

鴻興印刷集團有限公司

Hung Hing Printing Group Limited

Annual Results Presentation For the year ended 31 Dec. 2013



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Note:

This is the first annual results report for the Hung Hing Printing Group (HHPG) for the full twelve-month period from 1 January to 31 December. To facilitate meaningful comparison, data for the comparable previous period (January to December 2012) are used in relevant areas of our discussion below

Highlights - Year ended 31 Dec. 2013

Solid Financial Results leveraging core competences, diversified business portfolio, economies of scale and commitment to deliver customer value:

- Group sales exceeded \$3 billion; grew by +25% vs. prior financial report period (or +1% vs. comparable period last year)
- EPS attributable to shareholders improved significantly by +81% to HK¢ 8.5 per share vs. comparable period last year
- EBITDA increased +22% to HK\$ 216 million vs. comparable period last year
- Net Cash (excl. bank borrowings) jumped by +95% to reach HK\$ 471 million (up by HK\$ 230 million from end of 2012)

Hung Hing is well positioned with its financial strengths, proactively investing in high value-adding product innovations, processes automation and production realignment to take advantage of up coming business opportunities unfolded with economic recovery

Established infrastructure in the PRD region & East China

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



Wuxi

- Printing & mfg. of folding cartons, litho lam and corrugated containers
- Awarded ISO9001 and ISO14001 certifications
- Production area: 50,000 m²
- Production capacity: 147 million impressions



Shenzhen

- Printing & mfg. of folding carton, children's & conventional books, litho lam, corrugated containers
- Paper Trading: warehouse of 36,600m² and storage capability of 60,000 tons
- Awarded ISO9001, ISO14001 and ICTI-COBP certifications
- Production area: 175,000 m²
- Production capacity: 638 million impressions



Hong Kong

- Corporate headquarters
- Printing of conventional books
- Paper Trading: warehouse of 11,560 m² and storage capability of 20,000 tons



Heshan

- Printing children's and conventional books
- ~330,000 m² 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

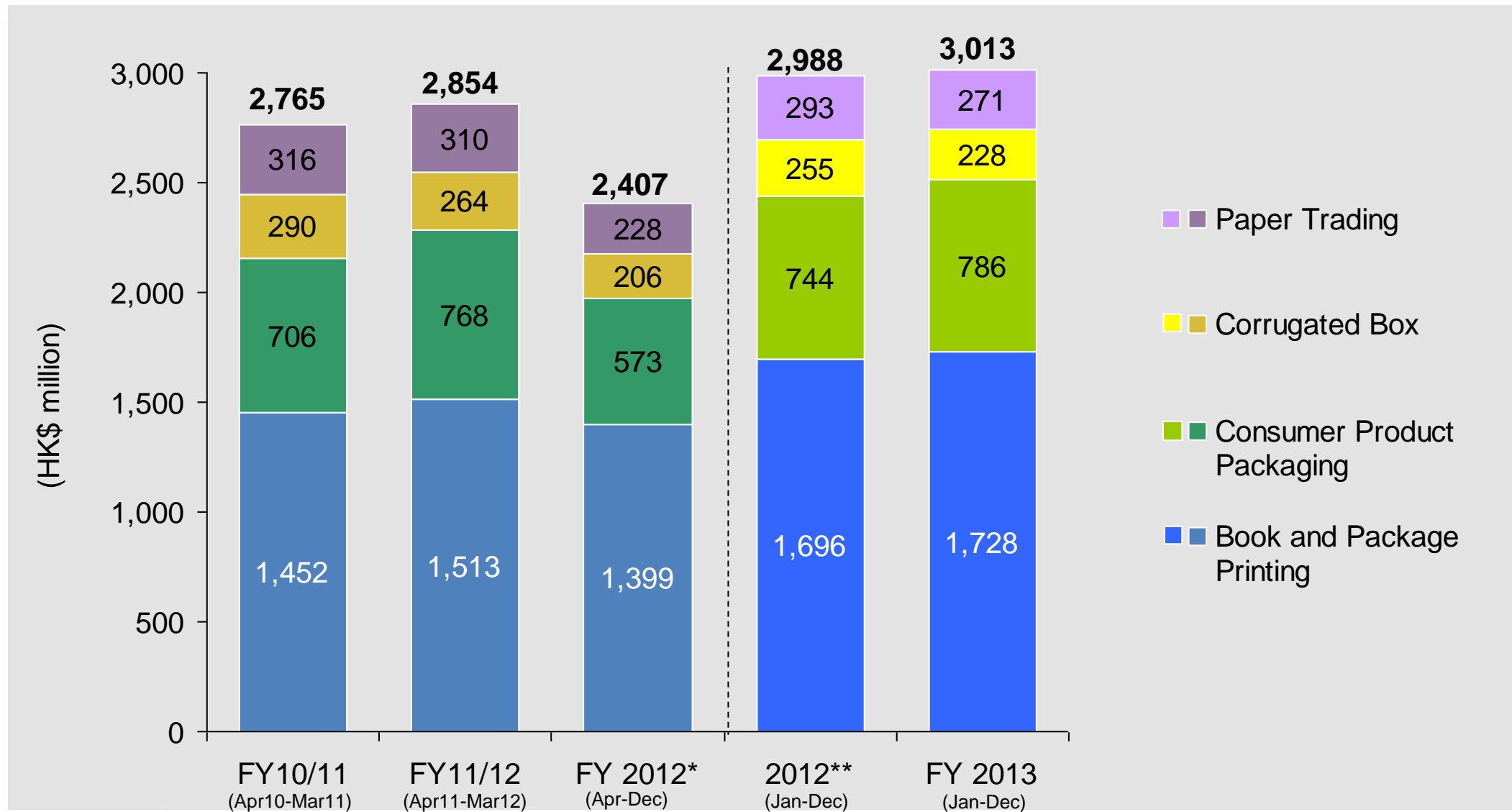


Hung Hing operates four complementary business segments



	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
% 2013 revenue	■ 57% (HK\$1,728mm)	■ 26% (HK\$786mm)	■ 8% (HK\$228mm)	■ 9% (HK\$271mm)
Key products	<ul style="list-style-type: none"> ■ Conventional & Children's books ■ Toys Packaging ■ Luxury Packaging 	<ul style="list-style-type: none"> ■ Personal care products ■ Packaged food ■ Consumer goods & 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, both 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

