

# 鴻興印刷集團有限公司

## Hung Hing Printing Group Limited



## Annual Results Presentation

### For the 12 months ended 31 Mar 2012

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# Highlights - 12 Months ending March 2012

- Group revenues were up +3 % YOY.
- Labour costs and RMB appreciation have impacted earnings, particularly in our export business.
- Our shift in product portfolio - expanding our presence in luxury packaging & conventional books and the tightening of cost/quote reviews on labour intensive projects in the export sector - have helped to mitigate the above cost impacts in the 2<sup>nd</sup> half-year.
- Our China packaging strategy has been on track of growth and profit recovery.
- Positions with major customers are strong and we expect further upside as global economies recover.

# 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, ISO 14001, FSC certifications
- Production area: 130,000 m<sup>2</sup>
- Production capacity: 250 million impressions
- 1,200 full time workers

### Wuxi

- Printing and manufacturing of folding cartons, litho lam and corrugated containers
- Awarded ISO9001, ISO14001, FSC, WSA, GSV & BRC certifications
- Production area: 50,000 m<sup>2</sup>
- Production capacity: 150 million impressions
- 900 – 1,300 full time workers<sup>1</sup>
  - Of which 200 – 600 hand assembled related<sup>1</sup>



### Shenzhen

- Printing and manufacturing of folding carton, children's books, conventional books, litho lam and corrugated containers
- Paper Trading, with warehouse of 36,600m<sup>2</sup>
- Warehouse with storage capability of 60,000 tons
- Awarded ISO9001, ISO14001, GSV, FSC and ICTI-COBP certifications
- Production area: 175,000 m<sup>2</sup>
- Production capacity: 638 million impressions
- 5,000 – 7,000 full time workers<sup>1</sup>
  - Of which 3,000 – 5,000 hand assembled related<sup>1</sup>



### Hong Kong

- Corporate headquarters
- Small scale printing of conventional books
- Awarded FSC & PEFC certifications
- Paper Trading, with warehouse of 11,560 m<sup>2</sup>
- Warehouse facility with 20,000 tons of storage space
- 340 employees

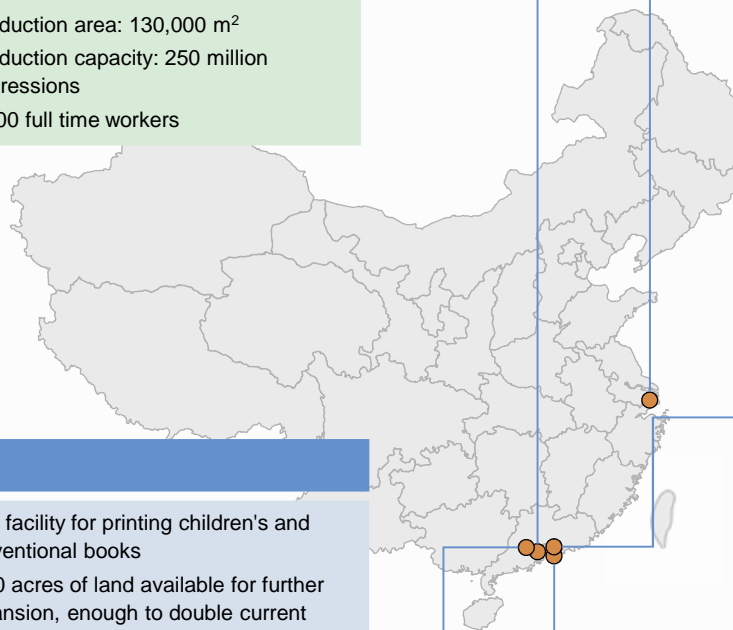


### Heshan



- New facility for printing children's and conventional books
- ~170 acres of land available for further expansion, enough to double current operations
- Awarded ISO9001, ISO 14001, SA 8000, ICTI-COBP, FSC & BRC certifications
- Production area: 123,000 m<sup>2</sup>
- Production capacity: 280 million impressions
- 2,200 – 3,500 full time workers<sup>1</sup>
  - Of which 1,600 – 2,900 hand assembled related<sup>1</sup>

- Book and package printing
- Consumer product packaging



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

<sup>1</sup> 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	■ Leader in South China
% FY2012 revenue	■ 53% (HK\$1,513mm)	■ 27% (HK\$768mm)	■ 9% (HK\$264mm)	■ 11% (HK\$310mm)
Key products	<ul style="list-style-type: none"> <li>■ Children's books</li> <li>■ Toys</li> <li>■ Luxury Packaging</li> </ul> 	<ul style="list-style-type: none"> <li>■ Personal care products</li> <li>■ Packaged food</li> <li>■ Consumer electronics</li> </ul> 	<ul style="list-style-type: none"> <li>■ Primarily for export and transportation purposes</li> </ul> 	<ul style="list-style-type: none"> <li>■ High quality papers sourced from Europe, Americas, Southeast Asia and China.</li> </ul> 
Key facilities	<ul style="list-style-type: none"> <li>■ Three production facilities in Shenzhen, Heshan, and Hong Kong</li> <li>■ Total capacity of ~850 million impressions</li> </ul>	<ul style="list-style-type: none"> <li>■ Two production facilities in Zhongshan and Wuxi , each equipped with dust-free manufacturing zone and BRC (British Retail Consortium) certified.</li> </ul>	<ul style="list-style-type: none"> <li>■ Main production facility in Shenzhen</li> <li>■ Additional facility in Zhongshan included under consumer product packaging</li> </ul>	<ul style="list-style-type: none"> <li>■ Two warehouses in Shenzhen and Hong Kong, with total storage capacity of ~80,000 tons</li> </ul>

