

鴻興印刷集團有限公司

Hung Hing Printing Group Limited



Annual Results Presentation

For the nine months ended 31 Dec. 2012

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Highlights - 9 Months ending Dec. 2012

- Group revenue rose by +6 % vs. prior period.
- Profit before Tax went up by +26 % vs. prior period.
- Export (Book and Package Printing) revenue rose by 15 %, riding on the accelerated pace of consolidation among export printers in south China.
- Domestic business was impacted by slowdown in the PRC economy, new entrants in south China and the resulting intensified price competition. We are optimistic about the long term growth opportunity and we are focusing to improve our cost efficiency.
- Stable commodity & other material costs plus stabilized RMB helped to contain costs. Continued to invest in automation and push for productivity improvements to offset rising wages.
- Partnering with Rengo (our strategic shareholder) to sell sales display shelves in Japan and other Asian markets.

Hung Hing has established infrastructure in the PRD region and an established base in East China

Hung Hing—overview of manufacturing facilities

Zhongshan



- Printing and manufacturing of folding cartons, litho lam and corrugated containers
- Awarded ISO9001 certification
- Production area: 130,000 m²
- Production capacity: 222 million impressions
- 1,000 full time workers

Wuxi



- Printing and manufacturing of folding cartons, litho lam and corrugated containers
- Awarded ISO9001 and ISO14001 certifications
- Production area: 50,000 m²
- Production capacity: 147 million impressions
- 1,000 full time workers¹

- Book and package printing
- Consumer product packaging

Heshan



- New facility for printing children's and conventional books
- ~170 acres of land available for further expansion, enough to double current operations
- Awarded ISO9001 and ICTI-COBP certifications
- Production area: 110,000 m²
- Production capacity: 213 million impressions
- 2,000 – 3,500 full time workers¹
 - Of which 1,600 – 2,900 hand assembled related¹

Shenzhen



- Printing and manufacturing of folding carton, children's books, conventional books, litho lam and corrugated containers
- Paper Trading, with warehouse of 36,600m²
- Warehouse with storage capability of 60,000 tons
- Awarded ISO9001, ISO14001 and ICTI-COBP certifications
- Production area: 175,000 m²
- Production capacity: 638 million impressions
- 6,000 – 8,500 full time workers¹
 - Of which 4,000 – 6,000 hand assembled related¹

Hong Kong



- Corporate headquarters
- Small scale printing of conventional books
- Paper Trading, with warehouse of 11,560 m²
- Warehouse facility with 20,000 tons of storage space
- 300+ full time workers

Note: The Hong Kong, Shenzhen and Heshan facilities focus primarily on export sales, whilst the Wuxi and Zhongshan facilities cater primarily to the local Chinese market