Group sales exceeded \$3 billion and grew by +1 %

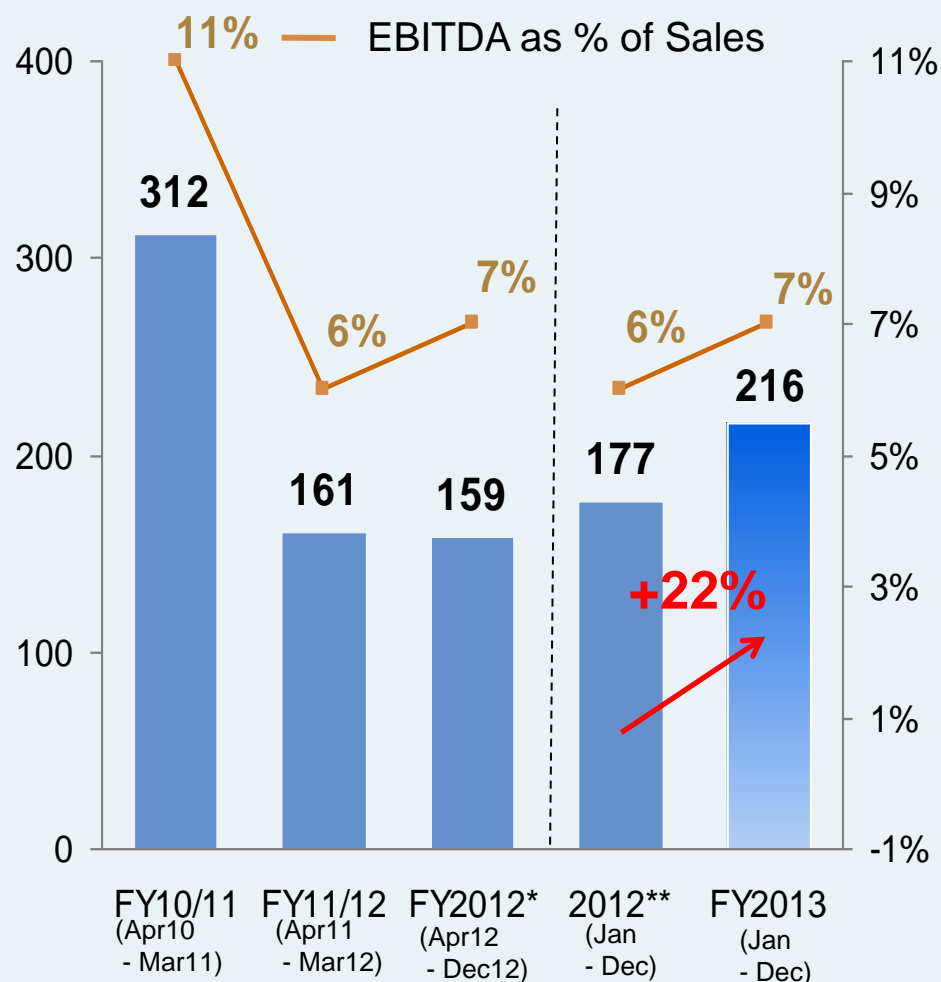


* Nine months' results for financial year FY2012 due to change of year end from 31-Mar to 31-Dec.

** Unaudited 12 months' results for proper comparison: Jan to Dec 2012.

Group EBITDA increased by +22% to HK\$ 216m

EBITDA (HK\$ million)



