



# HUNG HING PRINTING GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 0450)

## INTERIM RESULTS

### FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

#### FINANCIAL HIGHLIGHT

- Group revenue rose 8% to HK\$1,707 million
- Operating profit increased by 27% to HK\$71 million
- Profit attributable to shareholders rose 46% to HK\$45 million
- Balance sheet remains strong with net cash of HK\$134 million
- Interim dividend of HK 3 cents per ordinary share

The directors of Hung Hing Printing Group Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 September 2012 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended	
		30 September	
		2012	2011
		(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
	Note		
<b>Revenue</b>	2	<b>1,706,692</b>	1,573,062
Cost of sales		<b>(1,453,551)</b>	(1,364,340)
<b>Gross profit</b>		<b>253,141</b>	208,722
Other income and gains		<b>13,594</b>	21,109
Distribution costs		<b>(46,160)</b>	(38,925)
Administrative and selling expenses		<b>(142,916)</b>	(134,764)
Other expenses		<b>(7,112)</b>	(352)
<b>Operating profit</b>		<b>70,547</b>	55,790
Finance costs	3	<b>(5,312)</b>	(4,670)
Share of losses of associates		<b>(9,741)</b>	(6,291)
<b>Profit before income tax</b>	4	<b>55,494</b>	44,829
Income tax expense	5	<b>(10,970)</b>	(12,391)
<b>Profit for the period</b>		<b>44,524</b>	32,438
<b>Profit/(loss) attributable to:</b>			
Owners of the Company		<b>45,124</b>	30,986
Non-controlling interests		<b>(600)</b>	1,452
		<b>44,524</b>	32,438

		HK cents	HK cents
<b>Earnings per share attributable to owners of the Company</b>	6		
Basic		<u>5.0</u>	<u>3.4</u>
Diluted		<u>5.0</u>	<u>3.4</u>
		HK\$'000	HK\$'000
<b>Dividend</b>	7	<u>27,236</u>	<u>18,157</u>

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the six months ended 30 September	
	2012 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000
<b>Profit for the period</b>	<u>44,524</u>	<u>32,438</u>
<b>Other comprehensive income/(loss):</b>		
Cash flow hedges, net of tax	-	(326)
Currency translation differences	363	22,707
Fair value change of intangible assets	(800)	1,400
Fair value change of available-for-sale financial assets	(162)	(503)
<b>Other comprehensive income/(loss) for the period, net of tax</b>	<u>(599)</u>	<u>23,278</u>
<b>Total comprehensive income for the period</b>	<u>43,925</u>	<u>55,716</u>
<b>Total comprehensive income/(loss) for the period attributable to:</b>		
Owners of the Company	44,451	50,814
Non-controlling interests	(526)	4,902
<b>Total comprehensive income for the period</b>	<u>43,925</u>	<u>55,716</u>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 September 2012 (Unaudited) HK\$'000	31 March 2012 (Audited) HK\$'000
Note		
<b>Non-current assets</b>		
Property, plant and equipment	1,328,966	1,366,117
Land use rights	107,620	109,215
Intangible assets	9,285	11,140
Available-for-sale financial assets	7,872	8,034
Properties under construction	26,764	19,391
Interests in associates	31,269	41,080
Deferred income tax assets	10,601	14,103
Deposits paid for acquisition of property, plant and equipment	6,831	3,064
<b>Total non-current assets</b>	<u>1,529,208</u>	<u>1,572,144</u>