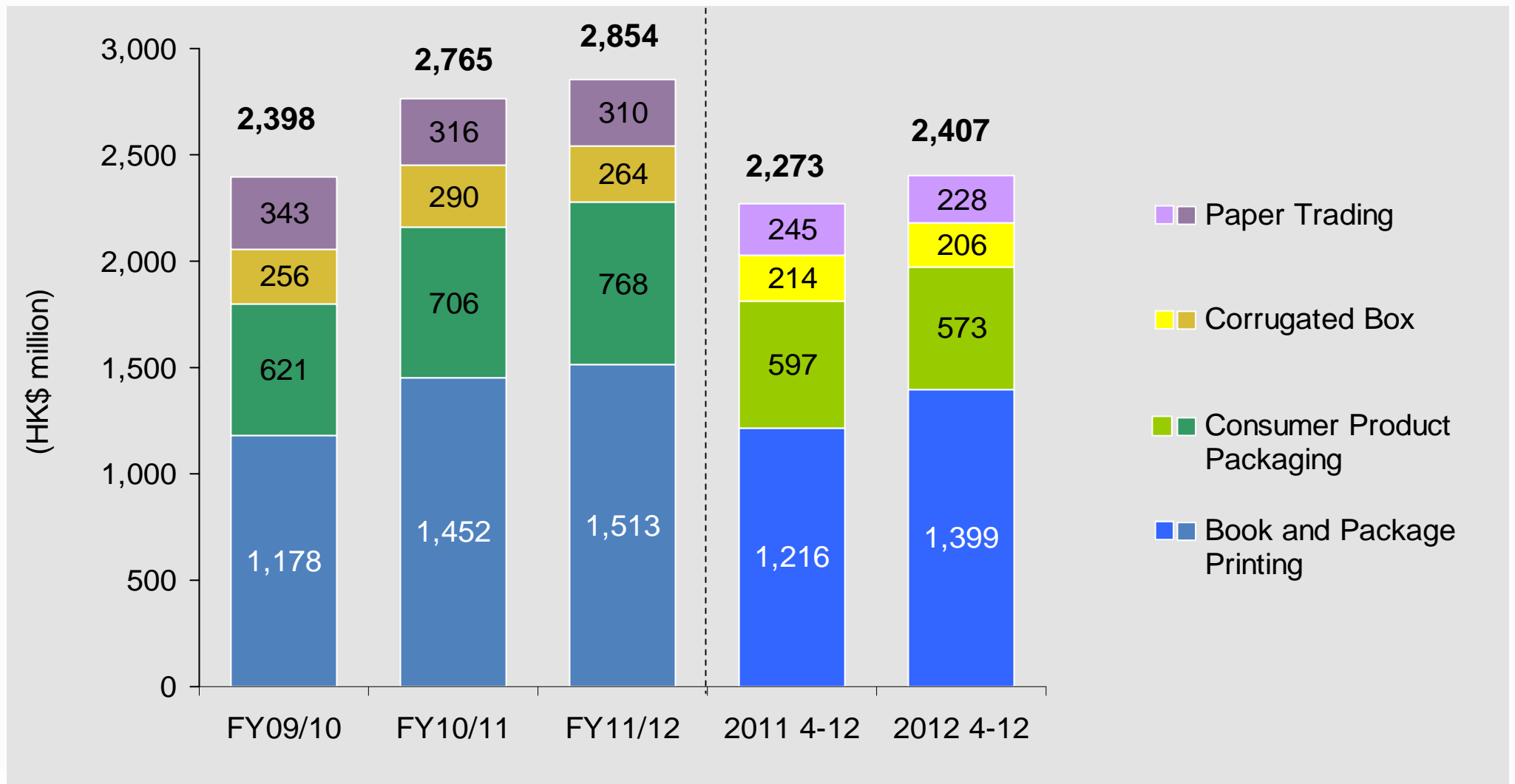
¹ Fluctuates with seasonality demands

Hung Hing operates four complementary business segments

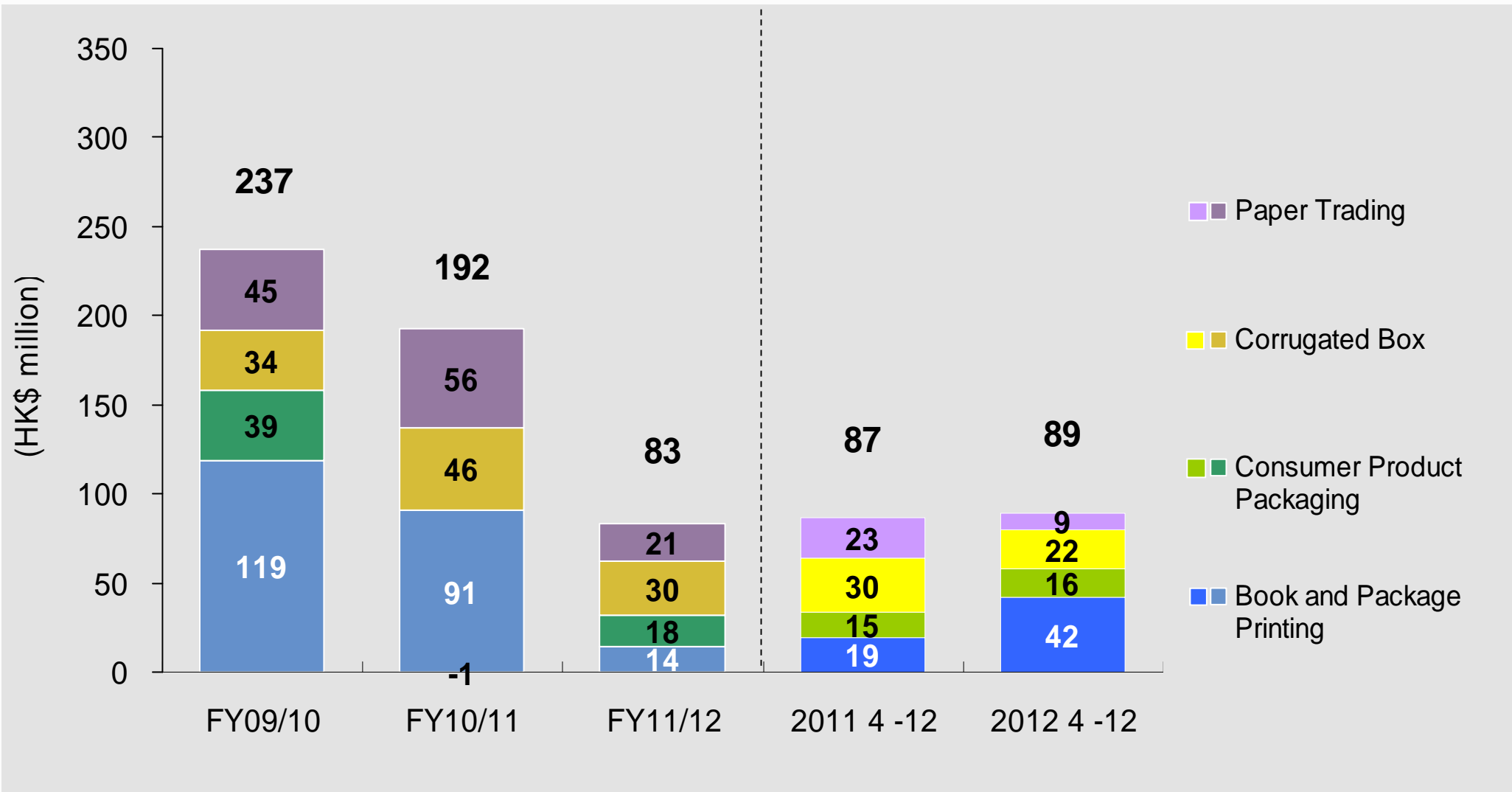


	Book & package printing	Consumer product packaging	Corrugated box	Paper trading
Market position	■ Leader globally	■ Major player in China	■ Major player in South China	■ Major player in South China
% 2012 Apr-Dec revenue	■ 58% (HK\$1,399mm)	■ 24% (HK\$573mm)	■ 9% (HK\$206mm)	■ 9% (HK\$228mm)
Key products	<ul style="list-style-type: none"> ■ Children's books ■ Toys Packaging ■ Luxury Packaging 	<ul style="list-style-type: none"> ■ Personal care products ■ Packaged food ■ Consumer electronics 	<ul style="list-style-type: none"> ■ Primarily for export and transportation purposes 	<ul style="list-style-type: none"> ■ High quality papers sourced from Europe, Americas, Southeast Asia and China. 
Key facilities	<ul style="list-style-type: none"> ■ Three production facilities in Shenzhen, Heshan, and Hong Kong ■ Total capacity of ~850 million impressions 	<ul style="list-style-type: none"> ■ Two production facilities in Zhongshan and Wuxi, each equipped with dust-free manufacturing zone and BRC (British Retail Consortium) certified. 	<ul style="list-style-type: none"> ■ Main production facility in Shenzhen ■ Additional facility in Zhongshan included under consumer product packaging 	<ul style="list-style-type: none"> ■ Two warehouses in Shenzhen and Hong Kong, with total storage capacity of ~80,000 tons

