

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 2011

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Highlights - 12 Months ending March 2011

- Group revenues are up 15% YOY - volume and price
- Raw material and labor costs have impacted earnings
- We are pleased with our ability to limit that impact and are continuing to address this
- Positions with major customers are strong and we expect further upside as global economies continue the recovery
- Our China packaging strategy has seen good progress in the year, more work to be done in building this business

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
- Manufacturing of medium paper and linerboard (through 31% stake in paper mill²)
- Awarded ISO9001 certification
- Production area: 130,000 m²
- Production capacity: 222 million impressions
- 1,200 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
- 900 – 1,600 full time workers¹
 - Of which 200 – 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



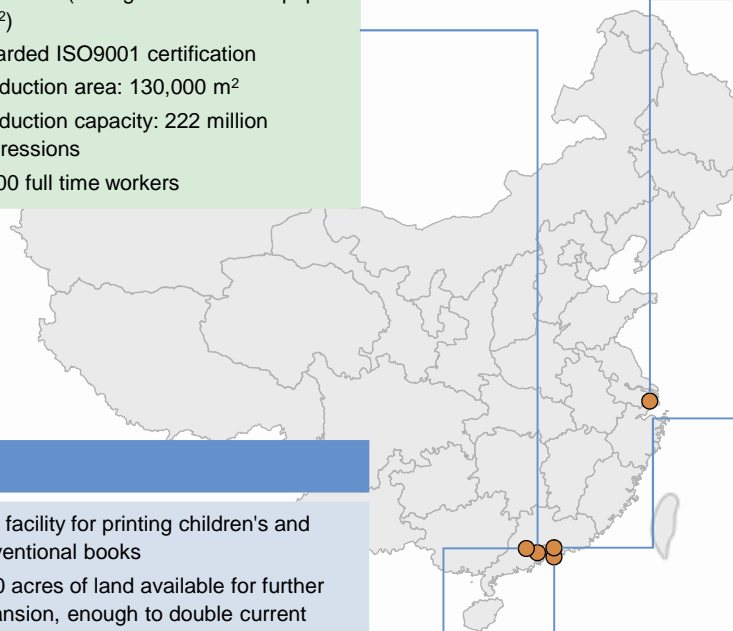
Heshan



- 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
- 2,400 – 3,500 full time workers¹
 - Of which 1,600 – 2,900 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
- 340 full time workers



- Book and package printing
- Consumer product packaging

Hung Hing operates four complementary business segments



	Book & package printing	Consumer product packaging	Corrugated box	Paper trading
Market position	<ul style="list-style-type: none"> ■ Leader globally 	<ul style="list-style-type: none"> ■ Top 5 in China 	<ul style="list-style-type: none"> ■ Major player in South China 	<ul style="list-style-type: none"> ■ Leader in South China
% FY2011 revenue	<ul style="list-style-type: none"> ■ 53% (HK\$1,452mm) 	<ul style="list-style-type: none"> ■ 26% (HK\$706mm) 	<ul style="list-style-type: none"> ■ 10% (HK\$290mm) 	<ul style="list-style-type: none"> ■ 11% (HK\$316mm)
Key products	<ul style="list-style-type: none"> ■ Children's books ■ Toys ■ Electronics 	<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, and Southeast Asia 
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 with total production area of 270,000m² ■ Total capacity of ~250 million impressions 	<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

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, electronics 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 and breadth of post-press finishes
- ✓ **One of a handful of foreign-invested companies authorized 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

Book and package printing – Corporate strategy

Corporate strategy

- **Further solidify customer relationships and increase share of wallet** with long term customer base through service and order management process improvements (i.e., improve responsiveness, order status, turnaround times and customer interface)
- **Extend sales footprint** in markets where opportunity exists to strengthen presence and representation
- **Build organizational capability** that extends current operating practices to a broader base of accountable teams, managers and operators enabling sustainability and consistent performance
- **Drive operating efficiencies** to world class through implementation of more visible shop floor KPI's and further adoption of lean manufacturing culture
- **Improve production planning and machine use efficiency** through centralized planning across three production sites and continued implementation of formal Sales & Operation Planning process
- **Strengthen work force stability in Heshan** to provide a larger capacity and capability there for growth and repositioning of production from Shenzhen

Hung Hing has a broad and high quality product offering...

