**	53	+9	**255,247**	73	+5
Paper trading	**269,544**	9	+18	**27,266**	8	+11
Corrugated carton manufacturing	**493,269**	17	-3	**25,721**	7	-18
Paper manufacturing	**638,032**	21	+310	**55,839**	16	+392
Eliminations	**—**	—	—	**208**	—	N/A
	2,956,885	100	+27	**364,281**	104	+17
Interest, dividend income and other gains				**11,492**	3	-49
Corporate and unallocated expenses				**(25,895)**	-7	+33
				349,878	100	+11

Production resumed in our Hong Kong plant



PAPER AND CARTON BOX PRINTING AND MANUFACTURING

During the period under review, the Group's largest division continued to secure new customers and more business from existing customers to achieve an increase of 9% in external sales. The increase was driven primarily by growth in markets like Australia, Canada, Germany and the UK.

The division expanded its breadth of products by printing more conventional books, as well as greeting cards. Despite intense competition, paper price adjustments and labour cost increases, which put pressure on margins, the division achieved 9% growth in revenue and 5% in operating profit.

The Group's Wuxi plant is now in its third year of operations. The plant successfully increased revenue by 47% and expanded the variety of products it offered, including packaging and greeting cards. Machinery is being installed at the Heshan facility and Phase 1 is scheduled to become operational during July 2006. Resumption of production at the Hong Kong plant and installation of another press in 2006/07 will allow the Group to capture opportunities in Hong Kong and spread its production base on a limited scale.

PAPER TRADING

The paper trading division succeeded in expanding its customer base in mainland China to increase external sales volume by 31% and revenue by 18%.

The growth was driven by an expansion in the varieties of paper it offered customers. Specifically, the division began to offer kraft liner and medium paper from the paper manufacturing division, as well as high-end types of paper. It also sourced more types of paper such as ivory board and wood-free art paper from mills in mainland China.

The Group's Shenzhen distribution and logistic warehouse began to provide customers with value-added services such as paper cutting and slitting to customer requirements in addition to storage. The Group's strategy of offering limited credit facilities to reliable customers also helped achieve the increase in revenue.

The market environment continued to be competitive for this division, putting pressure on margins. Adjustments in raw material prices affected paper prices throughout the year and this trend is expected to continue.

Conventional book printing in our Hong Kong and Shenzhen plants

CORRUGATED CARTON MANUFACTURING

The corrugated carton manufacturing division faced intense competition and pricing pressure during the financial year. Despite maintaining volumes, the competitive environment caused a decline of 3% in revenue through external sales and 18% in operating profit.

The division has begun to implement a strategy of focusing further on higher-margin businesses. It continues to underpin the Group's vertically integrated approach by acting as a key supplier of corrugated board and cartons to the Group's paper and carton box printing and manufacturing division.

The new corrugator installed in the Zhongshan facility has begun operation and will help increase volumes. The division is also putting into place cross-selling strategies that will enable it to better capitalize on the steady revenue growth achieved by the printing division.

PAPER MANUFACTURING

The paper manufacturing division contributed 21% of the Group's total revenue during the period under review, making it the Group's second largest division. Internal sales, where the division supplied paper to the Group's other businesses, accounted for 23% of its revenue.

The division has made steady progress since the Group acquired a majority stake in the two paper manufacturing companies in Zhongshan. Key management personnel were put into place and a number of measures were implemented to improve operational efficiency, such as continuous upgrades in the paper making machinery. The division also achieved a sustained further improvement in paper quality and enhanced the features of the paper manufactured by the two companies.

Despite intense competition and pricing pressure, the division performed soundly which validates the Group's strategy in acquiring a majority stake in the two companies.

LIQUIDITY AND CAPITAL RESOURCES

The Group continued to invest strategically to meet future growth requirements.

Capital expenditure for the year amounted to HK$171 million. The expenditure was incurred as follows:

	HK$ million
Buildings and machinery installation in the corrugating and printing facility at the Zhongshan plant	50
Construction of buildings at the Heshan plant	33
Buildings and machinery upgrade at the paper manufacturing facilities in Zhongshan	25
Buildings and machinery at the Wuxi plant	21
Machinery and equipment at the Tai Po facility	19
Machinery and equipment at the Shenzhen plant	17
Buildings and machinery at the Shenzhen logistic warehouse	6
Total	171

The Group's total bank borrowings at 31 March 2006 amounted to HK$596 million, a reduction of HK$57 million from last year. The bank borrowings were predominantly arranged in Hong Kong dollars, except those of the two Zhongshan paper manufacturing companies which were arranged in Renminbi. Of the Group's total bank borrowings, 75% was in Hong Kong dollars and 25% was in Renminbi.

The Group's short term bank borrowings amounted to HK$427 million and long term bank borrowings amounted to HK$169 million. Interest expenses increased to HK$28 million as a result of increased interest rates in Hong Kong and the inclusion of full-year loan interest of HK$8 million upon consolidation of the two Zhongshan paper manufacturing companies. The Group's bank borrowings as a ratio to shareholders' equity improved from 36% to 29% as a result of net repayment of bank loans of HK$57 million.

The Group issued a 5-year zero coupon convertible bonds (CB) in March 2006, raising HK$725 million net of expenses, providing the Group with additional liquidity and financial resources. The proceeds of the CB will be used for capacity expansion and to refinance some of the Group's short term borrowings. Some of the proceeds have been placed in short term deposits.

The year saw an improvement in cash flow generated from operations primarily from the reduction in account receivable and inventory. During the year the Company's shareholders elected to receive 23 million new shares in lieu of dividend. This enabled the Group to retain cash of HK$106 million, further enhancing its cash flow situation.

As at 31 March 2006, the Group had cash on hand of HK$1,311 million of which HK$1,115 million was placed in time deposits. Of the total cash on hand, 65% was in Hong Kong dollars, 22% was in Renminbi, 8% in US dollars and 5% in Euro. Cash on hand net of bank borrowings and the liability component of the CB amounted to HK$73 million.

EMPLOYEES

As at 31 March 2006, the Group had 15,349 employees in Hong Kong and China.

The Group further strengthened its employee program during the year under review to enhance employee skills and provide workers with a sound career path. Salaries provided are competitive and bonuses are offered according to employee performance and the performance of the companies within the Group.

Hung Hing, as the leading printing and packaging company in China and Asia, not only adheres closely to local government regulations as well as our customers' standards, we also aim to continuously surpass them with the goal to become a role model for others in the industry in terms of good labour practices.

The Group is confident that its long-term management strategies, emphasis on quality, and vertically integrated operations will enable it to achieve growth and combat competition in coming years.

The management thanks its staff whose skill, commitment to professionalism and untiring efforts are the main reason for the Group's business success.

Yum Chak Ming, Matthew
Managing Director

Hong Kong, 7 July 2006