Revenue Is Up By +6 %

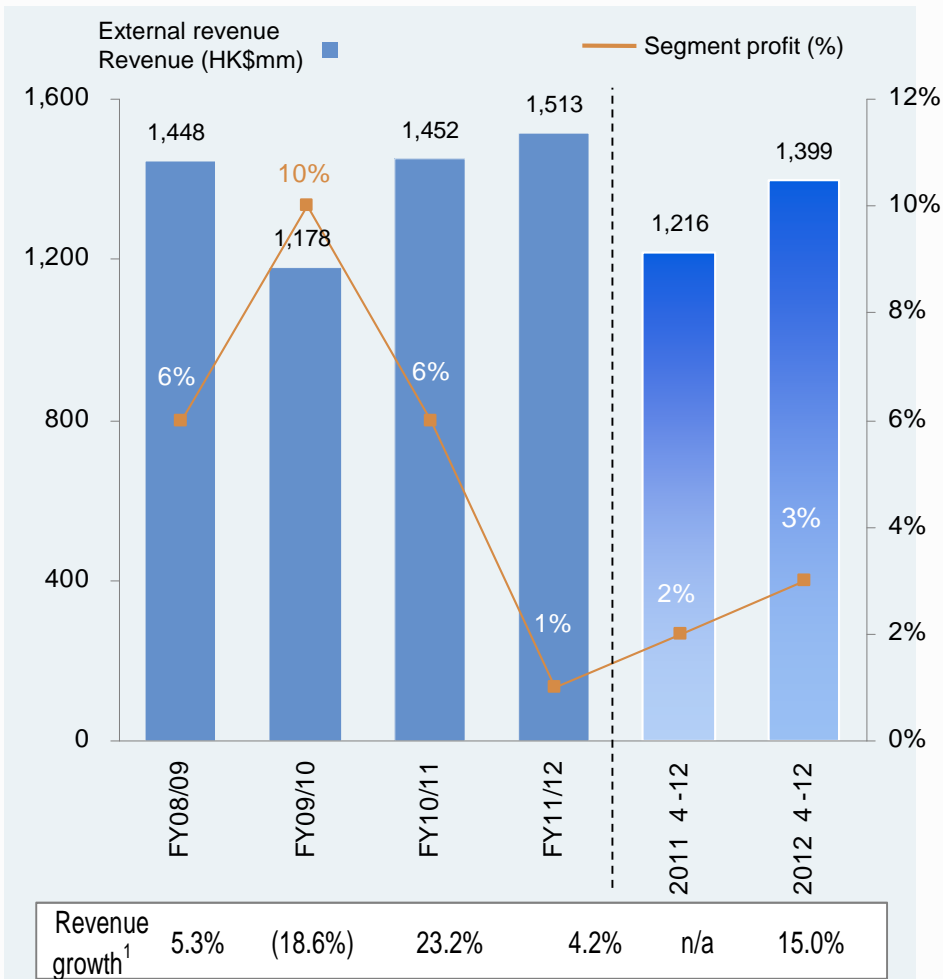


Profit improved in our largest business – Books & Package Printing



Segment financials – Books and package printing

Books and package printing



¹ Based on change in external sales

Commentary

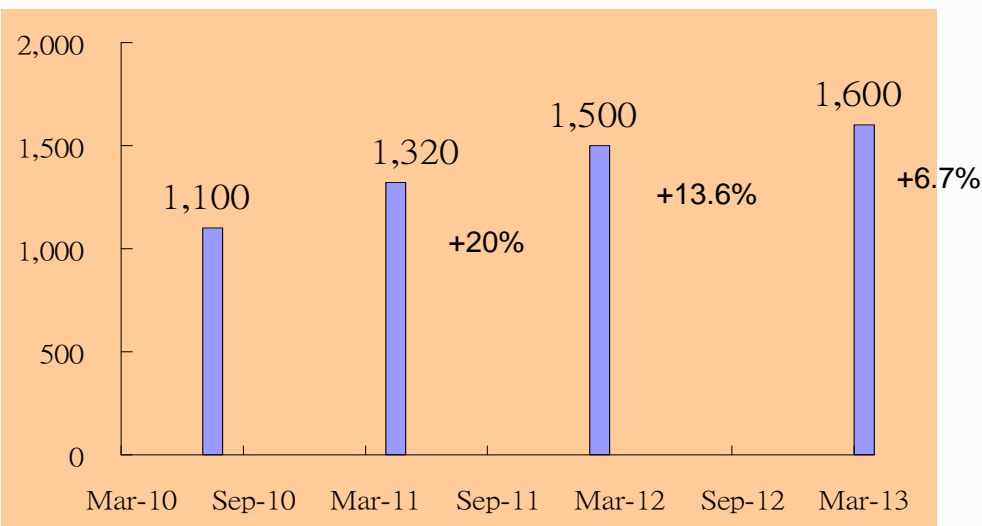
- Revenue rose by +15 % vs. prior period.
- The falling demand in books together with the spiral labor costs have accelerated the pace of consolidation among export printers in south China. There is also a growing trend among international publishers and toy manufacturers to reduce their list of qualified vendors. HH benefits and gains market share.
- Stable commodity, other materials costs and stabilized RMB helped to contain costs.
- Labor costs continue to rise at double digits in China. Our push for automation and productivity initiatives helps to partially offset the rising costs.
- Partnering with Rengo to export sales display shelves to Japan and other Asia markets. Will explore similar opportunities in China.

Books and package printing – Key cost variables

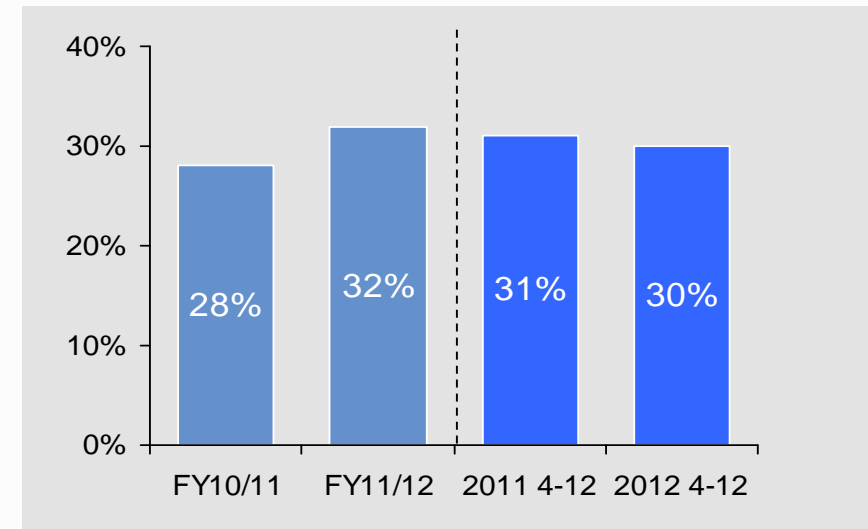
USD vs CNY during Jan 2010 – Dec 2012



Minimum wage rate in Shenzhen (in RMB)



Payroll costs as a % of revenue



During the three-year period:

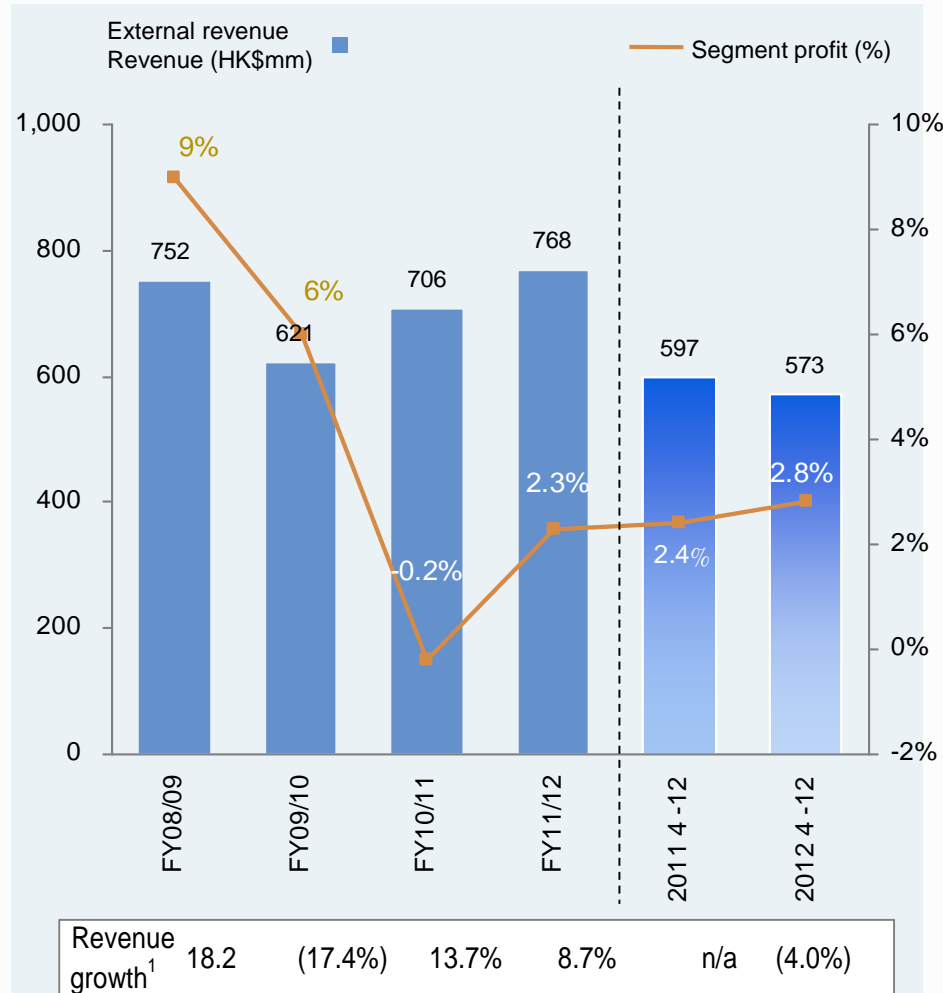
- RMB has appreciated 8% against USD (from 6.83 to 6.3)
- Minimum wage rate in Shenzhen up by +45% from RMB1,100 to the latest RMB 1,600/month
- Payroll cost, as a % of revenue, has increased by 2% (28% to 30%)

In response, we are taking the following actions:

- Continuous drive for automation whenever viable
- Tighten cost/quote management
- Expand our presence in higher value-added projects

Segment financials – Consumer product packaging

Consumer product packaging

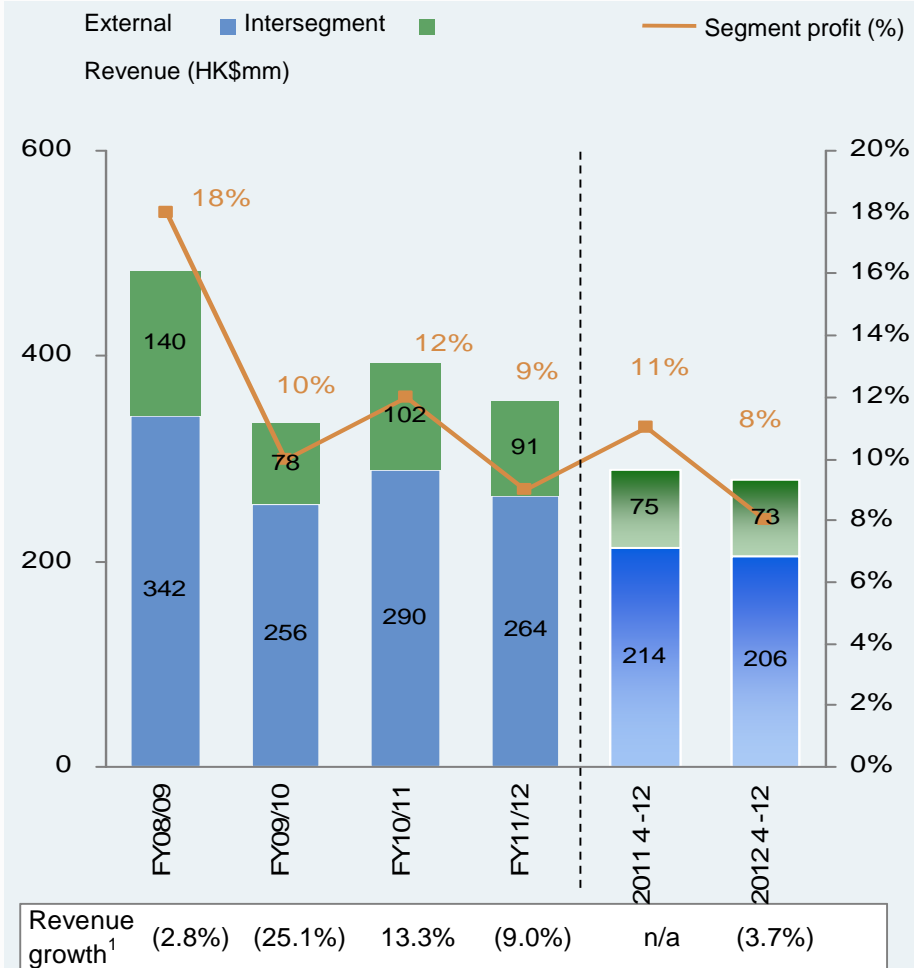


Commentary

- Revenue went down by – 4 % vs. prior period.
- Slowing economic growth and new entrants moved-over from the export sector intensified competition, particularly in south China. A slowdown in orders from some Japanese manufacturers (in PRC) also impacted revenue.
- Stable commodity and materials costs help to contain costs.
- On-going strategy to invest in advanced printing press and production equipment. Continuous drive for productivity helped partially offset the rising labor costs.