<b>Current assets</b>			
Inventories		645,829	711,398
Trade and bills receivables	8	929,994	647,950
Prepayments, deposits and other receivables		30,687	62,467
Derivative financial instruments		834	253
Amounts due from associates		906	5,024
Tax recoverable		5,257	6,384
Pledged time deposits		45,531	17,321
Cash and cash equivalents		516,175	763,625
<b>Total current assets</b>		<b>2,175,213</b>	<b>2,214,422</b>
<b>Total assets</b>		<b>3,704,421</b>	<b>3,786,566</b>
<b>Equity</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		90,787	90,787
Reserves		2,571,423	2,552,939
Proposed dividend		27,236	18,157
		2,689,446	2,661,883
<b>Non-controlling interests</b>		<b>146,008</b>	<b>142,064</b>
<b>Total equity</b>		<b>2,835,454</b>	<b>2,803,947</b>
<b>Non-current liabilities</b>			
Borrowings		276,607	313,614
Deferred income tax liabilities		45,034	44,568
<b>Total non-current liabilities</b>		<b>321,641</b>	<b>358,182</b>
<b>Current liabilities</b>			
Trade and bills payables	9	191,416	223,909
Current income tax liabilities		21,837	22,156
Other payables and accrued liabilities		173,319	157,235
Amounts due to associates		9,757	4,540
Borrowings		150,997	216,597
<b>Total current liabilities</b>		<b>547,326</b>	<b>624,437</b>
<b>Total liabilities</b>		<b>868,967</b>	<b>982,619</b>
<b>Total equity and liabilities</b>		<b>3,704,421</b>	<b>3,786,566</b>
<b>Net current assets</b>		<b>1,627,887</b>	<b>1,589,985</b>
<b>Total assets less current liabilities</b>		<b>3,157,095</b>	<b>3,162,129</b>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

### 1. Basis of Preparation and Accounting Policies

These condensed consolidated interim financial statements for the six months ended 30 September 2012 are unaudited and have been prepared in accordance with the applicable disclosure requirements as set out in Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rule") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The unaudited condensed consolidated interim financial statements have been prepared under the historical costs convention except that certain financial assets are stated at fair value and which should be read in conjunction with the annual financial statements for the year ended 31 March 2012.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 March 2012, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

**(a) The following amendments to existing standards are mandatory for the Group's accounting period beginning 1 April 2012. The adoption of these amendments to existing standards does not have any significant impact to the results and financial position of the Group :**

- |                       |   |
|-----------------------|---|
| • HKAS 12 (Amendment) | Deferred tax: Recovery of underlying assets |
| • HKFRS 7 (Amendment) | Disclosures - Transfers of financial assets |

**(b) The following new and revised standards and amendments to existing standards have been issued but are not effective for the Group's accounting period beginning 1 April 2012 and have not been early adopted:**

- |                                   |   |
|-----------------------------------|---|
| • HKAS 1 (Amendment)              | Presentation of financial statements                  |
| • HKAS 19 (Amendment)             | Employee benefits                                     |
| • HKAS 27 (Revised 2011)          | Separate financial statements                         |
| • HKAS 28 (Revised 2011)          | Investments in associates and joint ventures          |
| • HKAS 32 (Amendment)             | Offsetting financial assets and financial liabilities |
| • HKFRS 7 and HKFRS 9 (Amendment) | Mandatory effective date and transition disclosures   |
| • HKFRS 9                         | Financial instruments                                 |
| • HKFRS 10                        | Consolidated financial statements                     |
| • HKFRS 11                        | Joint arrangements                                    |
| • HKFRS 12                        | Disclosures of interests in other entities            |
| • HKFRS 13                        | Fair value measurement                                |

The Group is currently assessing the impact of the adoption of these new and revised standards and amendments to existing standards to the Group in future period. So far, it has concluded that the adoption of the above does not have material impact on the Group's financial statements.

## 2. Segment Information

The management committee (being the chief operating decision-maker) has determined the operating segments based on the reports reviewed by the management committee. The management committee, comprising the executive chairman, the chief executive officer and other senior management, that are used to make strategic decisions and assess performance.

Management has determined the operating segments based on these reports. The Group is organised into four business segments:

- (a) Book and Package Printing segment;
- (b) Consumer Product Packaging segment;
- (c) Corrugated Box segment; and
- (d) Paper Trading segment.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

Management assesses the performance of the operating segments based on a measure of gross profit less distribution costs, administrative and selling expenses, and other expenses that are allocated to each segment. Other information provided is measured in a manner consistent with that in the financial statements.