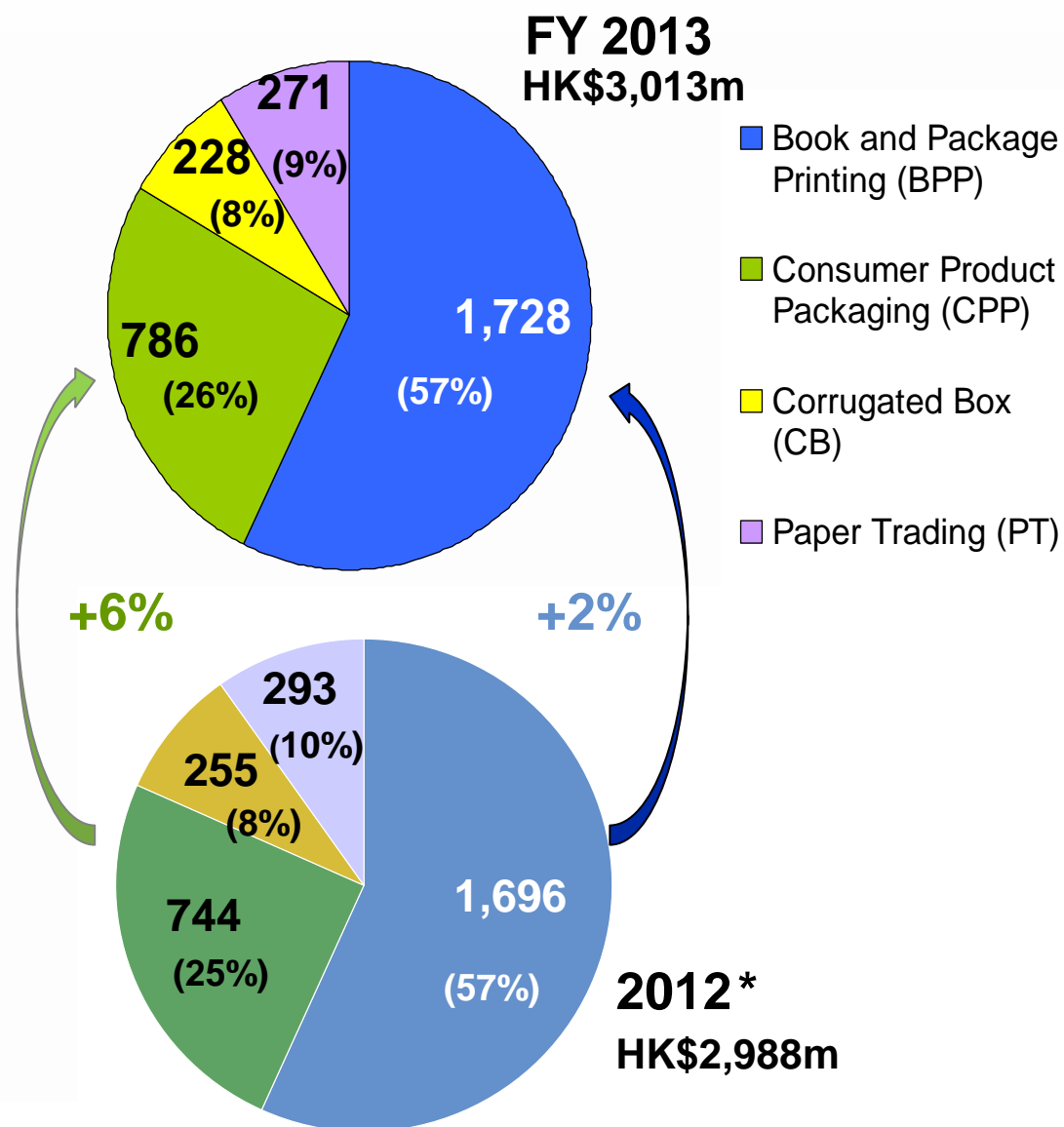
Commentary

- EBITDA up +22% to HK\$216m
- EBITDA margin as % of sales improved by +1.3 ppt. to 7.2%
- Net cash jumped by +HK\$230m to HK\$471m; driven by earnings growth and working capital efficiency
- Recognized HK\$17m gain for partial disposal of shares in AFS fin assets
- Productivity improvement through automation, staff training and workload rebalancing together with effective currency hedging offset pressure from RMB appreciation & labor cost inflation

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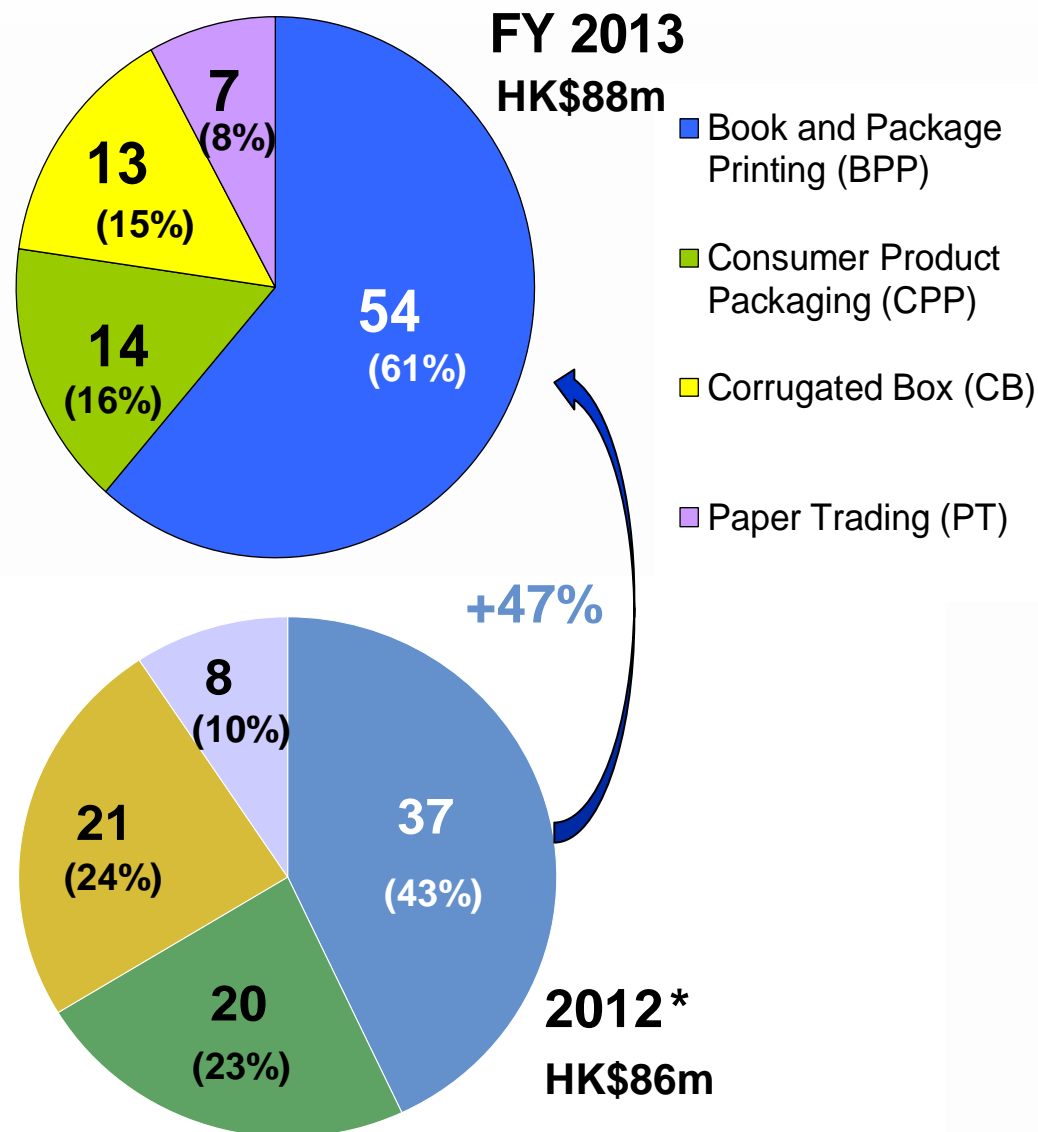
Group Sales by Segments: Core Segments Growth Continued