Segment financials – Corrugated box

Corrugated box



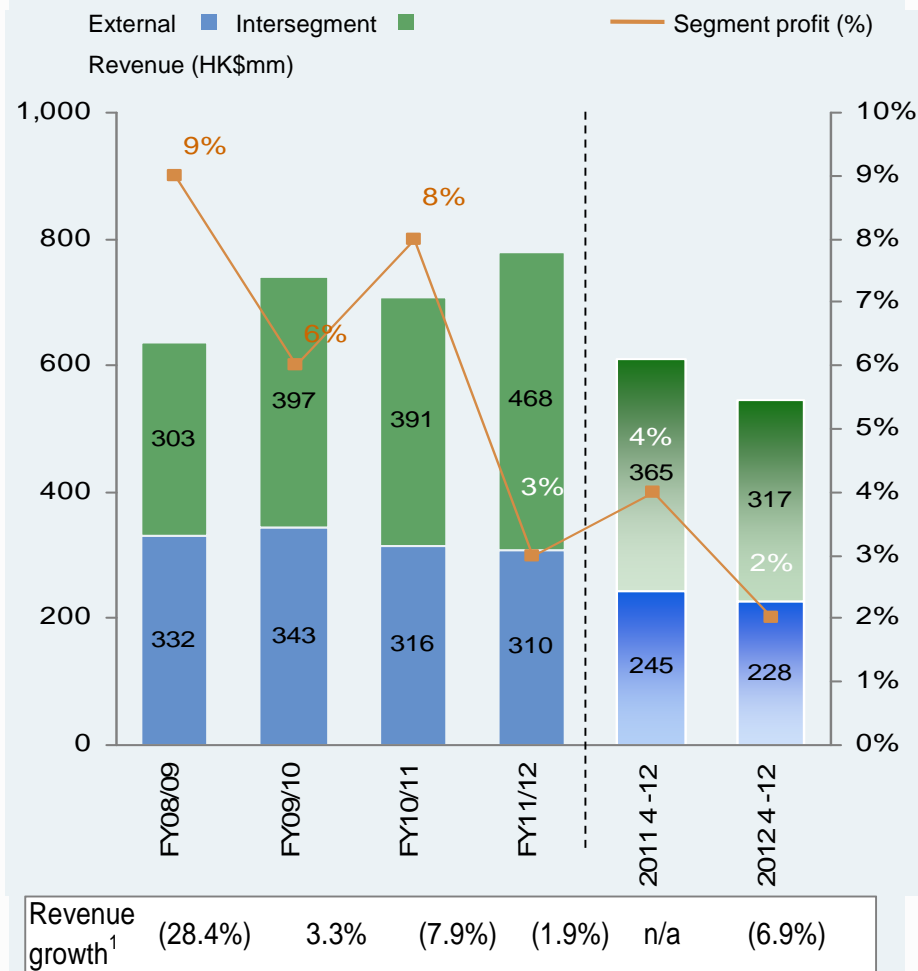
¹ Based on change in external sales

Commentary

- Impacted by the slowdown in export manufacturing across Pearl River Delta. Business development efforts now shifted to domestic market. Overall, external sales declined by 4 %
- There is a gradual trend for manufacturers to move out from Shenzhen/Dongguan, and invest in Huizhou, Jiangmen, Shaoguan, and beyond. Accordingly, we expand our sales territory coverage, driving up our distribution costs.
- Made substantial productivity improvement by re-layout of its production floor and rationalization of its production equipment.
- Co-operative opportunities with Rengo's corrugated box plants

Segment financials – Paper trading

Paper trading



¹ Based on change in external sales

Commentary

- Serves as a centralized paper buyer for the Group.
- Inventory flexibility to use internally or sell externally provides a natural raw material hedge mechanism that other printing companies do not have.
- Revenue went down by 7 %.
- The slowdown in export manufacturing across Pearl River Delta, together with tightened credit management impacted revenue.
- Intensified price competition, together with soft paper price impacted margin.