Sales between segments are carried out at arm's length.

### For the six months ended 30 September 2012

	Segment Revenue			Segment Results
	Sales to external customers	Inter-segment sales	Total	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK'\$000	HK'\$000	HK'\$000	HK'\$000
Book and Package Printing	1,023,885	726	1,024,611	42,058
Consumer Product Packaging	372,654	10,045	382,699	4,452
Corrugated Box	145,368	54,194	199,562	17,056
Paper Trading	164,785	231,616	396,401	11,659
Eliminations	-	(296,581)	(296,581)	1,875
	<b>1,706,692</b>	<b>-</b>	<b>1,706,692</b>	<b>77,100</b>
Interest, dividend income and other gains				7,502
Corporate and unallocated expenses				(14,055)
Operating profit				70,547
Finance costs				(5,312)
Share of losses of associates				(9,741)
Profit before income tax				55,494
Income tax expense				(10,970)
Profit for the period				44,524

For the six months ended 30 September 2011

	Segment Revenue			Segment Results
	Sales to external customers	Inter-segment sales	Total	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK'\$000	HK'\$000	HK'\$000	HK'\$000
Book and Package Printing	860,058	1,331	861,389	13,820
Consumer Product Packaging	389,406	5,390	394,796	10,479
Corrugated Box	147,456	55,635	203,091	20,387
Paper Trading	176,142	275,449	451,591	21,338
Eliminations	-	(337,805)	(337,805)	(893)
	<u>1,573,062</u>	<u>-</u>	<u>1,573,062</u>	<u>65,131</u>
Interest, dividend income and other gains				5,675
Corporate and unallocated expenses				<u>(15,016)</u>
Operating profit				55,790
Finance costs				(4,670)
Share of losses of associates				<u>(6,291)</u>
Profit before income tax				44,829
Income tax expense				<u>(12,391)</u>
Profit for the period				<u>32,438</u>

### 3. Finance Costs

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>5,312</u>	<u>4,670</u>

### 4. Profit Before Income Tax

The Group's profit before income tax is arrived at after charging or crediting the following items:

	For the six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
After charging -		
Depreciation	56,698	54,953
Amortisation of land use rights	1,591	1,581
Amortisation of intangible assets	590	344
Loss on disposals of property, plant and equipment	1,326	2,336
Foreign exchange loss, net	2,109	-
Employee benefit expense (including directors' emoluments)	397,117	357,545
Provision for impairment/(reversal of provision for impairment) of trade receivables	3,038	(1,984)
Provision for impairment of inventories, net	<u>875</u>	<u>13,836</u>

After crediting -		
Bank interest income	<b>6,472</b>	4,395
Dividend income from available-for-sale financial assets	<b>279</b>	278
Fair value gain on derivative financial instruments not qualified as hedges, net	<b>751</b>	283
Foreign exchange gain, net	<b>-</b>	<b>10,808</b>

## 5. Income Tax Expense

Hong Kong profits tax has been provided at the rate of 16.5% (30 September 2011: 16.5%) on the estimated assessable profits for the period. Taxation on overseas profit has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Current income tax		
- Hong Kong profits tax	<b>3,112</b>	4,223
- PRC corporate income tax	<b>4,049</b>	6,292
Total current tax	<b>7,161</b>	10,515
Deferred income tax	<b>3,809</b>	1,876
Income tax expense	<b>10,970</b>	12,391

## 6. Earnings Per Share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the period excluding ordinary shares purchased by the Company.

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit attributable to owners of the Company	<b>45,124</b>	30,986
Weighted average number of ordinary shares in issue excluding own held shares (thousands)	<b>903,028</b>	903,633
Basic earnings per share (HK cents per share)	<b>5.0</b>	3.4

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has only one category of dilutive potential ordinary shares: shares repurchased for the purpose of share award scheme. A calculation is made in order to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the outstanding shares to be granted.