Commentary

- Core segments BPP & CPP continued growing (2% and 6% respectively) and now account for 83% of total sales
- Commitment to delivery with competitive offerings, value-added innovations and compliance of stringent green & quality standards to deal with intensified cyclical exports demand, changing consumer sentiment, volatile economic conditions and cooling impact of government measures on high-end luxury packaging
- Sales of CB & PT were impacted by soft exports demand, slowdown in domestic consumption and decline in paper price; but alleviated by geographic expansion and development focus on customers with compliance requirement

Business Segments Profit Contribution



Commentary

- **BPP** profit contribution increased +47% with sales growth and productivity improvement (through automation, staff training and workload rebalancing) together with effective currency hedging against RMB fluctuation and labor cost inflation
- **CPP** profit declined by -31% due to reduced sales mix of higher end products, competitive price pressure and lower return from a few key projects of Wuxi
- **CB & PT** were both impacted by sales shortfalls, higher logistics cost (primarily CB) and decline of paper price (mainly PT)

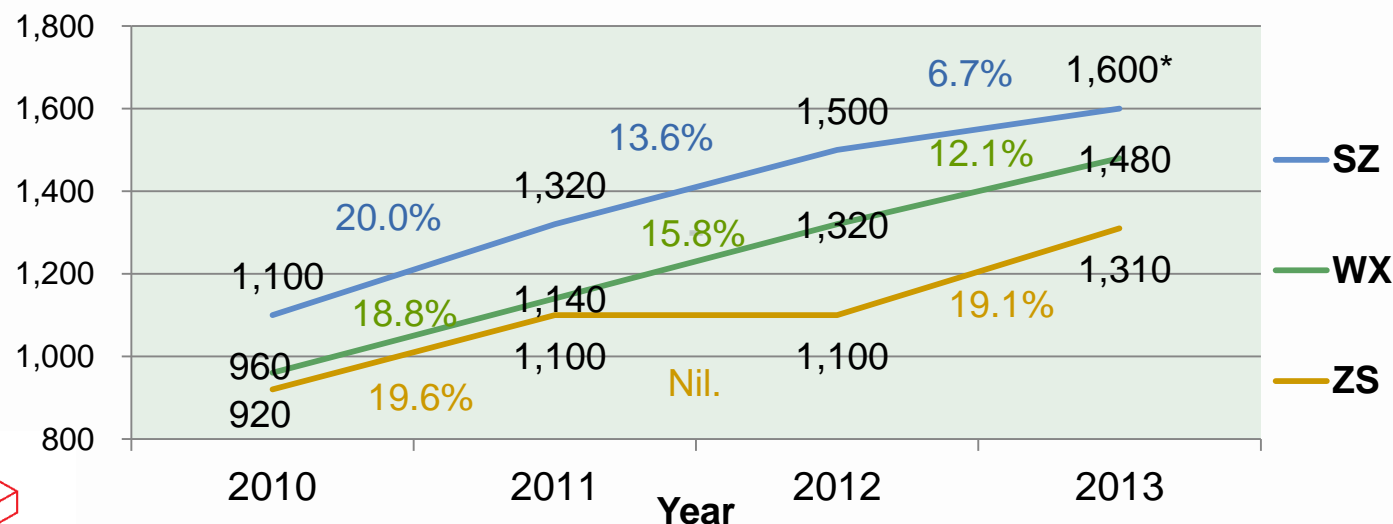
Key Cost Drivers: RMB appreciation & Labor Cost Inflation

USD/CNY Exchange: Jan 2011 – Dec 2013



Jan / Dec	RBM Appreciate with Higher Volatility
2013	+2.8%
2012	+0.9%
2011	+4.9%

Minimum Wage Rate: Shenzhen / Wuxi / Zhongshan (in RMB)



Min. Wage Rate Incr%		
2011	2012	2013
20.0	13.6	6.7
18.8	15.8	12.1
19.6	Nil.	19.1

* SZ: 2014 increase of 13% to 1,808

Income Statement

	2013		2012*	
(HK\$ Mil.)	Sales	% Chg	Profit	% Chg
Book & Package Printing	1,728	2%	54	47%
Consumer Product Packaging	786	6%	14	-31%
Corrugated box	228	-11%	13	-38%
Paper trading	271	-8%	7	-6%
Segment Total (Sales w/ elimination)	3,013	1%	88	3%
<i>Inter-segment elimination</i>			(1)	--
Group Total	3,013	1%	87	-2%
Interest, dividend income and other gains			34	109%
Corporate and unallocated expenses			(26)	17%
Gain & Loss in relation to Paper Mills:				
- Gain on disposal of available-for-sale financial assets			17	
- Share of losses of associates			-	
- Loss on redesignation of Asso. to AFS Fin. Asset			-	
Gain on disposal of an associate, GHHP			-	n/a
Finance costs			(7)	-35%
Profit before income tax			105	75%
Income tax expense			(23)	53%
Profit for the year			82	82%
Attributable to Company Shareholders			77	83%