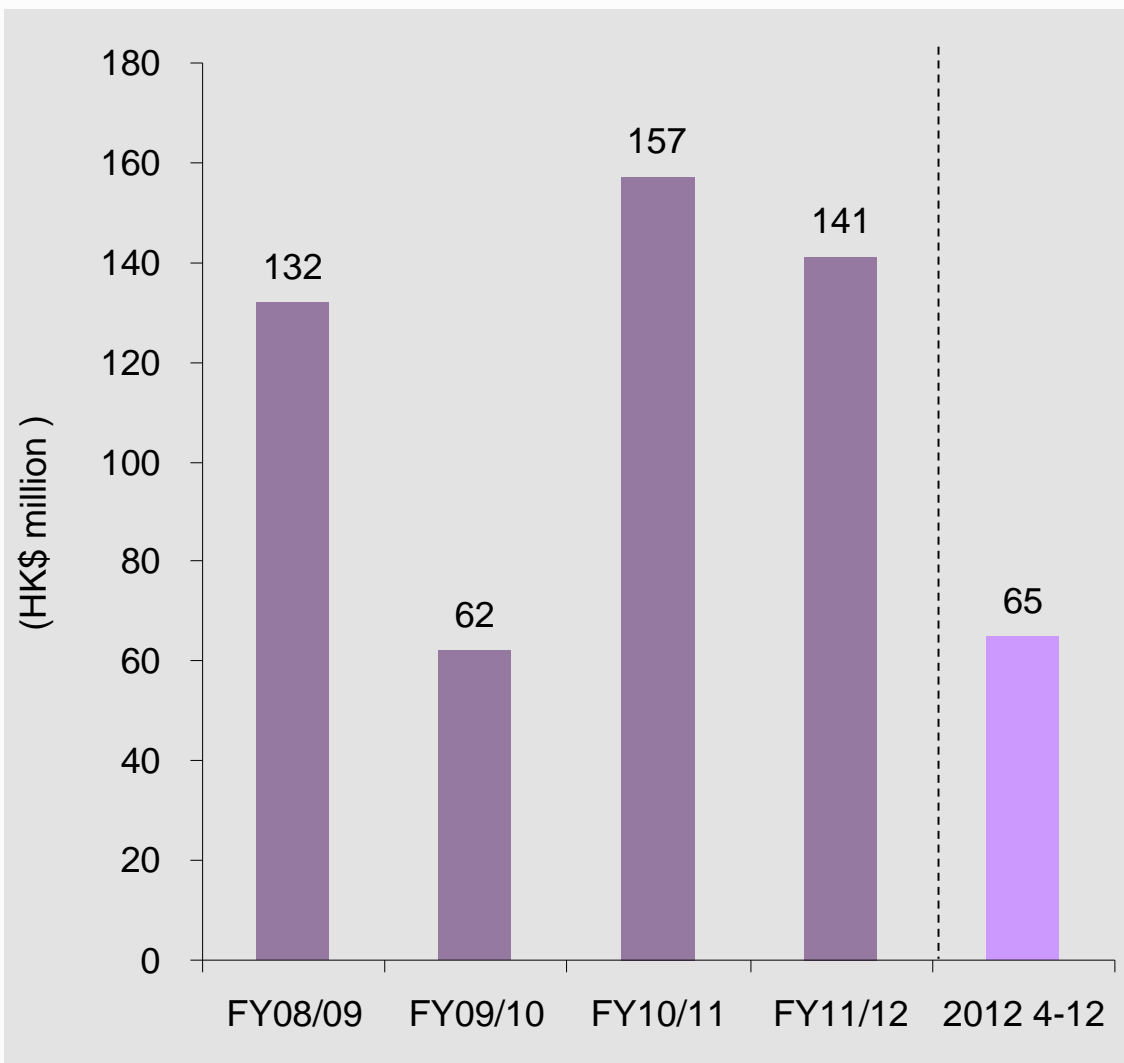
Business Unit Analysis

(HK\$ million)	Period Ended 31/12/2012			Period Ended 31/12/2011	
	External Sales	Inter- segment sales	Total	Profit Contribution	Profit Contribution
Book & Package Printing	1,399	1	1,400	42	19
Consumer Product Packaging	573	13	586	16	15
Corrugated Box	206	73	279	22	30
Paper Trading	228	317	545	9	23
Eliminations		(404)	(404)	3	1
	<u>2,406</u>	<u>-</u>	<u>2,406</u>	<u>92</u>	<u>88</u>
Interest, dividend income and other gains				13	12
Corporate and unallocated expenses				(19)	(23)
Gain on disposal of an associate				6	-
Loss on redesignation of investment in associates to available-for-sale financial assets				(3)	-
				<u>89</u>	<u>77</u>
Finance costs				(7)	(8)
Share of losses of associates				(11)	(13)
Profit before income taxation				<u>71</u>	<u>56</u>
Income tax expense				(15)	(16)
Profit for the period				<u>56</u>	<u>40</u>

Solid Financial Position

(HK\$ million)	31/3/2010	31/3/2011	31/3/2012	31/12/2011	31/12/2012
Assets					
Non-current	1,467	1,569	1,572	1,574	1,520
Current	2,356	2,076	2,214	2,413	2,109
	<u>3,823</u>	<u>3,645</u>	<u>3,786</u>	<u>3,987</u>	<u>3,629</u>
Liabilities					
Non-current	41	57	358	377	276
Current	795	776	624	798	539
	<u>836</u>	<u>833</u>	<u>982</u>	<u>1,175</u>	<u>815</u>
Net Assets	<u>2,987</u>	<u>2,812</u>	<u>2,804</u>	<u>2,812</u>	<u>2,814</u>
Equity					
Equity attributable to owners of the company	2,859	2,674	2,662	2,672	2,665
Non-controlling interest	128	138	142	140	149
	<u>2,987</u>	<u>2,812</u>	<u>2,804</u>	<u>2,812</u>	<u>2,814</u>
Gearing Ratio	14%	15%	19%	22%	14%
Current Ratio	3.0	2.7	3.5	3.0	3.9