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Profit attributable to owners of the Company	<b>45,124</b>	30,986
Weighted average number of ordinary shares in issue excluding own held shares (thousands)	<b>904,685</b>	906,472
Diluted earnings per share (HK cents per share)	<b>5.0</b>	3.4

**7. Dividend**

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2012</b>	<b>2011</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Interim dividend of HK 3 cents (30 September 2011: HK 2 cents) per ordinary share	<b>27,236</b>	18,157

**8. Trade and Bills Receivables**

	<b>30 September</b>	<b>31 March</b>
	<b>2012</b>	<b>2012</b>
	<b>(Unaudited)</b>	<b>(Audited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Trade receivables	<b>947,368</b>	662,734
Less: provision for impairment of trade receivables	<b>(25,595)</b>	(23,025)
Trade receivables, net	<b>921,773</b>	639,709
Bills receivables	<b>8,221</b>	8,241
	<b>929,994</b>	647,950

The Group's trading terms with customers are mainly on credit. Invoices are normally payable between 30 and 90 days from date of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk.



Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's trade and bills receivables relate to a number of diversified customers, there is no significant concentration of credit risk. Trade and bills receivables are non-interest-bearing.

The aging analysis of trade receivables at the end of the reporting period, based on invoice date and net of provisions, is as follows:

	<b>30 September 2012 (Unaudited) HK\$'000</b>	<b>31 March 2012 (Audited) HK\$'000</b>
1 - 30 days	<b>388,573</b>	242,701
31 - 60 days	<b>210,698</b>	185,672
61 - 90 days	<b>138,637</b>	67,440
Over 90 days	<b>183,865</b>	143,896
	<b><u>921,773</u></b>	<b><u>639,709</u></b>

#### **9. Trade and Bills Payables**

	<b>30 September 2012 (Unaudited) HK\$'000</b>	<b>31 March 2012 (Audited) HK\$'000</b>
Trade payables	<b>174,519</b>	196,506
Bills payables	<b>16,897</b>	27,403
	<b><u>191,416</u></b>	<b><u>223,909</u></b>

The aging analysis of trade payables at the end of the reporting period, based on invoice date, is as follows :

	<b>30 September 2012 (Unaudited) HK\$'000</b>	<b>31 March 2012 (Audited) HK\$'000</b>
1 - 30 days	<b>109,562</b>	131,770
31 - 60 days	<b>45,803</b>	50,781
61 - 90 days	<b>7,605</b>	5,713
Over 90 days	<b>11,549</b>	8,242
	<b><u>174,519</u></b>	<b><u>196,506</u></b>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

For the six months ended 30 September, 2012, the Group's sales revenue rose by 8% to HK\$1,707 million led by double digit growth in our export business. Profit attributable to shareholders rose by 46% to HK\$45 million, primarily due to the slowdown in the inflation rate for input costs in China and the gains from a number of automation and productivity initiatives implemented by the Group.

The macro situation for exports remains challenging with limited economic recovery in the United States and no sign of recovery in the Eurozone. The international book market is faced with falling demand partly attributable to the decline of brick and mortar stores and the increasing use of e-books. This has accelerated the rate of consolidation in the export printing industry, particularly in southern China, where some companies have down-sized or switched their focus to the domestic packaging market.

This consolidation trend has benefitted Hung Hing, with publishers around the world seeking the reassurance of size and established reputation when selecting a printing partner. Together with our ongoing sales and marketing efforts, this has enabled the Group's largest business unit – Book and Package Printing – to grow first-half revenue by 19% over last year and increase its contribution to Group profits by over 200% to HK\$42 million. Our diverse production capabilities and value added services, solid track record in quality, reliability and compliance have been instrumental in earning the trust of customers.