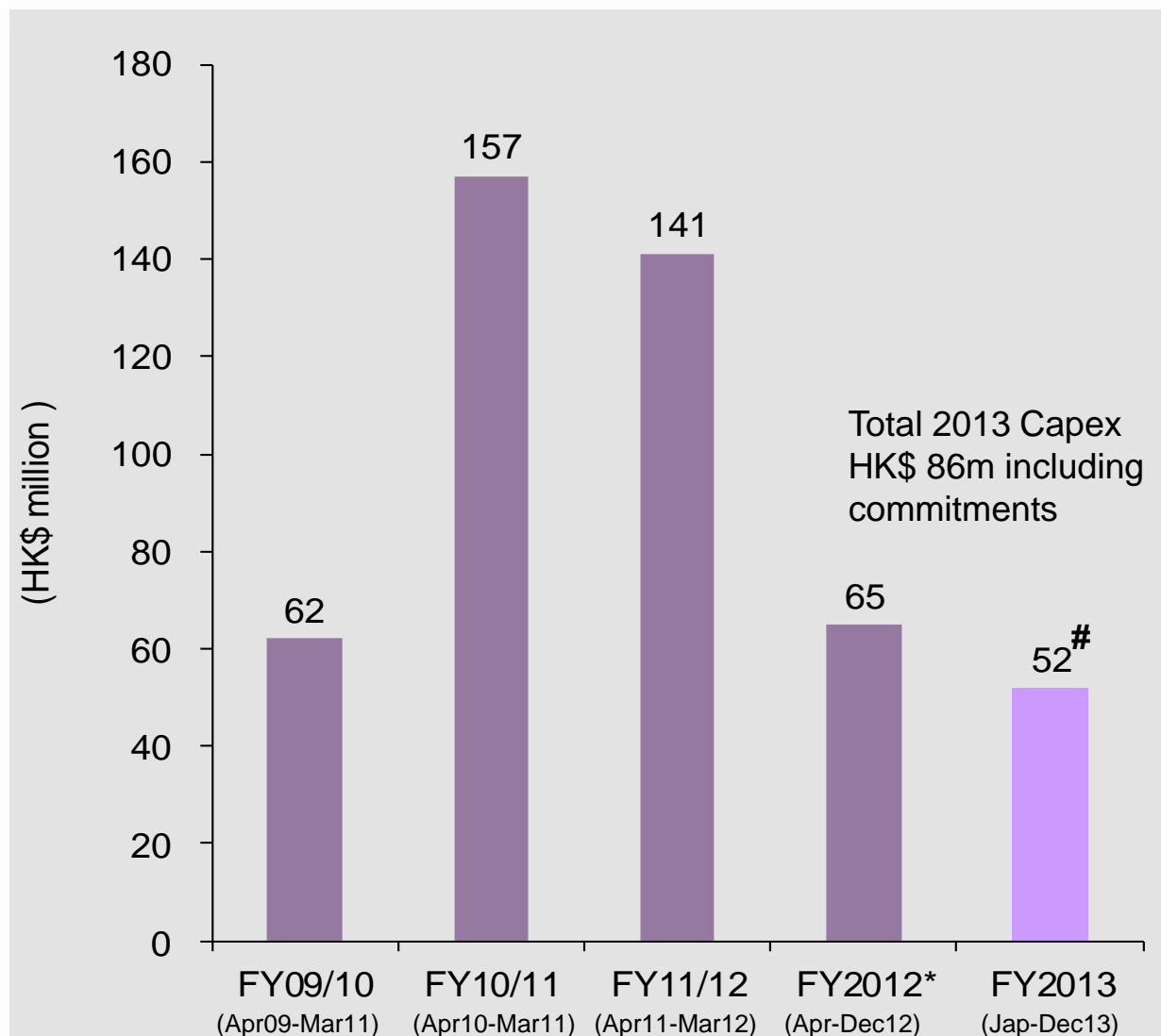
Commentary

- Profit margin% maintained at same level as prior year:
 1. Direct materials offered 3% pt. margin saving attributed to sourcing advantage and reduced paper price
 2. Direct labor impacted margin by 2% pt.; Impact of double-digits inflation in min. wage and social security cost largely offset by automation productivity improvement
- Fwd up +10m; Corp Exch up +8m
- Asso/AFS investment gain +17m (2013) vs. -11m losses (2012)

Solid Financial Position: Strong Net Cash with Low Gearing

	As of Mar 31			As of Dec 31	
(HK\$ million)	2010	2011	2012	2012	2013
Assets					
Non-current	1,467	1,569	1,572	1,520	1,499
Current	2,356	2,076	2,214	2,109	2,319
	3,823	3,645	3,786	3,629	3,818
Liabilities					
Non-current	41	57	358	276	250
Current	795	776	624	539	653
	836	833	982	815	903
Net Assets	2,987	2,812	2,804	2,814	2,915
Equity					
Equity attributable to Shareholders	2,859	2,674	2,662	2,665	2,754
Non-controlling interest	128	138	142	149	161
	2,987	2,812	2,804	2,814	2,915
Gearing Ratio	14%	15%	19%	14%	14%
Net Cash (excl. Bank Loans)	684	377	251	241	471
Current Ratio	3.0	2.7	3.5	3.9	3.6