Capital Investment – business capability

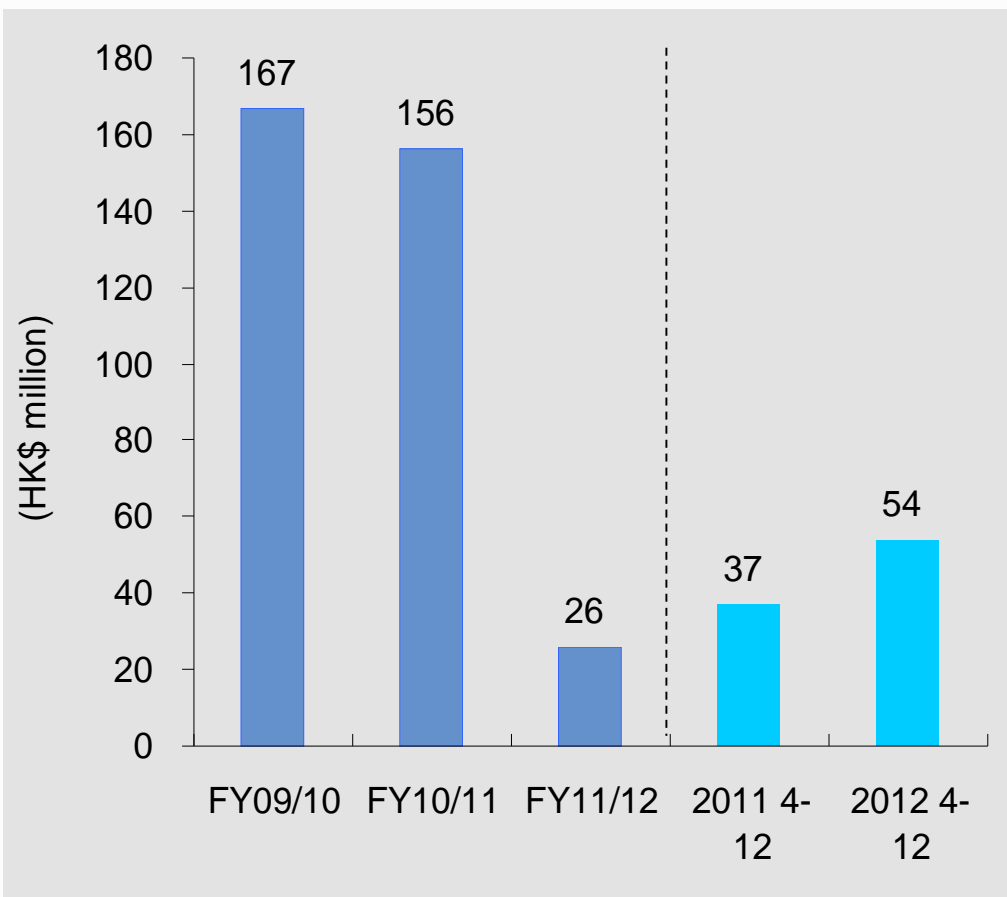


Commentary

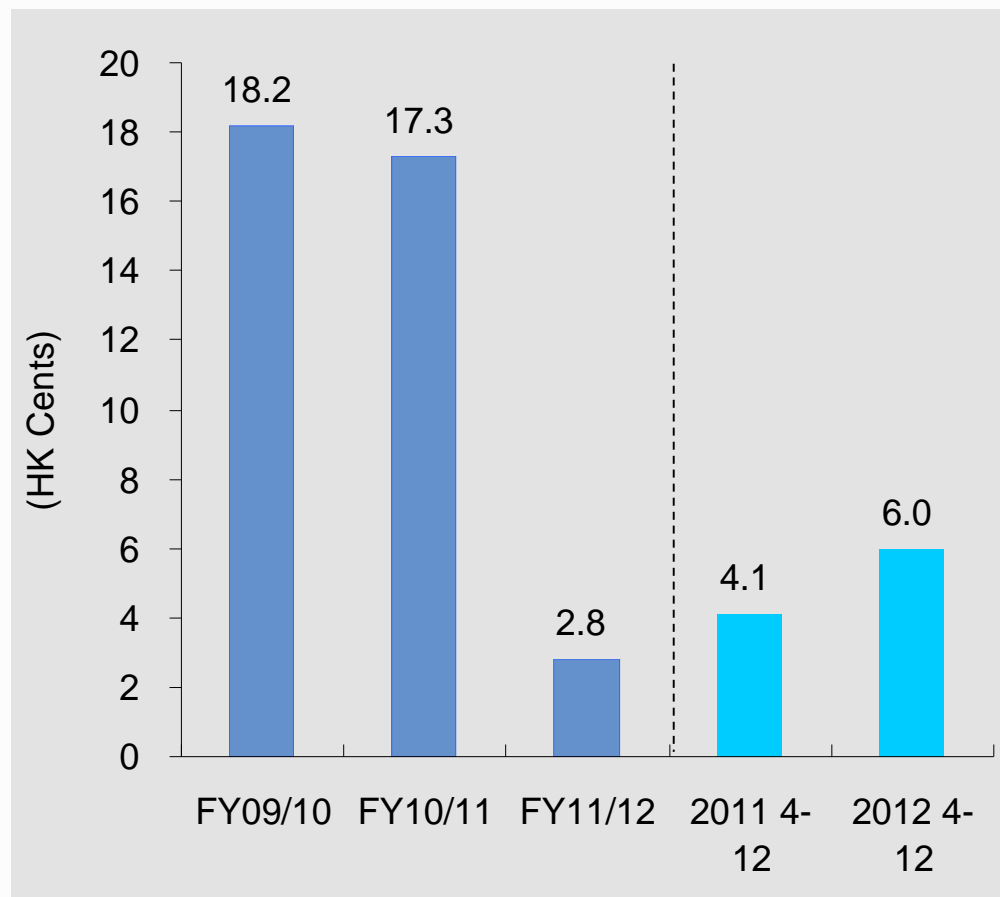
- Slowed down CAPEX spending amid the economic uncertainty in our export market and over-capacity in domestic packaging industry in China.
- Rather than expanding capacity, we focused in the upgrading of our machinery and to support our various automation initiatives.

Profit Attributable To Owners of the HHPG & Earnings Per Share

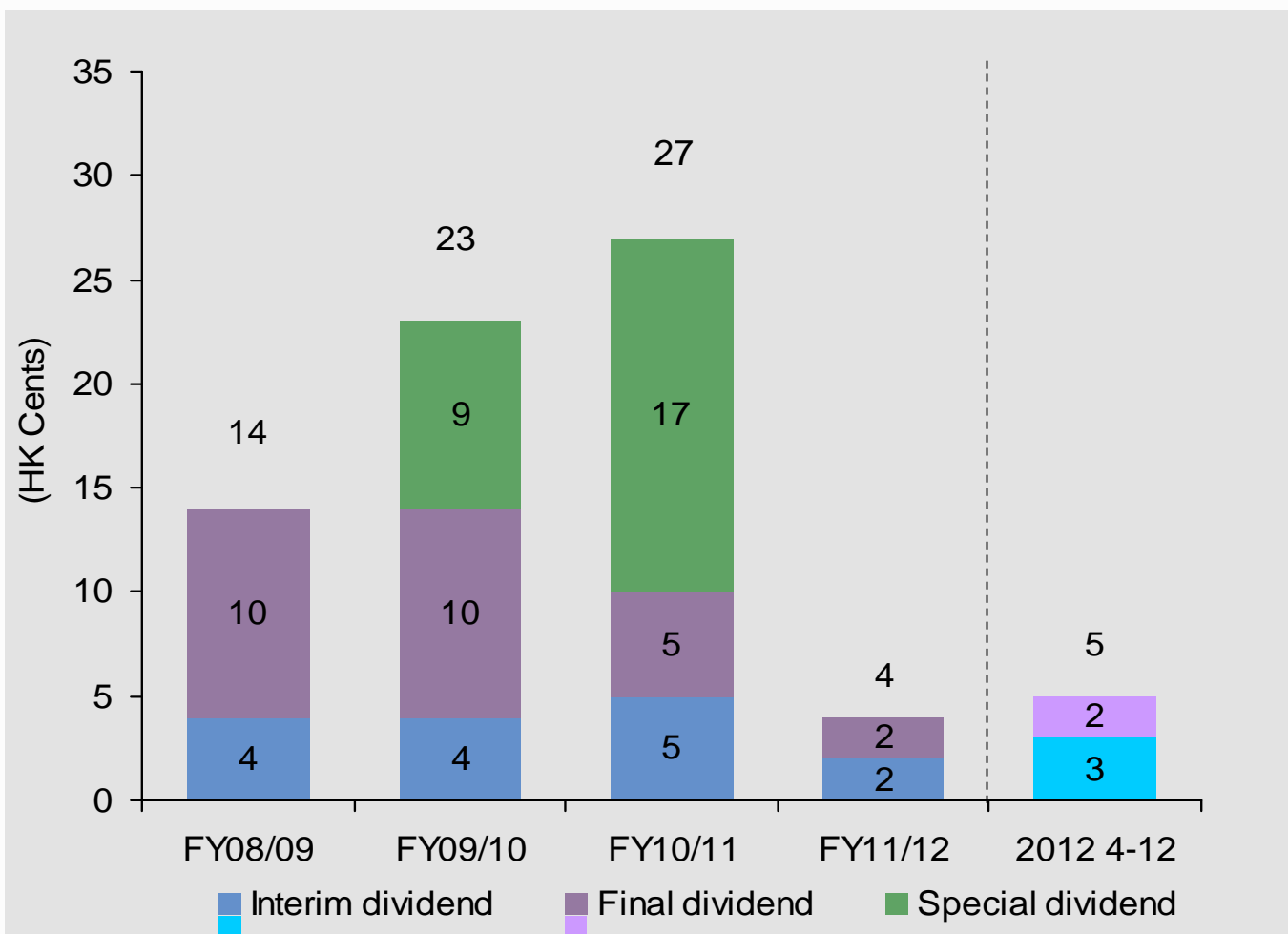
Profit Attributable to Owners of HHPG



Basic Earnings per share



Proposed Dividends



Commentary

2012 4-12 Dividends

Interim (paid) 3 cents

Final (proposed) 2 cents

5 cents

Business Outlook (short-term)

1. Export Markets

With the improving employment and consumer sentiment, we expect growing order intake from the U.S. market. On the other hand, we expect the Euro-zone economy will continue to be fragile.