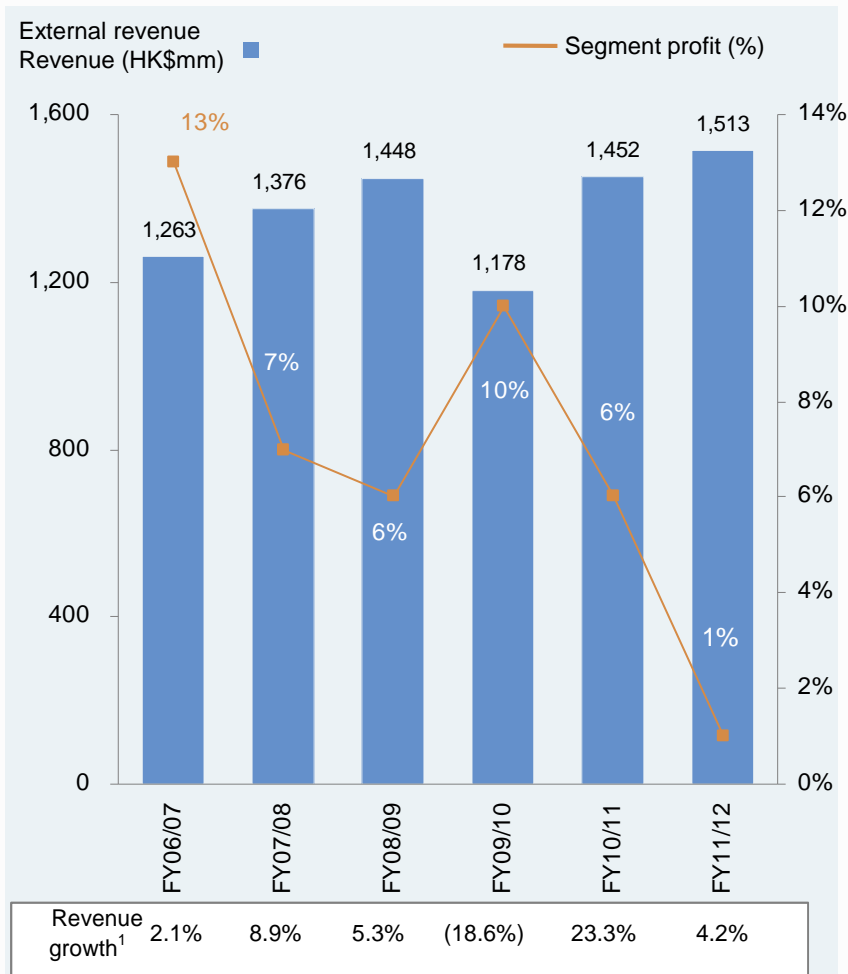


# Book and package printing – Overview

- ✓ **Global leader in printing of children's books**
- ✓ **Leader in paper-based packaging for exports from Pearl River Delta region**
  - Focus on toys, luxury packaging, greeting cards and other consumer products
- ✓ **Very loyal “blue-chip” customer base**
  - Longstanding customer relationship of 20 years on average for packaging and 9 years for book printing
  - Blue-chip customer base consisting of:
    - Leading publishers: DK Penguin, Bonnier Group, Parragon and Disney
    - Renowned toy/game brands: Disney, Hasbro, and Mattel
- ✓ **Amongst the largest in production capacity**
  - Ranked Top 3 amongst the “Top 100 Printing Companies in China”
  - Total capacity of ~850 million impressions with latest printing press machines from Mitsubishi, Heidelberg and Manroland
  - Three production facilities in Shenzhen, Heshan, and Hong Kong, with substantial expansion capacity available in Heshan
- ✓ **Breadth of capabilities**
  - Offers top-tier value-added services in design and paper engineering, pop-up designs, accessories sourcing, breadth of post-press finishes, and digital publishing services to publishers.
  - Moves into SP (sales & promotion) business with initial support from Rengo
- ✓ **One of a handful of foreign-invested companies authorised by the PRC Media and Publishing Bureau to engage in the printing of publications for China domestic market**
  - Chinese government may not be issuing additional such business licenses to foreign companies
  - Hung Hing is strategically placed to benefit from growing sales in the Chinese children's books market
- ✓ **Highly respected and experienced management team**
  - Management team with 20+ years of experience on average
  - Management and key sales officers have long tenure with the Company, and others with extensive experience in related industries

## Segment financials – Books and package printing

### Books and package printing



<sup>1</sup> Based on change in external sales

### Commentary

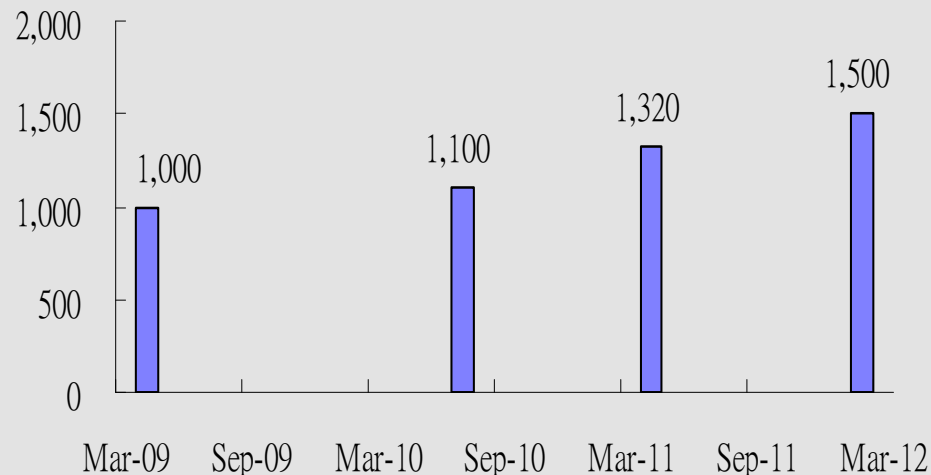
- We maintain our market share and leadership position. Sales were up by 4% as we grew in the luxury packaging and greeting card business.
- Margins were impacted by rising costs, including labour rates and RMB appreciation, particularly in children's books and novelties with high labour content. Slow to fully pass on the incremental costs.
- Our various productivity initiatives helped to partially offset the impact of cost increases...
  - Improved factory outlay
  - On-going strategy to invest in advanced printing and production equipment
  - Continuous drive for manufacturing automation and labour efficiency
  - Synergies with volume purchases across the Group

## Books and package printing – Cost impacts

USD vs CNY during Apr 2009 – Mar 2012



Minimum wage rate in Shenzhen (in RMB)

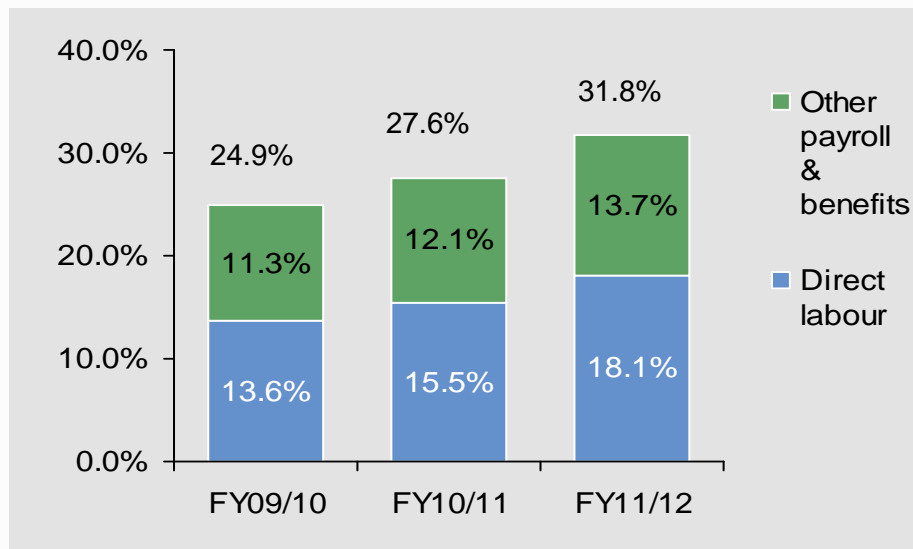


- RMB went up by 4% during FY2011/12.
- Books and Package Printing (“BPP”) focuses on export business; its revenue is mostly in USD/HKD.
- BPP’s production costs are mostly in RMB.
- The rise in RMB by 4% impacted earnings by - HK\$24m.
- Minimal wage in Shenzhen rose by 20% (RMB 1,100 => 1,320 / month) during FY2011/12. While minimal wage differs, the rate of increase was fairly close to the 20% among cities in southern China during past year.
- In the meantime, statutory employee benefits also increased.
- While actual pay are mostly above minimal rate, such increase drove up our pay scale, and costs.



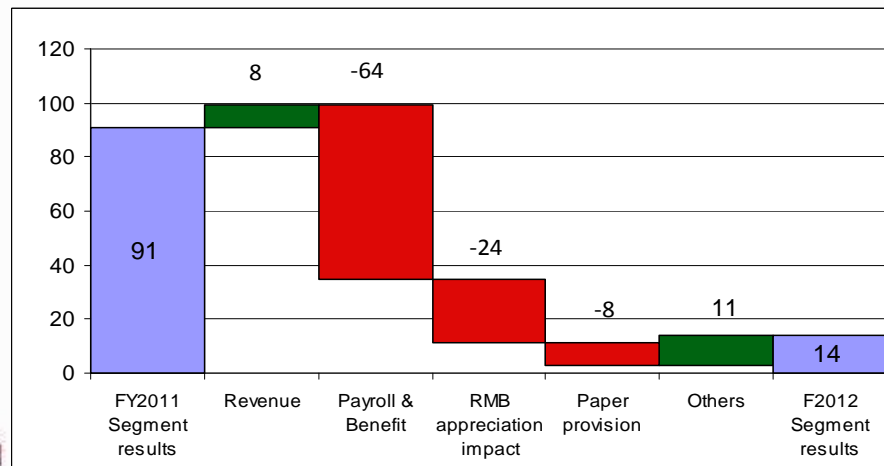
## Books and package printing – Impacts to profitability

### Payroll costs as a % of revenue



### Segment profit – FY2011 to FY2012

Category Variances (HK\$ m.)