<p>Key product offerings</p>	<p>Book printing (~ 68% of Book and Packaging segment sales)</p>	<p>Package printing¹ (~32% of Book and Packaging segment sales)</p>
<p>End-market usage</p>		
<p>Other quality or productivity standards</p>	<ul style="list-style-type: none"> ■ Children's books & novelty items (71% of the total) ■ Conventional books (19% of the total sales) ■ Rigid packaging & folding cartons² (10% of the total) <ul style="list-style-type: none"> ■ Toys (~80% of total) ■ Electronics & household goods (~7% of total) ■ Premiums³ & others (~13% of total) 	
 <ul style="list-style-type: none"> ■ Certifications from International Council of Toy Industries ("ICTI"), commonly required by international toy brands such as Disney and Mattel for its suppliers <ul style="list-style-type: none"> ■ Testament of the safety and the quality of Hung Hing's products ■ Proof of Hung Hing's facilities being run to international best standards ■ Forest Stewardship Council ("FSC") certification and Chain of Custody certification from the Programme for the Endorsement of Forest Certification Schemes 		

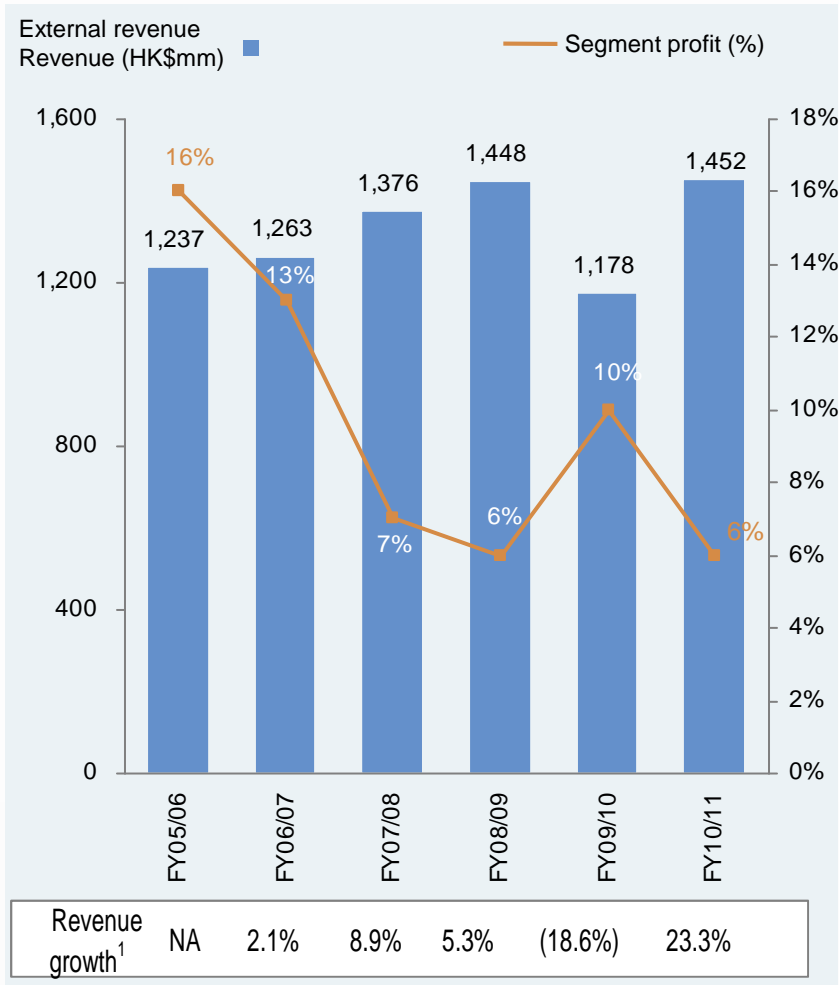
¹ Primarily for re-export packaging

² Generally for export – "hand assembled" items

³ Includes items such as hand-worked card sets; miniature booklets for fast food restaurants including Wendy's, McDonalds and Chick-fil-A

Segment financials – Books and package printing

Books and package printing



¹ Based on change in external sales

Commentary

- In FY2011, sales rebounded strongly and improved by 23% as a result of the recovery in the United States and European export markets and customers consolidating their supplier base
- Margins were impacted by rising costs, including paper prices, labor rates in the Pearl River Delta and the RMB appreciation
- Hung Hing's adoption of various productivity initiatives helped to partially offset the impact of such cost increases, these included:
 - Management of workforce reduction in line with lower demand
 - Improved forward planning (S&OP disciplines) especially demand balance to capacity
 - Introduction of more visible KPIs to drive decisions earlier on schedules, allocation and shift requirements