CAPEX: Investment in the future with value-added offerings



Commentary

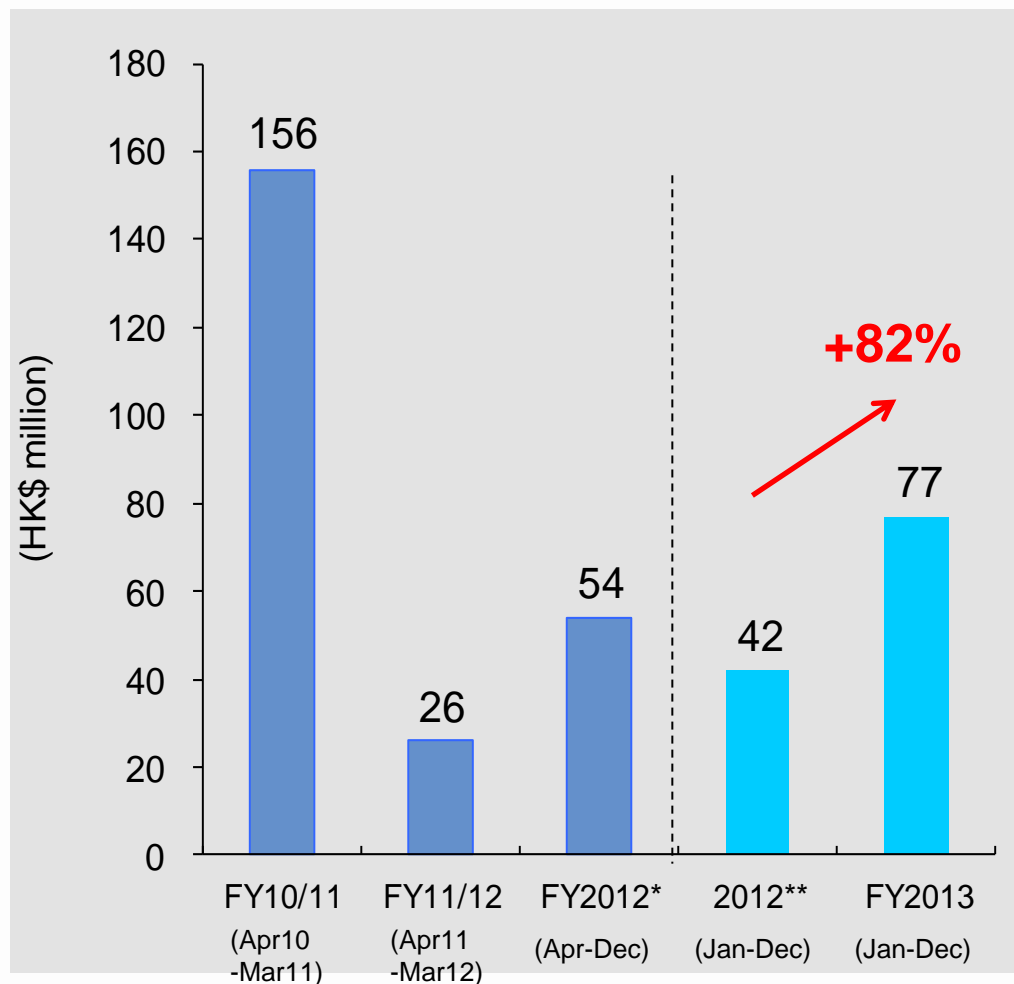
- Significant Capex investment commitments (total HK\$86m in 2013) continued to drive technological capabilities, process automation and capacity upgrade
- Support business development with focus on value-added customer offerings in terms of innovation, quality and efficiency

* Nine months' results for financial year FY2012 due to change of year end from 31-Mar to 31-Dec.

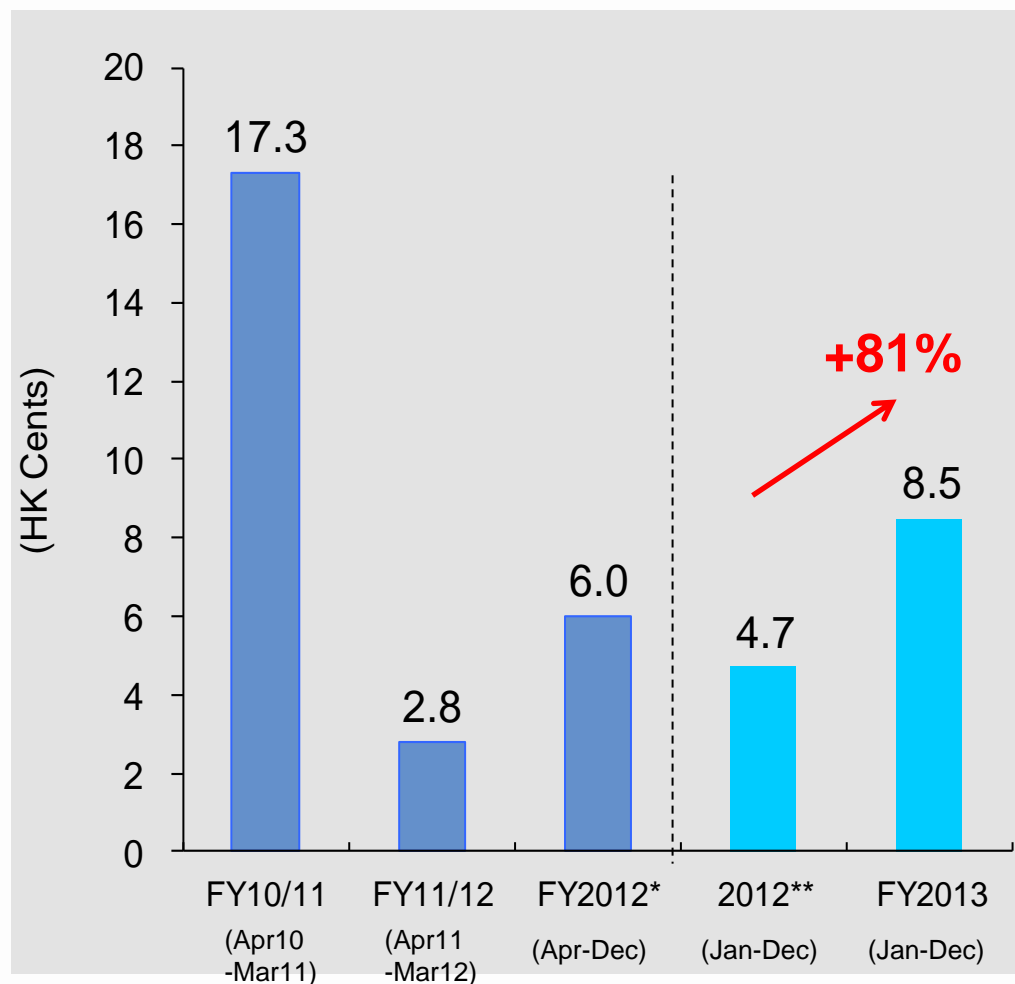
Additional capital commitments as at year-end 2013 of HK\$34m vs. HK\$9m at year end 2012