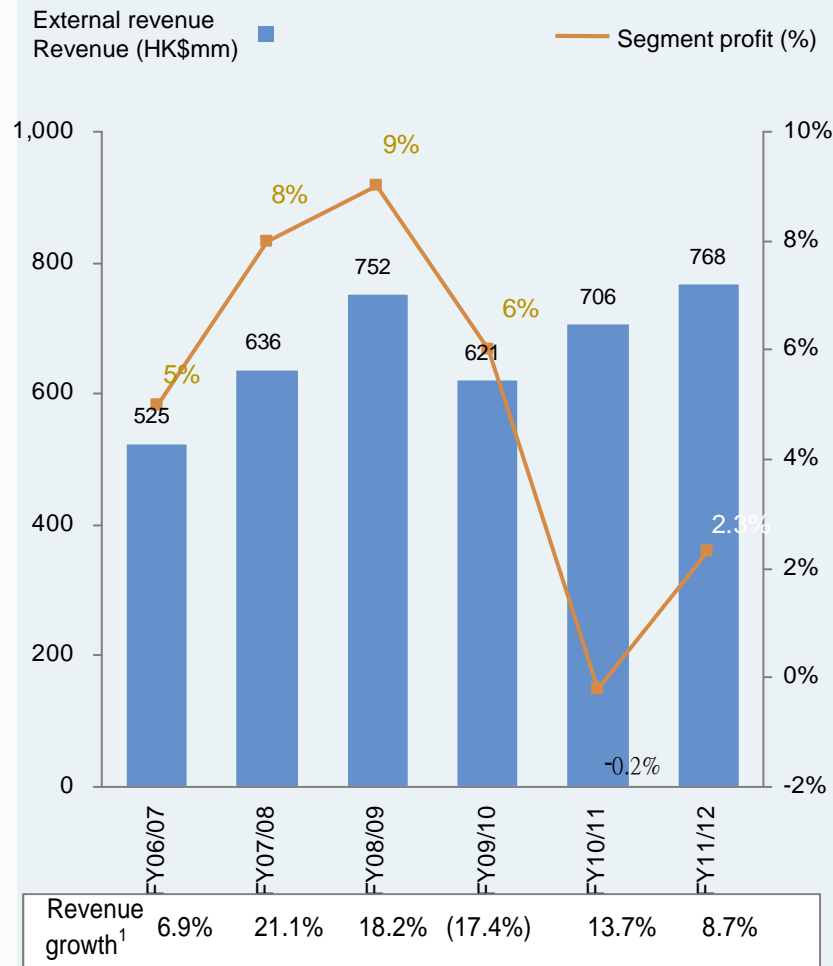
- Payroll cost, as a % of revenue, rose by 4.2% (incremental cost of HK\$64m) in FY2011/12
- In response, we have been taking the following initiatives:
  - Continuous drive for automation whenever viable
  - Tighten cost/quote management
  - Expand our presence in higher value-added projects including luxury packaging
- BPP profit contribution went down by HK\$77m i.e. HK\$14m vs HK\$91m in prior year.
- The waterfall chart shows the key changes vs prior year.
- Revenue went up by HK\$61m vs prior year, bringing in additional profit contribution of HK\$8m.

# Consumer product packaging – Overview

- ✓ **Leading consumer product packaging company in China, in a highly fragmented market**
- ✓ **Excellent platform to capture additional growth in the China consumer product packaging sector**
  - Leveraging on Hung Hing's established presence in the PRD region and its existing facilities & infrastructure
  - Offers top-tier packaging supply capabilities, design, print finishes and service levels
  - Set up dust-free production zones in Zhongshan and Wuxi plants, to be BRC (British Retail Consortium) certified offering a very clean manufacturing environment to clients in the food, personal care, cosmetics and pharmaceutical sectors.
- ✓ **Sizeable operations with multiple production facilities, which have significant scalability upside**
  - Total capacity of 400 million printing impressions with latest press machines from Heidelberg and Manroland
  - Two production facilities in Zhongshan and Wuxi with total production area of 180,000m<sup>2</sup> with spare capacity
- ✓ **Well established relationships with blue-chip customers**
  - Strong clientele in the personal care, packaged food and consumer electronic sectors, including Colgate, Mead Johnson, Want Want, Haitian, Canon
- ✓ **Highly respected and experienced management team**
  - Management team with 20+ years of experience on average
  - Senior management with advanced print degrees and experience at relevant industries including Manroland, Alcan and Coca-Cola

## Segment financials – Consumer product packaging

### Consumer product packaging

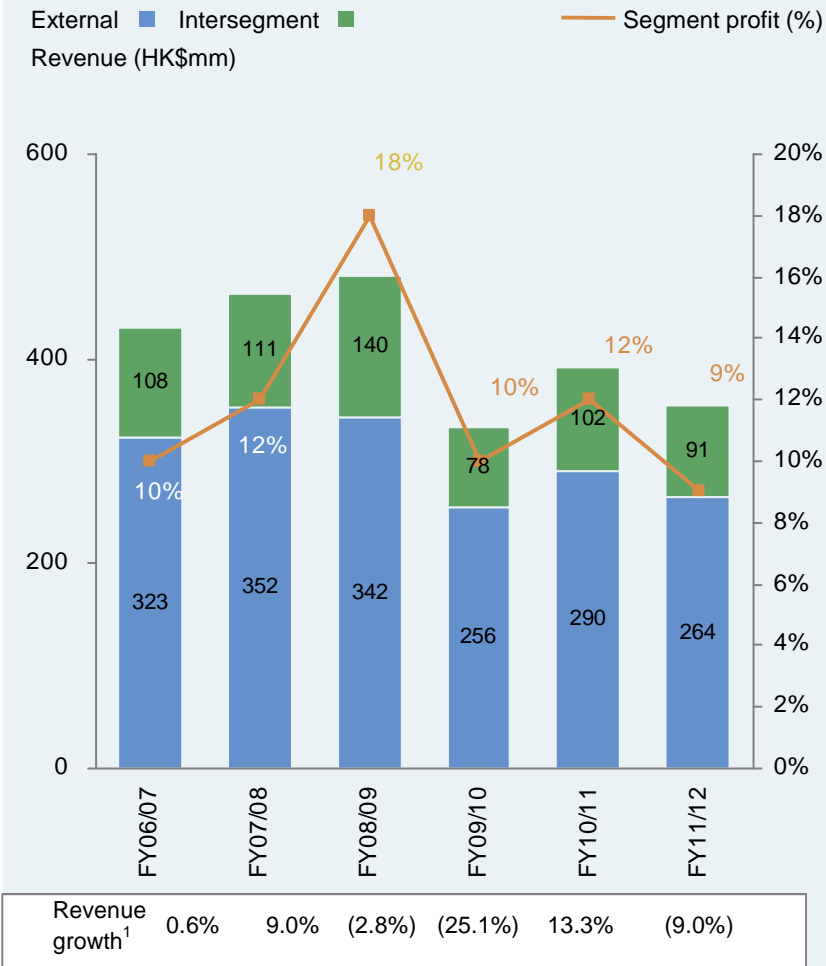


### Commentary

- China growth progressing, with revenue up 9%.
- Rising labour rate and production costs in 2011. Pace of increase has slowed during the past few months.
- Keen competition in the fairly fragmented market where pricing is of crucial importance; slow to fully pass on the incremental costs.
- On-going strategy to invest in advanced printing press and production equipment. Continuous drive for productivity helped partially offset the rising costs.
- Significant improvements in Wuxi plant.
- Installed 'dust-free' manufacturing zone in both Zhongshan and Wuxi plants; adding competitive advantages selling to packaged food and pharmaceutical clients.

## Segment financials – Corrugated box

### Corrugated box



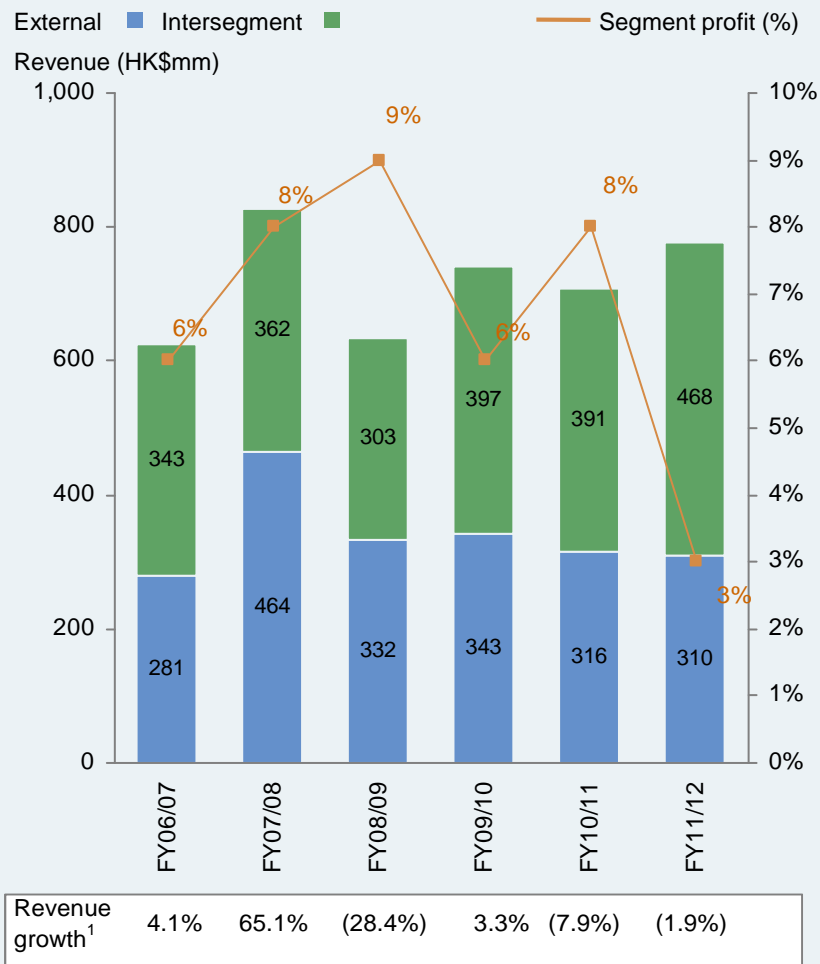
<sup>1</sup> Based on change in external sales