The Group has also embraced electronic books through BelugaBloo, a proprietary e-bookstore application that runs on popular tablets and smart phones. BelugaBloo offers e-conversion and reach-out capabilities to our children's book publishing clients. This additional option has served to deepen our relationship with these publishers and, in turn, strengthened our printing business.

The China domestic market presents a different set of challenges for our packaging business. Fast-growing and fragmented, the mainland packaging printing industry has seen over-investment leading to fierce price competition despite rapidly rising demand. A slowing economy and new entrants moving from book printing has made the situation worse.

In response, the Group has recruited more sales people to drive the Consumer Packaging Printing business, and installed dust-free manufacturing zones in our Zhongshan and Wuxi plants to meet the higher hygiene and quality requirements of the packaged food and personal care sectors. Even so, in our first half-year revenue for Consumer Packaging Printing was down by 4% to HK\$373 million.

With many external uncertainties, the Group has focused on controlling costs and improving efficiency to maintain competitiveness. Significant investments have been made to redesign factory layouts and streamline production processes. Automation is playing a key role and more labor-intensive work is gradually moving from Shenzhen to Heshan to reduce payroll costs. Cost efficiency and optimal capacity utilization will be the most important drivers of profitability in the coming months and years.

The Group's balance sheet remains strong with a net cash position of HK\$134 million at 30 September 2012. Backed by the Group's strong cash flow and solid financial position, the Board of Directors has declared an interim dividend of HK 3 cents per share.

### **Business Unit Reports**

#### **Book and Packaging Printing**

Hung Hing is one of the world's leading producers of folding cartons and packaging for toys, cosmetics and other consumer products. It is also one of the world's largest manufacturers of conventional and children's novelty books.

Production of folding carton, packaging, conventional books and children's books is carried out at the Group's Shenzhen and Heshan plants in China's Guangdong province and at a plant in Hong Kong. The three plants have a combined production space of 2.5 million square feet and employ over 9,000 workers.

The Shenzhen and Heshan plants are ISO 9001, ISO 14001, ICTI-COBP and FSC/PEFC certified. Our Shenzhen plant has the honor of being the first printing facility in Asia to be PSAsm (Printing Standards Audit) accredited by the RIT (Rochester Institute of Technology), recognizing our high standards in data reception, proofing and printing.

The Group's global client base includes many of the world's most recognized toy, cosmetics, and consumer goods producers, as well as leading publishers. Book and Package Printing is the Group's largest business unit.

The Book and Package Printing business reported the following results for the first half-year:

- Revenue of HK\$1,024 million, up 19% from HK\$860 million the previous year
- Profit contribution of HK\$42 million, up 204% from HK\$14 million last year
- Profit contribution margin of 4%, up from 2% the previous year

#### *Review of Operations*

Economic recovery continues to be slow across our export markets. In addition, the increasing use of e-books and the gradual reduction of retail shelf space in developed economies have continued to impact the book market. These ongoing developments have accelerated the pace of industry consolidation, particularly among export printers in south China. As one of the largest and most reputable printers in the region, Hung Hing has emerged as a beneficiary of this process, growing sales revenue by 19% to HK\$1,024 million in the first half year.

While commodity and other material costs remained flat, wages rose by more than 10% in south China since late last year. In response to these spiraling labor costs, we have tightened our cost controls and reviewed pricing, in particular for labor-intensive children's novelty books. In our ongoing drive for productivity improvements, we have introduced more efficient factory floor layouts and production processes, and continued the gradual transfer of manual work from Shenzhen to Heshan. Our growing market share coupled with tighter cost management have led to an improvement in profitability.

### **Consumer Product Packaging**

Hung Hing provides high quality packaging solutions for customers through its production plants at Zhongshan in southern China and Wuxi near Shanghai. With a workforce of 2,000 and wide-ranging capabilities, these two plants are well positioned to capture the growing consumer market in China.