EPS improved significantly by +81% to HK\$ 8.5 per share

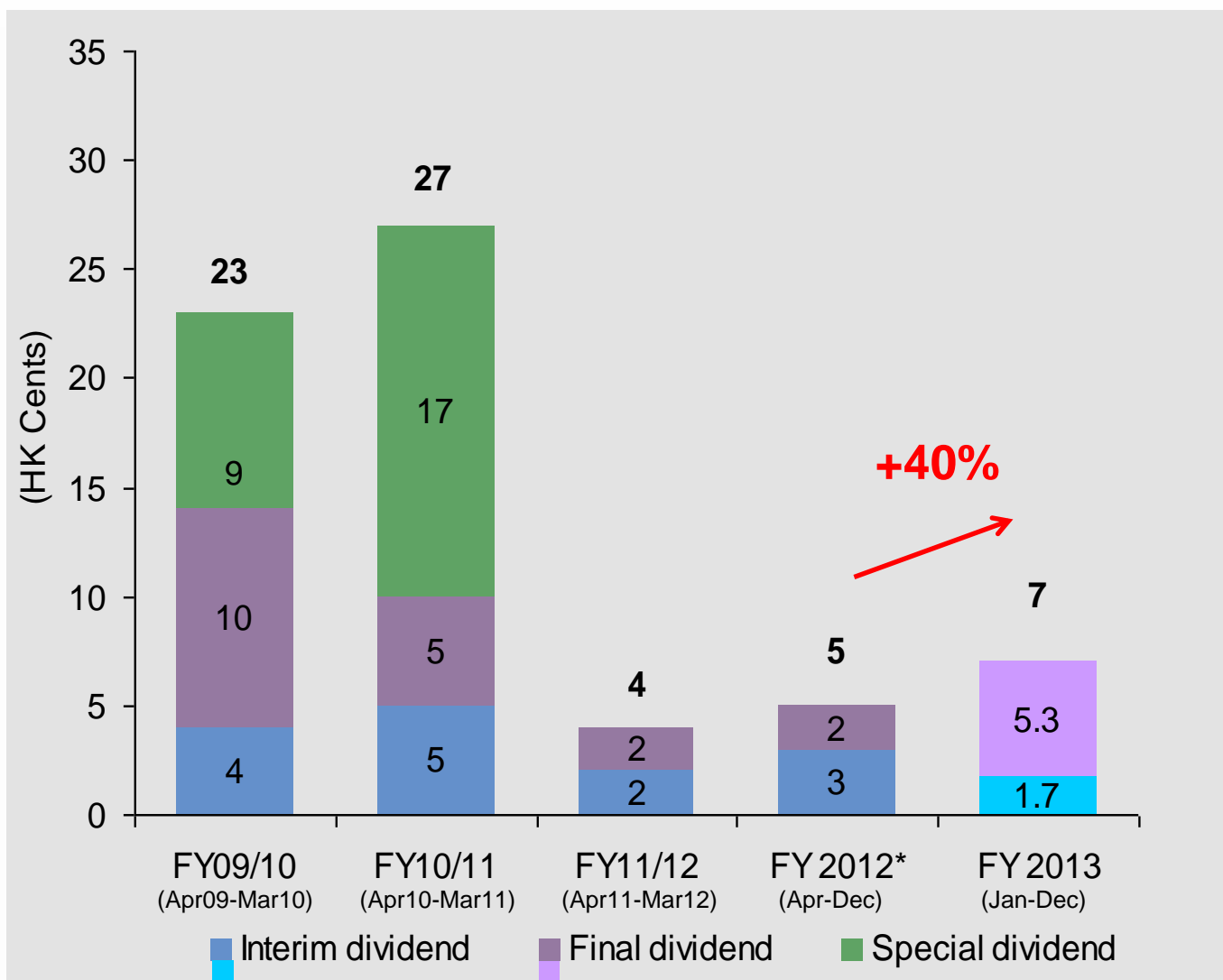
Profit Attributable to Owners of HHPG



Basic Earnings per share



Proposed Dividends: 40% YoY Growth at 82% Payout



Commentary

- 2013 Dividends

Interim (paid)	1.7 cents
Final (proposed)	<u>5.3 cents</u>
Total 2013	7.0 cents
- Y-o-Y Growth **+40%**
- Dividend yield: **6%**
- Payout ratio: **82%**