### Commentary

- Impacted by the slowdown in export manufacturing, across Pearl River Delta. Business development efforts now shifted to domestic market which helped to partially offset the shortfall. Overall, external sales declined by 9%
- Rise in labour costs impacted its margin %. Slow to pass on incremental costs in a highly fragmented and static market. On the other hand, corrugated operation is highly automated i.e., 'labor content' is low.
- Substantial portion of its revenue is in RMB; hence, impact of RMB appreciation is minimal.
- Made substantial productivity improvement by re-layout of its production floor and rationalisation of its production equipment.
- Co-operative opportunities with Rengo's corrugated box plants

## Segment financials – Paper trading

### Paper trading

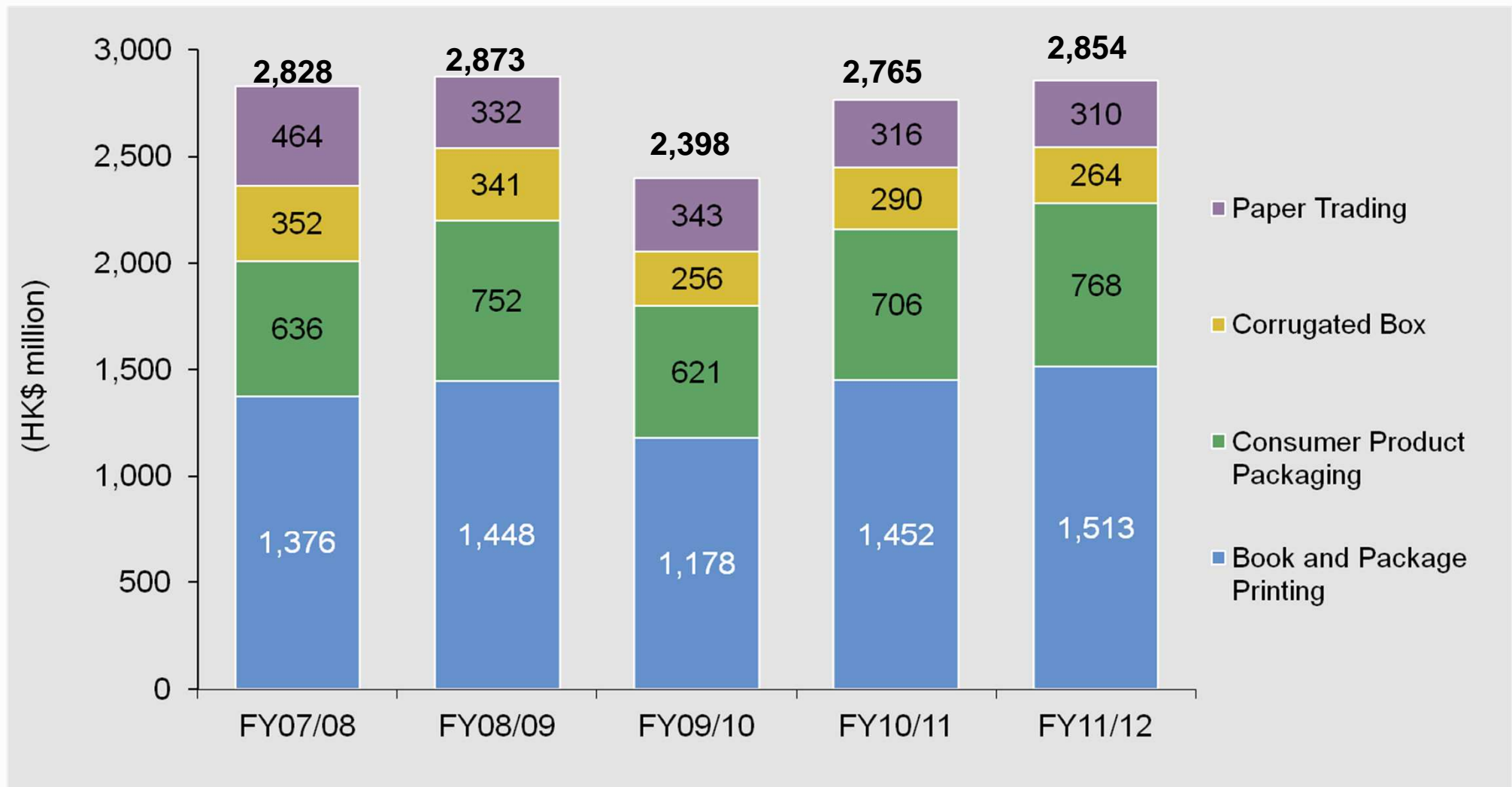


### Commentary

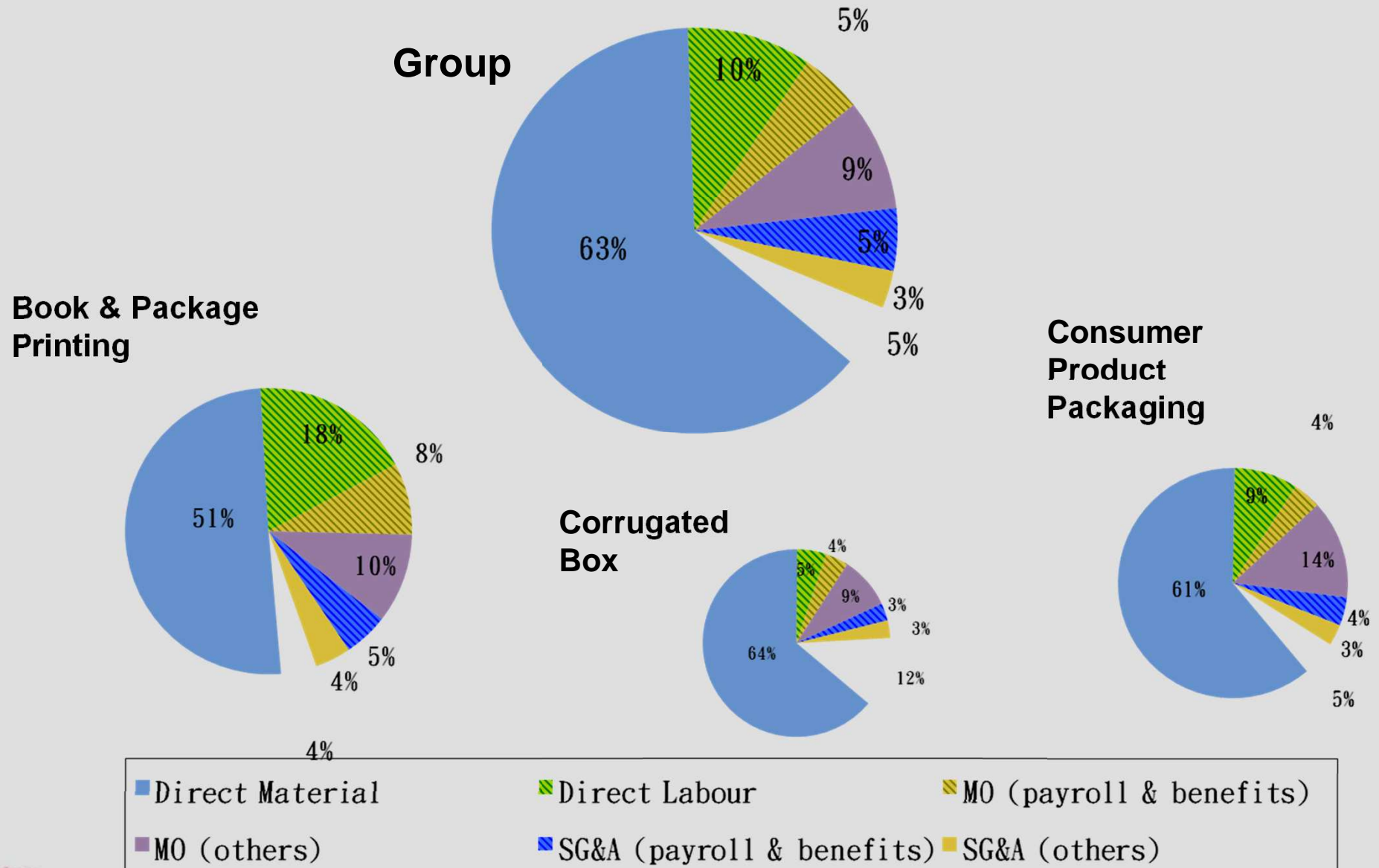
- The relatively soft trend of paper price for most part of the year pushed down trading margin by 5 %.
- Inventory flexibility to use internally or sell externally provides a natural raw material hedge mechanism that other printing companies do not have.
- Serves as centralised procurement of paper for internal use.
- Large volumes of paper purchased helped Hung Hing achieve more competitive pricing given bulk purchases.
- Expanded domestic business.