The Consumer Product Packaging business unit reported the following results for the first half of the year:

- Revenue of HK\$373 million, down 4% from HK\$389 million the previous year
- Profit contribution of HK\$4 million, down from HK\$10 million last year
- Profit contribution margin of 1% compared with 3% the previous year

#### *Review of Operations*

Domestic packaging is a large yet highly fragmented market. While enjoying relatively high growth, the industry has always been characterized by over-investment and severe price competition. The economic slowdown together with the move by some book printers into the packaging business, have further increased competition leading to reduced revenue and margins in the first half of the year.

We are optimistic about the long term growth opportunity in the domestic packaging market. Even though the keen competition will continue, we maintain a positive business outlook for the next few months leading up to the Lunar New Year. We have taken action to enhance our local sales team and have added dust-free manufacturing zones in our Zhongshan and Wuxi plants, which are now BRC (British Retail Consortium) certified, making them much more appealing to packaged food and personal care clients.

### **Corrugated Box**

Hung Hing operates a competitive corrugated box manufacturing business that supplies a wide range of companies, including toy, food and beverage, electronics and household product manufacturers.

Nearly 55% of the corrugated box business is generated from Hong Kong-based exporters, while the remaining 45% comes from customers in China. The business operates a manufacturing facility in Shenzhen and a distribution center in Hong Kong.

The Corrugated Box business reported the following results for the first half of the year:

- Revenue of HK\$145 million, down 1% from HK\$147 million the previous year
- Profit contribution of HK\$17 million, down 16% from HK\$20 million last year
- Profit contribution margin of 9%, down from 10% the previous year

#### *Review of Operations*

The Corrugated Box business benefits from proximity to and operational alignment with the Group's Book and Package Printing business, which provides stable demand equal to about 25% of the business. An overlapping base of customers and market segments also provides sales opportunities for both business units.

The Corrugated Box business was affected by the slowdown in export activities across the Pearl River Delta. In response, we have enhanced sales development efforts in the domestic market, which has helped to partially offset the shortfall in the export sector. Management has also taken initiatives to enhance production processes and factory floor layouts to improve efficiency.

### **Paper Trading**

Hung Hing is one of the largest paper trading operators in Asia outside Japan. The business unit's well managed facility in Shenzhen can store over 60,000 tons of paper and supply a large variety of paper types to customers with short lead times at competitive prices.

The business unit also serves a strategic purpose as an integral part of the Group's supply chain, providing a stable supply of paper at highly competitive prices to the Group's core printing and packaging businesses.

The Paper Trading business reported the following results for the first half of the year:

- Revenue of HK\$165 million, down 6% from HK\$176 million the previous year
- Profit contribution of HK\$12 million, down 45% from HK\$21 million last year
- Profit contribution margin of 3%, down from 5% the previous year

### *Review of Operations*

Over 80% of sales by the Paper Trading business are to export manufacturers in south China, with the balance going to the China domestic market. During the half-year under review, revenue was affected by the slowdown in export activity across the Pearl River Delta and our tightened credit management. The trend of softening paper prices in the first half coupled with reduced demand led to intensified price competition and lower profit margins for the business.

### **Associated Companies**

Hung Hing has equity interests in two businesses: a 17 % stake in Rengo Hung Hing Paper Manufacturing located in Zhongshan, Guangdong Province; and a 40% stake in Graphic Hung Hing Packaging (Shanghai) Co. Ltd. The Group's share of the losses from the two businesses in the six-month period amounted to HK\$ 9.7 million.

The paper manufacturing business operates three production lines at the Zhongshan plant, converting wasted paper into corrugated medium and testliner. The paper is sold to outside converters as well as to Hung Hing corrugated box operators.

Graphic Hung Hing Packaging (Shanghai) Co. Ltd. is a joint venture ( " JV " ) with Graphic Packaging International, a leading provider of packaging solutions in the beverage industry. Based in Shanghai, the JV sells multi-pack beverage packaging cartons to customers throughout China.

### **Liquidity and Capital Resources**

The Group continues to maintain a strong financial position. As of 30 September 2012, the Group had net cash on hand (total cash net of bank borrowings) of HK\$134 million.