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
 - Conducted detailed feasibility studies and commenced targeting of three attractive packaging segments
 - FMCG / food & beverage
 - Personal care / cosmetics
 - Pharmaceuticals
- ✓ **Breadth of capabilities**
 - Offers top-tier packaging supply capabilities, design, print finishes, and service levels
- ✓ **Sizeable operations with multiple production facilities, which have significant scalability upside**
 - Total capacity of ~250 million impressions with latest press machines from Heidelberg and Manroland
 - Two production facilities in Zhongshan and Wuxi with total production area of 270,000m² 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

Consumer product packaging – Corporate strategy

Corporate strategy

- **Focus on key target segments and customers** that represent substantial customer accounts required to scale up business – i.e., in the food & beverage, personal care, cosmetics and pharmaceuticals sectors
- **Implement operational and facility changes to manufacturing process**, that meet quality and cost requirements of targeted product categories
- **Drive operating efficiencies** needed to compete for larger top-tier cross-China accounts through application of shop floor KPI's, overall equipment effectiveness (“OEE”) accountability and lean manufacturing
- **Recently reorganized senior leadership team** to combine customer and production bases of two facilities into a cross-China focused business
- **Strengthen sales and marketing leadership** through new leadership and sales team organized around key target product categories
- **Potential acquisition of business** that provides expanded production footprint, access into new customer bases and / or additional people resources

Hung Hing has a diverse and high quality product offering



Key product offerings




End-market usage

- OTC healthcare & personal care (51% of total)
- Food packaging (15% of total)
- Consumer electronics (10% of total)
- Others e.g. greeting cards (24% of total)

Other quality or productivity standards

- 


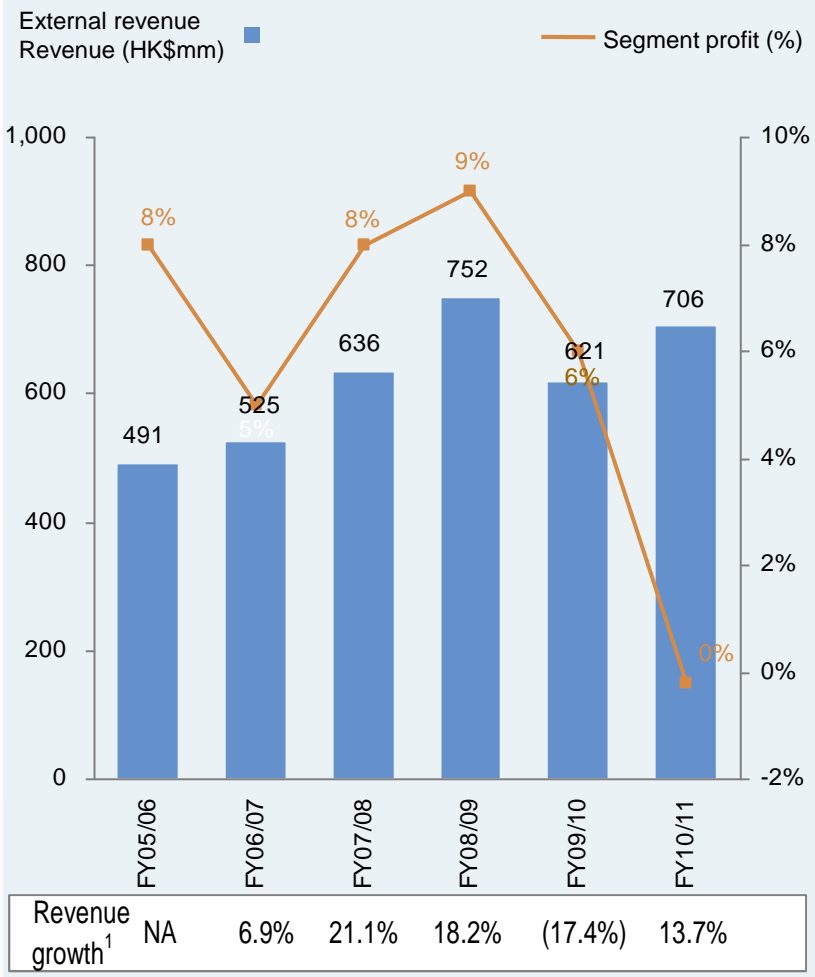
BRITISH RETAIL CONSORTIUM
for successful and responsible retailing



 - Forest Stewardship Council (“FSC”) certification and Chain of Custody certification from the Programme for the Endorsement of Forest Certification
 - Implementing programs to secure British Retail Consortium (“BRC”) accreditation
 - Proof of Hung Hing’s facilities being run to international best standards