2. Increasing consolidation among export printers in south China

- HH is a beneficiary to this trend.
- Our breadth of capabilities, cost efficiency and solid track record in corporate and social responsibility make HH a vendor of choice among large/MNC customers.

3. Domestic packaging

We expect the growth in the China economy, and consumer spending will accelerate slightly in the next new quarters. On the other hand, severe price competition will continue, particularly in south China.

Business Outlook (medium term)

4. **New opportunities in the China domestic market**

- MNC publishers are moving into China. HH is well positioned to be their printing partner particularly in the Children's Books segment.
- Partnering with Rengo, HH is exporting quality sales display shelves to Japan with good progress. Leveraging upon our innovative design and handwork skills, we are exploring similar opportunities in China.

5. **Production Costs**

For the past year, the growth in production costs and inflation slowed down generally in China. Increase in material costs softened. These factors, with a stabilizing RMB, to some extent, had relieved some of the cost pressure faced by the Group. We expect similar trend in 2013.

Green & Quality Product

HUNG HING



Safe & Sustainable Raw Material

FSC—Forest Stewardship Council , chain of custody to ensure paper originates from well-managed forest

PEFC – Programme for the Endorsement of Forest Certification Schemes - Chain of custody provides link between paper products and sustainably managed forest.

SOY Ink – Soy oil based ink to reduce VOC emission (Volatile Organic Chemicals)

CNAS- we have China national accreditation Service certified laboratory to perform chemical test on our material to ensure compliance to safety comply to

EN71 - European toy safety standard

ASTMF963 – US toy safety standard

Rohs – European regulation on **Restriction Of Hazardous Substances** in electrical and electronic equipment

Agile & Responsible Management

GMI - monitors and measures the performance of packaging suppliers.

PSA - PSA Certification, or Printing Standards Audit Certification, is a rigorous, objective process for assessing a printer's ability to operate a standards-compliant workflow.

國家印刷示範企業 - one of the 25 leading printers in China in the first ever selection of best role-model printers in the country

Caring Company -participated more than five years of caring company program

WCA – Workplace conditions assessment – a audit scheme to ensure employees benefit, health and safety, and environment

ICTI-Care – International Council of Toy Industries – Care program – A ethical standard adopted by toy industries worldwide

ECO Factory

BRC – British Retail Consortium - A standard to ensure workplace hygiene and process is suitable to produce indirect food contact items

Cleaner Production – Environmental projects awarded the Cleaner Production program organized by Hong Kong Productivity council

Hang Seng Pearl River Delta Environmental Awards - Awarded Green Medal in environmental programmed sponsored by Hang Seng Bank

GSV – Global Security Verification, a program to verify the supply chain security practice meets the requirement of export goods to United States

China Environmental Labelling - Material, manufacturing process and product are comply to China environmental requirement

BelugaBloo

A children's bookstore with an extensive selection of interactive stories and games.

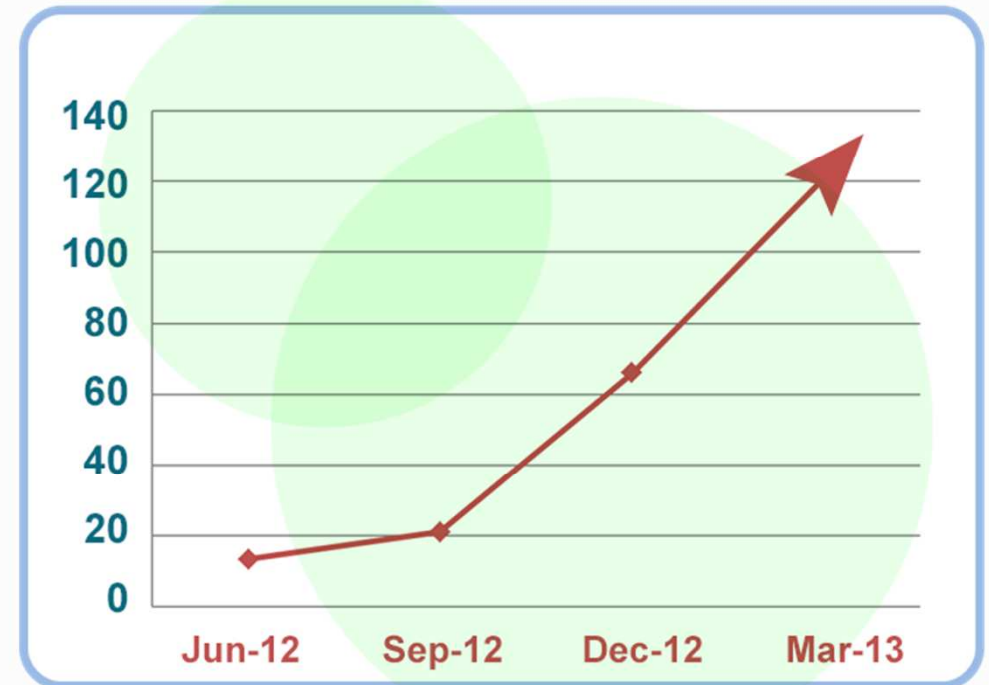
**Learning has never been
so much FUN!**



Gamify Printing Products



BelugaBloo Kids Bookstore



- Surpassed 120K downloads ✓
- Over 100 children apps and growing ✓
- Monetize on ads, listing, and reviews ✓

Thank you

Q&A

A Leading Printer in Asia

With unrivalled market leadership, well-balanced portfolio and sustained growth for over six decades, Hung Hing is in an excellent position to take advantage of growing opportunities as the economic recovery continues to build momentum.