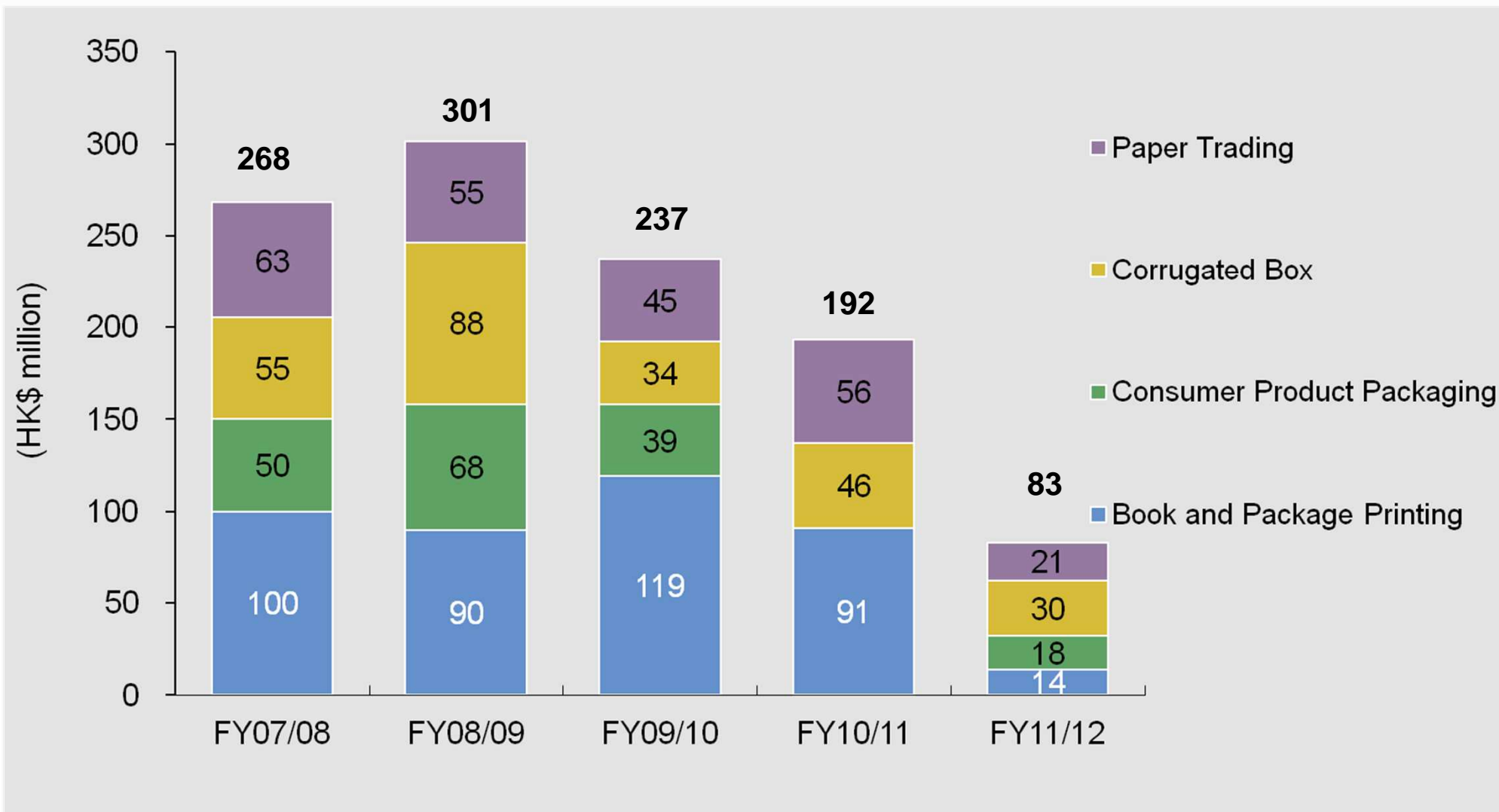
## Revenue Is Up By +3 %



# Cost Breakdown



## Operating Profit Impacted By Paper, Labor Costs and RMB appreciation

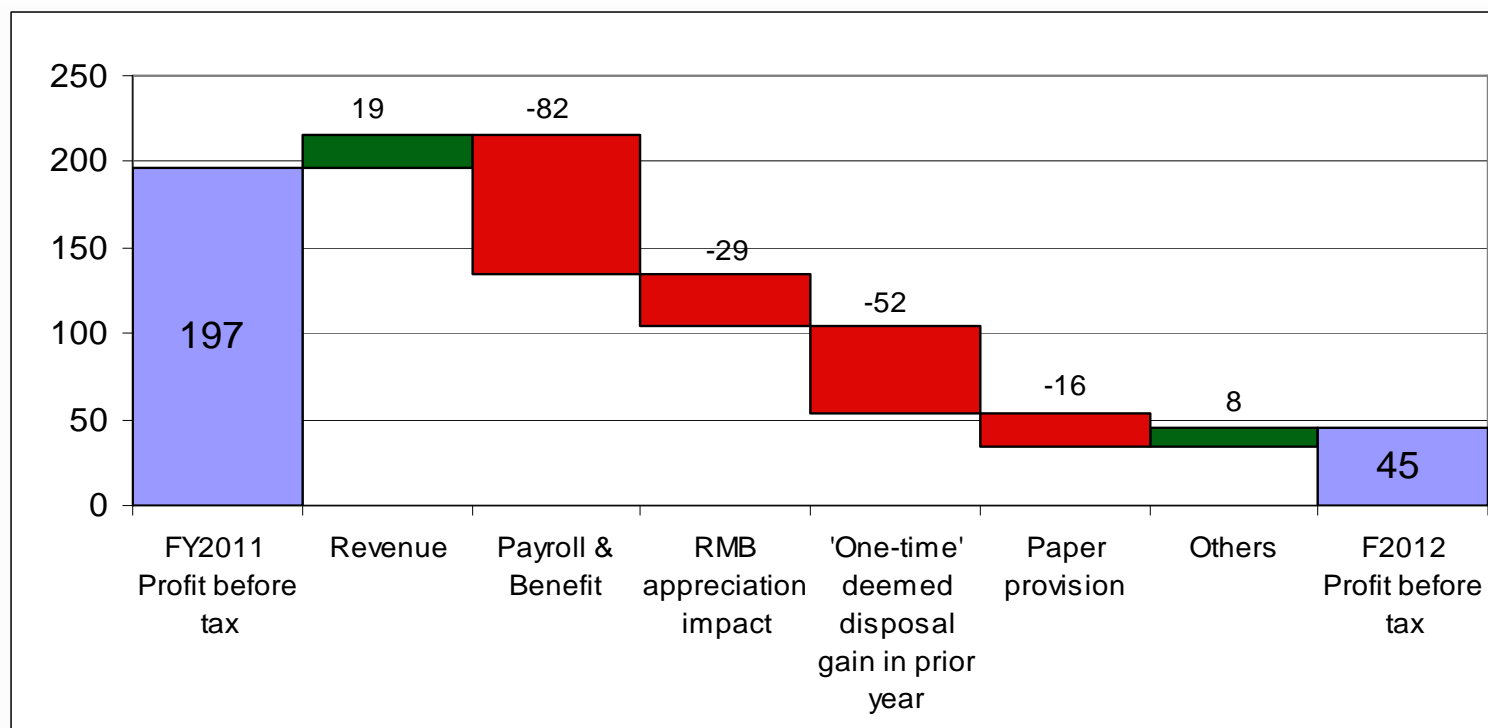


## Business Unit Analysis for Continuing Operations

(HK\$ million)	Year Ended 31/3/2012			Year Ended 31/3/2011	
	External Sales	Inter- segment sales	Total	Profit Contribution	Profit Contribution
Book & Package Printing	1,513	2	1,515	14	91
Consumer Product Packaging	768	9	777	18	(1)
Corrugated Box	264	91	355	30	46
Paper Trading	310	468	778	21	56
Eliminations		(570)	(570)	1	(1)
	<u>2,855</u>	<u>-</u>	<u>2,855</u>	<u>84</u>	<u>190</u>
Interest, dividend income and other gains				16	14
Corporate and unallocated expenses				(27)	(33)
Gain on deemed disposal of associates				-	52
				<u>73</u>	<u>223</u>
Finance costs				(11)	(10)
Share of losses of associates				(17)	(16)
Profit before income taxation				<u>45</u>	<u>197</u>
Income tax expense				(16)	(37)
Profit for the year				<u>29</u>	<u>160</u>

## Profit before income tax – FY2011 to FY2012

(HK\$ million)



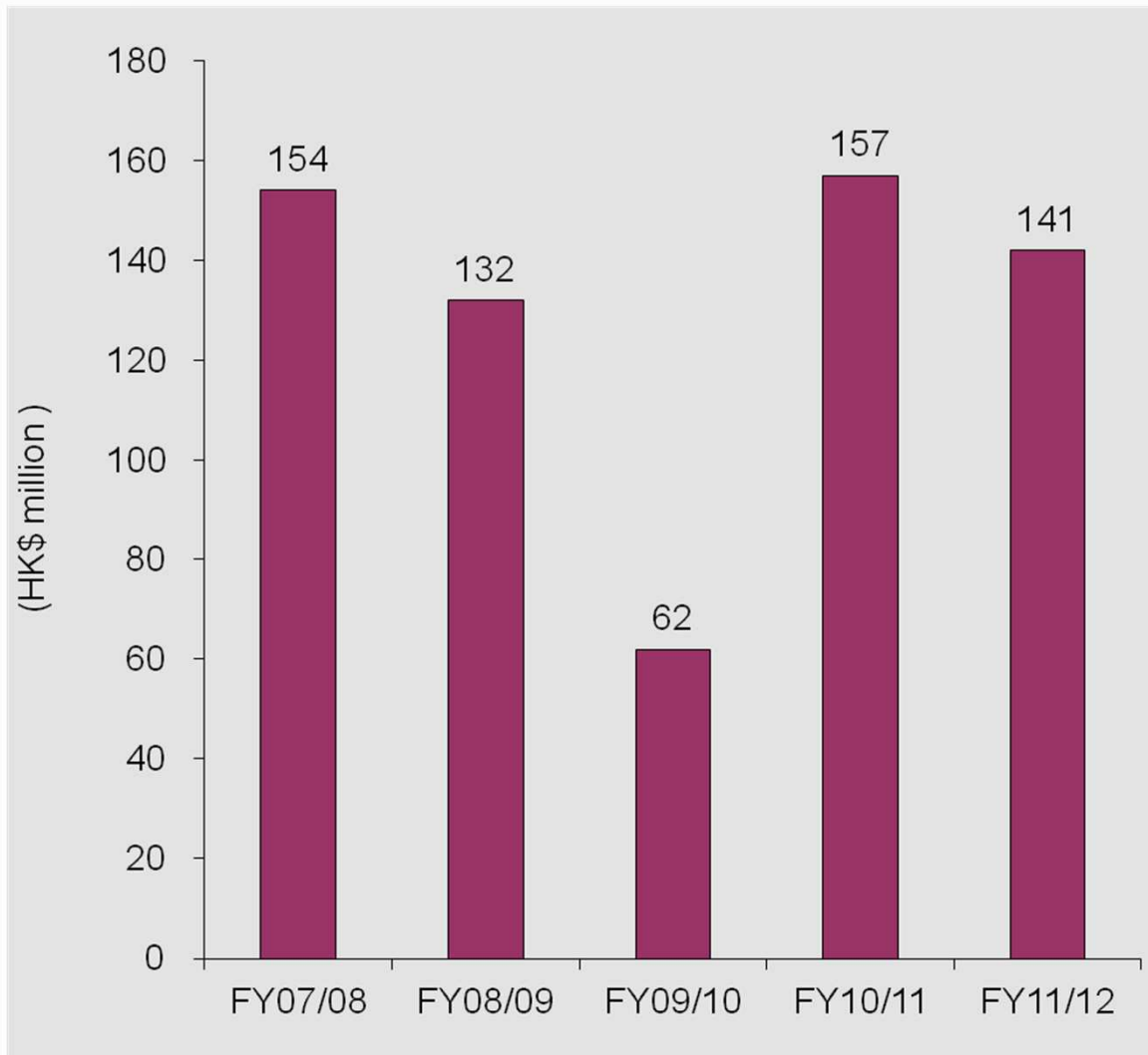