During this period, the Group invested HK\$28 million in machinery and equipment, primarily to enhance production efficiency. A new printing press was ordered for the Heshan plant and is expected to be installed by the end of 2012.

Most of the Group's cash is held in Renminbi since the Group's operating expenses are mainly incurred in this currency. Surplus cash placed in Renminbi deposits enabled the Group to earn higher interest income of HK\$6.5 million for the period under review, which was 47% higher than same period last year.

As of 30 September 2012, the Group had total cash on hand, including pledged time deposits, of HK\$562 million. Of the cash on hand, 72% was held in Renminbi, 16% in Hong Kong Dollars, 9% in U.S. Dollars, and 3% in Euros and Pounds Sterling.

During the period, the Group repaid bank loans of HK\$123 million. As of 30 September 2012, the Group's total bank borrowings were HK\$428 million. According to the loan repayment schedules with banks, HK\$151 million was repayable within one year, HK\$141 million was repayable in one to two years, and HK\$136 million was repayable in two to five years.

Of the Group's total bank borrowings, as at 30 September 2012, 93% was in Hong Kong Dollars, 4% in U. S. Dollars and 3% in Renminbi. Of this, 90% was owed to banks in Hong Kong with interest rates at HIBOR or the bank's cost of funds plus an agreed percentage mark-up. The remaining 10% was owed to banks in the PRC at interest rates linked to the People's Bank of China (PBOC) base rate or the bank's cost of funds plus an agreed percentage mark-up.

The Group's gearing ratio comparing bank borrowings to total equity was 15% (2011: 22%).

### **Contingent Liabilities and Pledge of Assets**

As at 30 September 2012, guarantees amounting to HK\$2,002 million were given to banks by the Company for banking and trading facilities granted to the Group's subsidiaries and associates.

Certain buildings, land use rights and time deposits of the Group with a total carrying value of HK\$140 million as at 30 September 2012 have been pledged to secure banking facilities granted to the Group.

### **Our People**

People are our most valuable asset and the Group is fortunate to have a highly skilled and dedicated workforce. We offer competitive remuneration and equal opportunities to all our employees, and have put a special emphasis on both internal and external training to enable our people to be the best they can be.

In our factories, all employees receive orientation training to ensure they know their rights, our occupational health and safety policies, and the factory regulations. A dedicated team provides a wide range of training to all levels of staff, aimed at improving productivity, management skills, technical competency and occupational health and safety.

Significant occupational health and safety improvements have been made with the total incident rate for the reporting period improving to 0.27 from 0.38 the year before – this number equates to 0.27 incidents per year for a company of 100 employees.

The Group continues to manage the workforce cautiously to optimize headcount in a largely seasonal operating environment. As of 30 September 2012, the Group employed 12,449 staff, with 357 based in Hong Kong and 12,092 in China.

### **Environmental Sustainability**

The Group's environmental protection efforts have changed from a project basis to a continuous improvement model with the establishment of environmental improvement teams in our factories. The teams hold regular meetings to discuss green ideas suggested by employees at every level of the organization. This process not only produces many more potential environmental initiatives, but also raises employee awareness of environmental protection.

One suggestion to replace 840 old taps in our Heshan factory's dormitory area with new water-saving models has helped to save approximately 250,000 liters of water per year.

Other environmental improvement projects include:

- Changing air-conditioner compressors to inverter types, saving 38,000KWH of electricity per year
- Using heat pump hot water equipment in dormitories, instead of electric heaters, to supplement the solar heating panels, saving 60,000KWH of electricity per year

The Group has also started, where appropriate, to change exhaust fans on the factory floors from high speed, high power models to low speed, high air-flow types; which consume 70% less energy per unit, while generating greater air flow to reduce interior temperatures and improve air quality.

To reduce the emission of VOCs, the Group is using alcohol-free dampening solutions for most of our printing presses, resulting in reductions in VOC (Isopropanol) emissions over 15,000kg per month.