Segment financials – Consumer product packaging

Consumer product packaging



¹ Based on change in external sales

Commentary

- China growth strategy progressing, with revenue up 14%
- New Consumer Product Packaging organization working well, with good progress made in making in-roads with targeted accounts
- Margins of the consumer product packaging segment impacted by rising paper prices and labor costs
- Longer time lag to pass on sustained changes in cost base (compared to export business)
- Hung Hing is also implementing initiatives to offset these cost increases:
 - Focus on pricing initiatives
 - Implement further automation and efficiency programs
 - Opportunity to build scalable, competitive plant that is best-in-class, and draw upon existing track record with customers to capture growing market share

Corrugated box – Overview

- ✓ **Leading corrugated box supplier in the Pearl River Delta region, in a highly fragmented sector**
 - Ability to provide both corrugated box and printing services, differentiates Hung Hing from typical corrugated box manufacturers which have limited printing capabilities (e.g., litho-laminate products)
 - Industry is highly fragmented and localized
- ✓ **Supplies to reputable and branded external customers**
 - Customer base comprises premium customers such as Lenovo, Brother, Hsu Fu Chi and Danone Group
- ✓ **Natural internal synergies**
 - Captive internal sales of ~27% of revenue consistently, providing stable base sale volume
 - Overlapping customer base with folding carton sales in Consumer Product Packaging segment
- ✓ **Superior operating margins compared to peers**
 - FY2011 operating margins of ~12%
 - The Company's high captive internal sales levels of ~27%, allow it to be selective and opportunistic in terms of customer orders it takes
- ✓ **Highly respected and experienced management team**
 - Management team with 20+ years of experience on average
 - Long term experience within Hung Hing

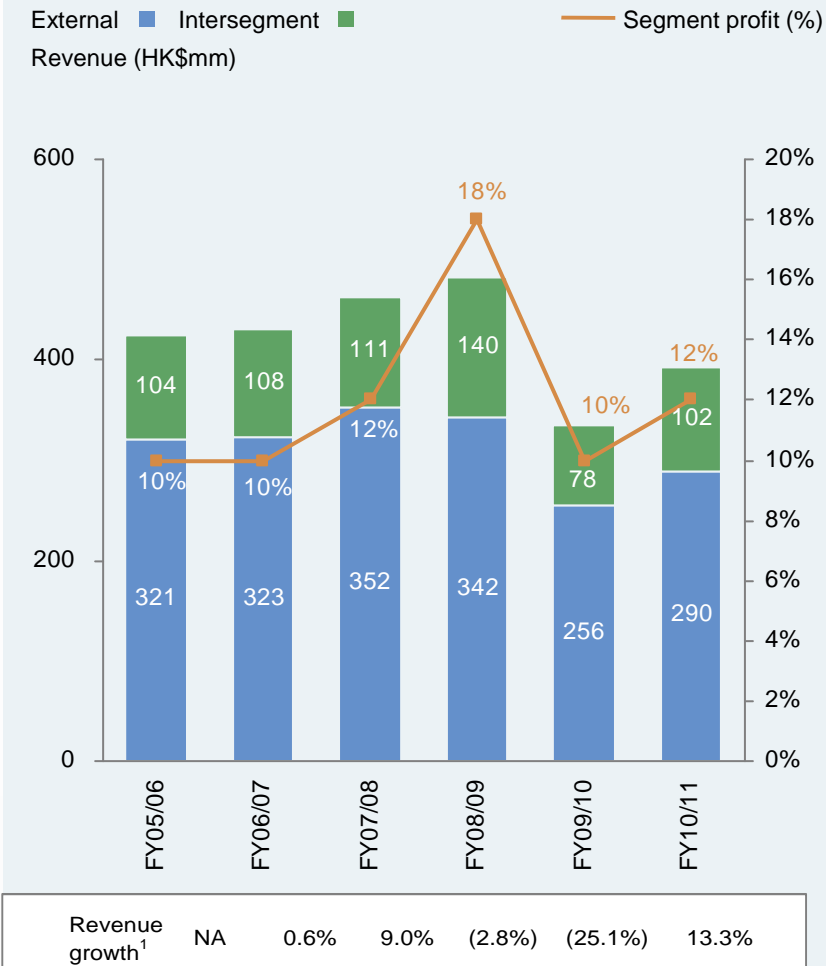
Corrugated box – Corporate strategy

Corporate strategy

- **Operating under a new management structure**, separated from the Shenzhen printing and packaging facilities, has implemented a significant shift in ownership and accountability that has led to a 20-30% efficiency improvement
- **Drive operating efficiencies** through retiring redundant equipment, realigning work flows within the plant, implementing shop floor KPI and lean manufacturing focus and optimizing SKUs and raw material inventories
- **Further realize benefits of operating in alignment with Book & Packaging Printing business unit** through improved demand visibility and planning