- Profit before income tax declined by -HK\$152m vs prior year, down from HK\$197m to HK\$45m.
- Group revenue went up by +HK\$155m, bringing in additional profit contribution of HK\$19m.
- RMB appreciation impacted our export sector, and in particular to the BPP business.
- There was an 'one-time' gain on deemed disposal of HK\$52m in prior year. No 'non-recurring' gain in FY2011/12.
- General aging provision for paper introduced in FY2011/12. Profit impact - HK\$16m.



## Solid Financial Position

(HK\$ million)	2012	2011	2010	2009	2008
<b>Assets</b>					
Non-current	1,572	1,569	1,467	1,563	1,840
Current	2,214	2,076	2,356	2,525	2,956
	3,786	3,645	3,823	4,088	4,796
<b>Liabilities</b>					
Non-current	358	57	41	100	143
Current	624	776	795	895	2,217
	982	833	836	995	2,360
<b>Net Assets</b>	2,804	2,812	2,987	3,093	2,436
<b>Equity</b>					
Equity attributable to owners of the company	2,662	2,674	2,859	2,874	2,053
Non-controlling interest	142	138	128	219	383
	2,804	2,812	2,987	3,093	2,436
<b>Gearing Ratio</b>	19%	15%	14%	22%	72%
<b>Current Ratio</b>	3.5	2.7	3.0	2.8	1.3