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Current Business Outlook

1. Export Markets

Anticipate that gradual recovery of the global economy is imminent despite uncertainties may persist longer in near-term; We remain confident to increase exports order intake as Europe/UK gradually pull out of recession with minimal growth while fiscal conditions of the US stabilize. Leveraging core competences, diversified business portfolio and economies of scale, we are committed to deliver customer value facing the challenge of a more intense cyclical pattern of seasonality with more but smaller orders at shorter lead times

2. Domestic packaging

Economic reform towards more market driven and less stimulating interventions, together with urbanization and relaxation of one-child policy will have significant positive impact on consumer demand in the long-run for both packaging and cultural products. Despite hiccups of slower growth in the China economy for short-term, we believe consumer spending will continue to grow and accelerate at the backdrop of severe competition

Current Business Outlook (Cont')

3. Increasing consolidation among export printers

Our financial strength, breadth of capabilities, and commitment on green and quality products render Hung Hing a vendor of choice among large / MNC customers; thus, a beneficiary to this trend.

4. Investment in the future with value-added offerings

Cognizant of latest technological developments, the Group proactively invests in innovations to add value to our product range as well as processes. Hybrid print-electronic reading products are launched and well received by our customers. In addition, more products are in the pipeline applying different technology we have exclusive license, offering a unique multimedia experience

5. Realigning production capability to enhance competitive offerings

To remain competitive and agile for future growth, our investment in production capability (equipment, people and processes) will be constantly rebalanced to optimize our customer service, efficiency and cost structure in response to the changing macro-environment including increasing urbanization, development of infrastructure, and rising labor costs in 1st and 2nd tier cities.

Hung Hing's Commitment in Green & Quality Product



Safe & Sustainable Raw Material

In year 2013, we consumed over 62,000 tons FSC and PEFC paper and over 167,000 tons of recycled paper in 2013.



FSC	F orest S tewardship C ouncil - Chain of Custody to ensure paper originates from well-managed forest
PEFC	P rogramme for the E ndorsement of F orest C ertification S chemes - Chain of Custody provides link between paper products and sustainably managed forest.
SOY Ink	Soy oil based ink reduces VOC emission (Volatile Organic Chemicals). In the year, the soy ink we consumed has helped to reduce over 56tons of VOC.
CNAS	We have C hina N ational A ccreditation S ervice certified laboratory to perform chemical tests on our materials to ensure compliance with safety standards of
EN71	European toy safety standard
ASTMF963	US toy safety standard
ISO8124	International Toy Safety Standard
Rohs	European regulation on R estriction O f H azardous S ubstances in electrical and electronic equipment.



Hung Hing's Commitment in Green & Quality Product

Agile & Responsible Management



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, besides we also achieved following recognitions
GMI	Graphic Measures International Ltd, an approach adopted by some large retailing companies to monitor and measure the performance of packaging suppliers.
PSA	Printing Standards Audit certification is a rigorous, objective process for assessing a printer's ability to operate a standards-compliant workflow.
Caring Company	We participated more than five years in Caring Company program
WCA	Workplace Conditions Assessment – An audit scheme to ensure employees benefit, health and safety, and environment protection are in good practice.
ICTI-Care	International Council of Toy Industries – Care program, an ethical standard adopted by toy industries worldwide



Hung Hing's Commitment in Green & Quality Product



ECO factory

In environmental, hygiene and security concerns, our factories have achieved

BRC

British Retail Consortium, a standard to ensure workplace hygiene and process is suitable to produce indirect food contact items.

Cleaner Production

Our environmental projects are awarded the Cleaner Production Program organized by Hong Kong Productivity Council

GSV

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

China Environmental Labelling

Our materials, manufacturing processes and products are in compliance with China environmental requirement.

Hang Seng Pan Pearl River Delta Environmental Awards

We secured more than 3 years Green Medal in environmental programme sponsored by Hang Seng Bank



BelugaBloo – Latest Update



The BelugaBloo Kids Bookstore

- Features over 300 children's applications; Almost 400k downloads since launch
- Healthy platform to connect parents and children
- Opportunities for future promotion, marketing, cross-selling and up-selling

The Group continues to search for innovative technologies that combine digital and print media to bring the best out of paper products to expand our business to greater possibilities :



The Little Musician series has been extremely well received and created growing popularity. The third title “Rhythm” will be introduced during Easter.



Partner with T+ink on new business development applying the patented Touchcode technology



Exclusive license of Bridging Book technology for creative new print and digital applications

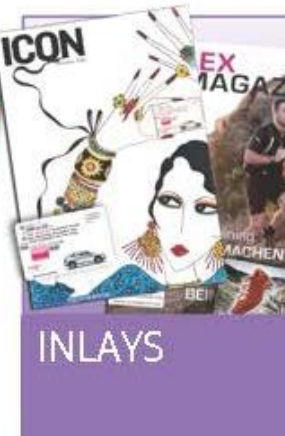
Little Musician

The Little Musician Series is the joint creation of YCCPAC and BelugaBloo. Children learn music by tapping specially printed flash cards on an iPad to trigger different sounds and information.



Touchcode

Touchcode is an invisible printed electronic code, that can be integrated into almost any printed product and bridges the gap between offline and digital just by a simple touch.



... AND MANY MORE

*patented

BridgingBook

BridgingBook is a special printed book that is placed side by side to an electronic device. Thumbing through the book pages let the printed illustrations come to life on the screen through animations, sound and interaction.

BridgingBook



*patent pending

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.