Our green sourcing continues to increase the amount of recycled paper and paper from sustainable sources that we purchase. Over the reporting period, more than 45% of our paper came from post-consumer waste, and the ratio of certified sustainably sourced paper (Forest Stewardship Council - FSC or Programme for the Endorsement of Forest Certification - PEFC) increased to 23% from 9% in the same period last year.

## **Prospects**

Looking forward, it is unlikely that global macro uncertainties will be resolved in the short term, and current industry trends are likely to continue to present a range of opportunities and challenges for the Group.

We believe that e-books will gradually expand the total publishing market. Through BelugaBloo, we are well positioned to work with our publishing clients to provide on-line interactive book experiences for toddlers and children. And while some categories of printed book may decline as a result of the gradual move to electronic formats, demand for two of our strongest categories - coffee table and children's novelty books - is expected to hold up well. The Group should also continue to benefit from the ongoing industry consolidation and our diversification into new geographic markets.

In the meantime, the Group is working to grow both our product and service offerings. Leveraging our large pool of skilled manual workers, we are expanding into the point-of-purchase shelf business, initially only for the export market. We are also adding creative and design capabilities to enrich the services we can offer to international and domestic packaging customers.

The Group is also exploring opportunities in China's cosmetics packaging and print-book market, particularly children's novelty books, which will leverage our expertise and reputation built up over many years servicing overseas publishers and luxury product manufacturers.

Overall, our strong balance sheet, long-standing reputation, high levels of expertise and competitive offerings will continue to reassure current customers and attract new business. Our ongoing focus on cost and process efficiency will maintain a strong foundation for the Group, which remains well placed to consolidate existing business and grasp new opportunities in both export markets and domestic China.

## **CHANGE OF FINANCIAL YEAR END DATE**

On 16 April 2012, the directors announced that the financial year end date of the Company has been changed from 31 March to 31 December.

## **INTERIM DIVIDEND**

The directors have resolved to pay an interim dividend of HK 3 cents (30 September 2011 : HK 2 cents) per share. The interim dividend will be paid on 27 December 2012 to shareholders whose names appear on the Register of Members of the Company on 14 December 2012.

## **CLOSURE OF REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from 12 December 2012 to 14 December 2012, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 11 December 2012.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the period.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

In the opinion of the directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim results, with the exception that:

1. Code Provision A.2.1 provides that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Currently the roles of chairman and chief executive officer have been undertaken by Mr. Yum Chak Ming, Matthew. The Board is of the opinion that it is appropriate and in the best interests of the Company that Mr. Yum should hold these offices. The Board believes that it is able effectively to monitor and assess management in a manner that properly protects the interests of shareholders.
2. Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The non-executive directors of the Company are not appointed for a specific term. However under the Articles of Association of the Company, one-third of the directors who have served longest on the Board shall retire from office by rotation every year at the annual general meeting. All directors of the Company retire by rotation at least once every three years and hence the terms of appointment of the non-executive directors are limited accordingly.



## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the Company's code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company's directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the interim results.

## **AUDIT COMMITTEE**

The audit committee of the Company has reviewed the interim results for the six months ended 30 September 2012 and the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters. The audit committee comprises three independent non-executive directors and a non-executive director of the Company.

By Order of the Board  
**Hung Hing Printing Group Limited**  
**Yum Chak Ming, Matthew**  
Executive Chairman

Hong Kong, 20 November 2012

As at the date of this announcement, the Board comprises Mr. Yum Chak Ming, Matthew and Mr. Sung Chee Keung as executive directors; Mr. Yoshitaka Ozawa, Mr. Hiroyuki Kimura, Mr. Katsuaki Tanaka and Mr. Yam Hon Ming, Tommy as non-executive directors; Mr. Yap, Alfred Donald, Mr. Luk Koon Hoo and Mr. Lo Chi Hong as independent non-executive directors.