## Capital Investment – business capability

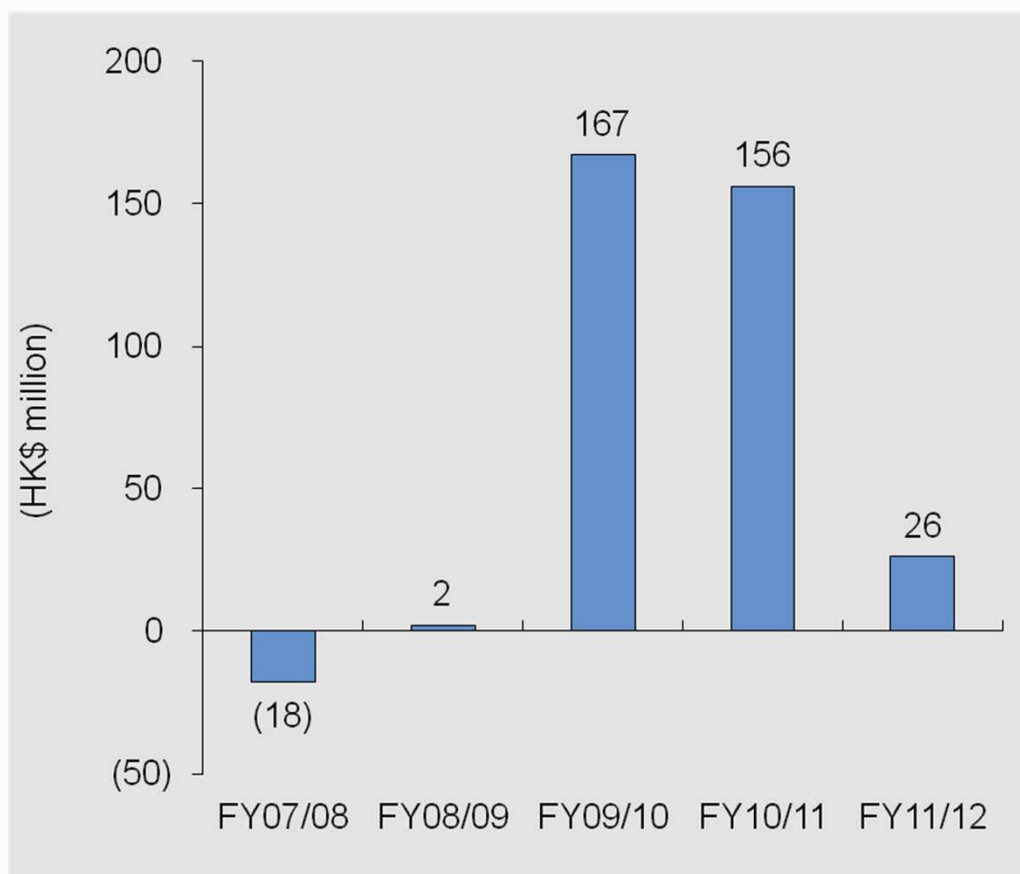


### Commentary

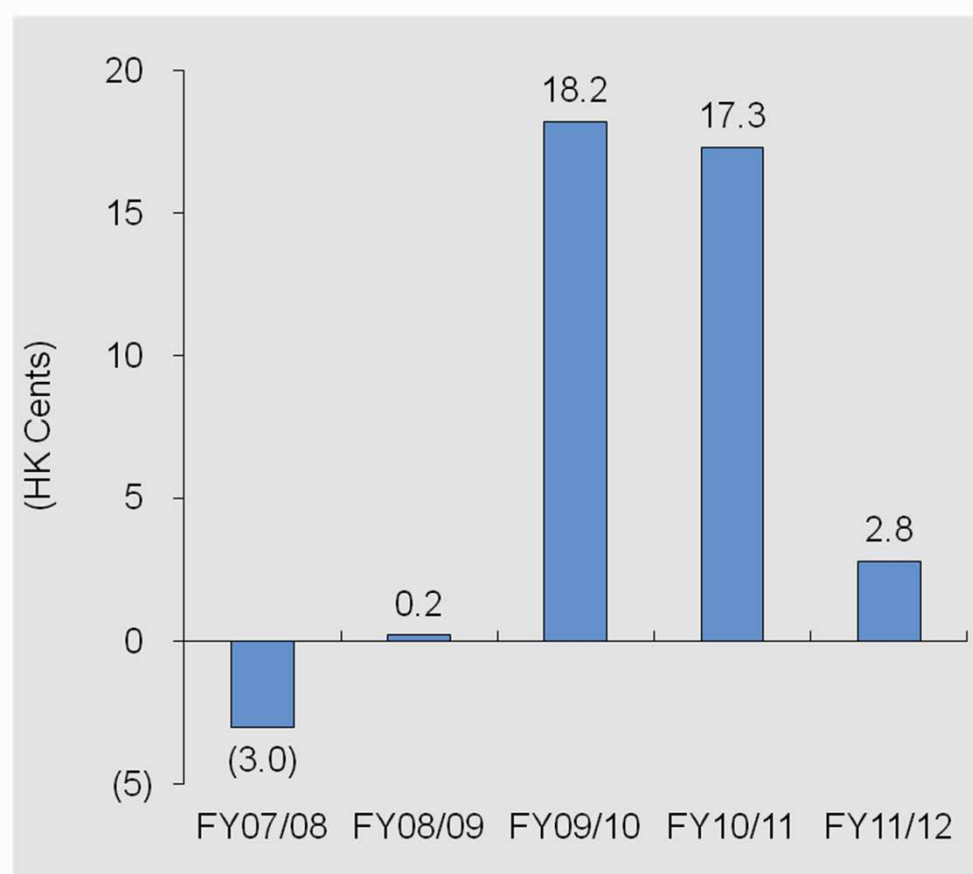
- We always believe advanced technology brings competitive advantage in terms of quality, timeliness and costs.
- Bought 4 printing presses to replace older ones.
- We'll continue to invest in production equipment to help automation and improve labour efficiency.

# Profit Attributable To Owners of the HHPG & Earnings Per Share

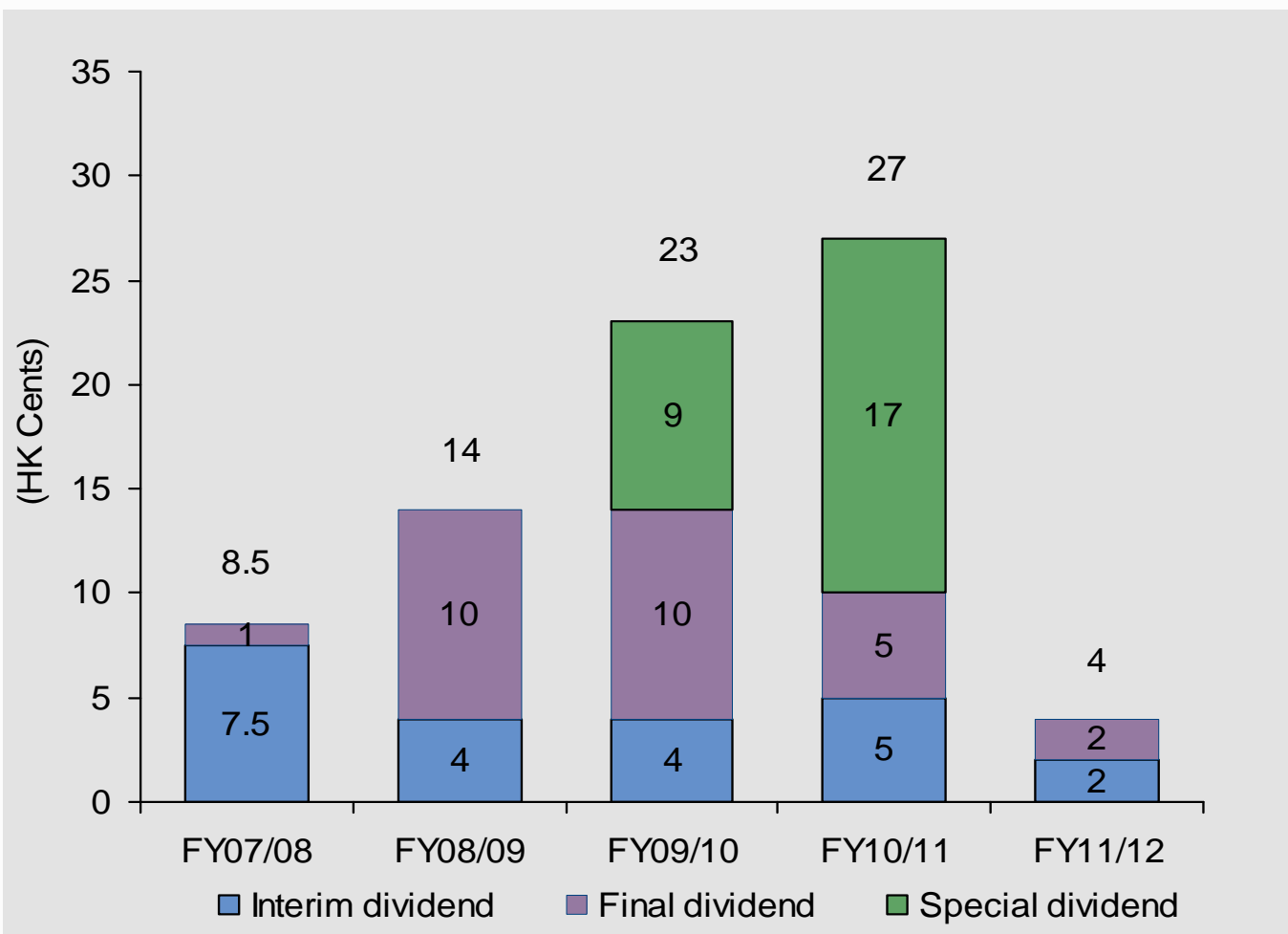
## Profit Attributable to Owners of HHPG



## Basic Earnings per share



# Proposed Dividends



## Commentary

### FY 11/12 Dividends

Interim (paid) 2 cents

Final (proposed) 2 cents

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4 cents

## Rengo, our strategic partner

- Since Aug 2011, Rengo has become a 29.9% shareholder of the Group.
- Rengo is a leader in the general packaging industry in Japan, and has been a business partner of HH Group for over two decades. Rengo has significant presence in Asia (outside Japan) with a number of paper manufacturing, flexible packaging and corrugated box plants in China and South East Asia.
- While both HH and Rengo have substantial investments in China, competitive overlap is minimal. On the contrary, there exists a number of co-operative opportunities of mutual benefit both in the export and in the China domestic market.
- A Strategy Committee has been established to identify/oversee the execution of synergy & co-operative projects. Indeed, we are currently exploring several co-operative opportunities both in the China domestic market and export.



## Hung Hing & Rengo, co-operative opportunities

- Cross selling e.g. HH selling folding cartons to Rengo clients in PRC and beyond.
- Provide OEM services to Rengo in Japan.
- Leverage upon Rengo's technologies & know-how to expand product and service offerings.



### **Hung Hing packaging plants** ■ (3)

Folding Cartons : Wuxi, Zhongshan, Shenzhen  
Corrugated : Zhongshan, and Shenzhen

### **Rengo corrugated plants** ★ (7)

North China : Dalian ( 2 ), Tianjin, Qingdao  
East China : Wuxi, Shanghai  
South China : Shunde



## Business Outlook (short-term)

1. We see increasing order intake from the U.S. and UK market driving up our capacity utilisation in our export-oriented plants in Shenzhen and Heshan.
2. Growth in production cost and the inflation rate in general has slowed in China. Material costs have softened. These factors, with a stabilising RMB have, to some extent, relieved the cost pressure faced by the Group, particularly in the export sector.
3. With the slowdown of the PRC economy, we expect the domestic packaging market will continue to be fairly competitive. On the other hand, our newly added dust-free manufacturing zones in the Wuxi and Zhongshan plants will help secure business from clients in our target sectors - food, personal care and pharmaceuticals.

## Business Outlook (medium term)

### 1. Increasing consolidation among export printers in southern China

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

### 2. New equilibrium on labour work pricing

- Tightening of cost/quote review on labour intensive work by printers will help to pass on the rising labour costs.

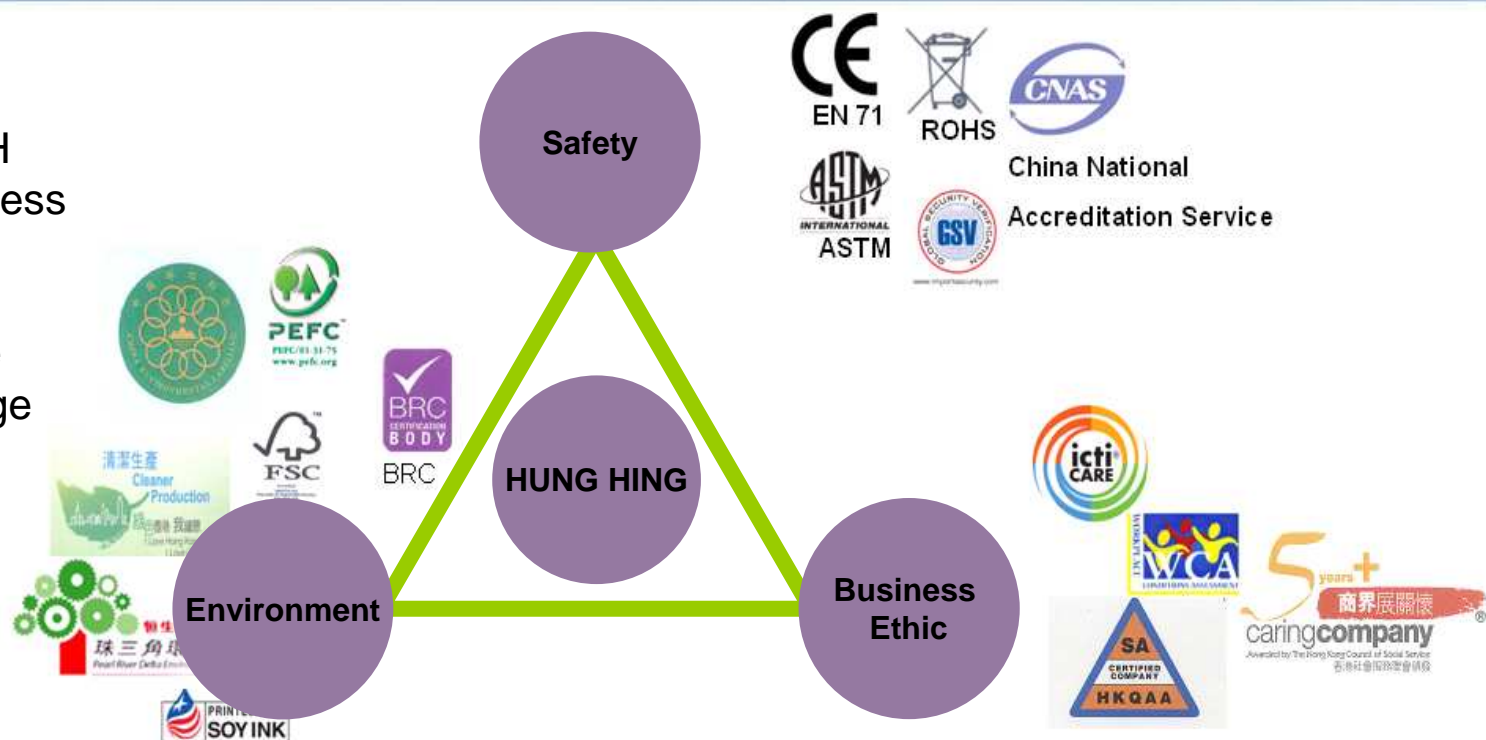
### 3. Evolution of e-publishing and digital printing technology will have a profound impact on the printing industry

- Advance in digital printing technology will re-shape the industry; we'll plan to be the fore-runner to capture new opportunities, and to stay competitive.
- Our `BelugaBloo' is well-positioned in the children's e-book market

# Corporate Social Responsibility

Hung Hing conforms to HIGH Environment, Safety & Business Ethics Standards

It helps to position HH as the Vendor of Choice among large / overseas customers.



## Environment Certificates

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)

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

BRC – British Retail Consortium - A standard to ensure workplace hygiene and production 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 program sponsored by Hang Seng Bank

## Safety Compliance

**CNAS**- China National Accreditation Service certified in-house laboratory for material chemical test

**EN71** - European toy safety standard

**ASTMF963** – US toy safety standard

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

**GSV** – Global Security Verification, our supply chain security practice meets the requirement of exporting goods to United States

## Business Ethic Certificates

Our factories have awarded below certificates

**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

**SA8000** – A world recognized social accountability standard



# BelugaBloo – a new e-publishing service

# BelugaBloo

*It's not just a novelty, it's an experience.*



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

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



**Our valued partners:**  
[www.belugabloo.com](http://www.belugabloo.com)



**innopage**  
**Flying Frog Publishing**



**恆建出版社**  
None Publishing Ltd



## BelugaBloo – a new e-publishing service

- Natural extension to our core business in children's book printing
- Complementary and value-added service targeted for children's book publishers
- End-to-end e-publishing solution - design, built, marketing, distribution and support
- Major offering - Interactive e-books, educational applications and games
- Target segment – Toddlers, pre-schoolers and young children
- Cost-plus pricing and revenue sharing model
- Agreement with several prominent publishers and a child-friendly tablet manufacturer

**Thank you**  
**Q&A**