Segment financials – Corrugated box

Corrugated box



¹ Based on change in external sales

Commentary

- Improved export conditions in the Pearl River Delta
- Operating profit margins up by 2%-points to 12%, due to:
 - Higher paper prices – the relatively short-term nature of contracts allows sale prices to be adjusted promptly
 - Various productivity initiatives including improved operating rates and planning disciplines
- On average ~27% of the segment sales is for internal purposes, providing a stable base production volume, more easily keeping machines operating at a higher utilization

Paper trading – Overview

- ☑ **Leading paper trader in South China**
 - Annual purchase of ~300,000 metric tonnes of paper, and annual external trading volumes of ~145,000 metric tonnes
 - Storage capacity of ~80,000 tonnes

- ☑ **Centralized paper sourcing for both Hung Hing's internal use and clients**
 - Ability to achieve more competitive pricing given bulk purchases and ability to command bargaining power over its suppliers
 - Assists its customers to purchase paper in and outside the PRC, including Northern Europe, South and North America and Southeast Asia

- ☑ **Paper trading serves as an integral part of Hung Hing's supply chain**
 - Source of market intelligence—provides good visibility of paper prices
 - Stable supply of paper at competitive costs to internal printing and packaging divisions

- ☑ **Exceptional credit and risk management track record**
 - Efficient working capital management
 - Conservative customer credit policies, with minimal inventory / bad debt write-offs

- ☑ **Highly respected and experienced management team**
 - Management team with 15+ years of experience on average
 - Long term experience in Hung Hing, paper companies and paper merchants

- ☑ **Serves as a natural hedge for printing business**

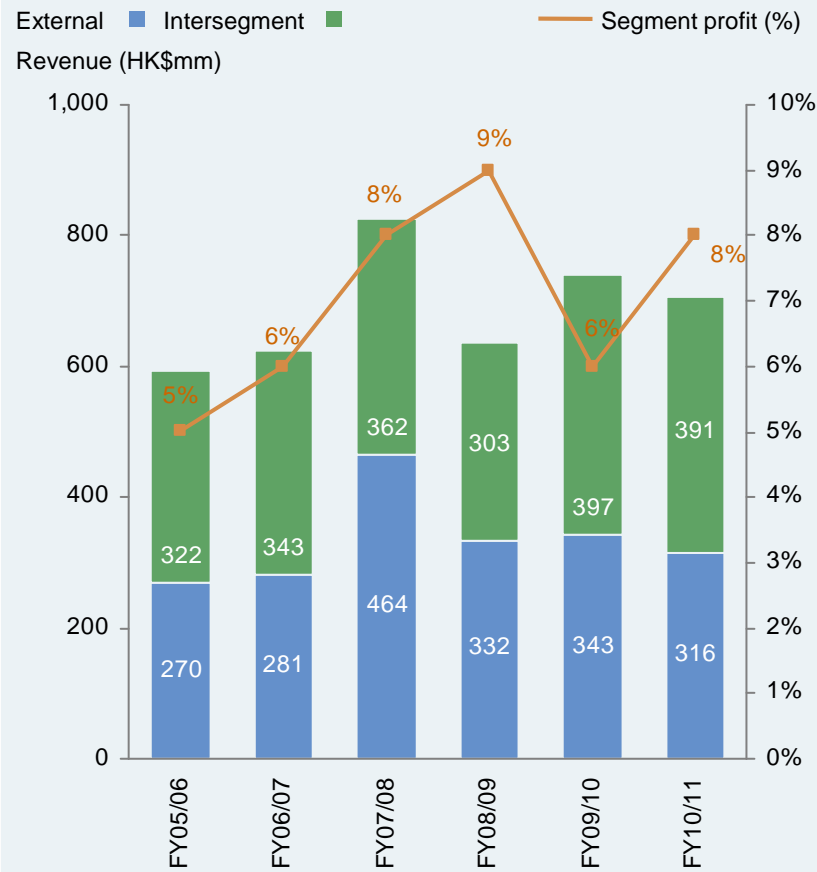
Paper trading – Corporate strategy

Corporate strategy

- **Function as centralized planning and strategic procurement operation** for Hung Hing's internal use, expanding this capability beyond the PRD region
- **Expand trading capacity to RMB denominated domestic business with potential to incorporate additional print industry related supplies** (such as ink, solvents, and plates)
- **Improve working capital performance** through a program of SKU rationalization and optimal paper inventory planning and management which is currently underway

Segment financials – Paper trading

Paper trading



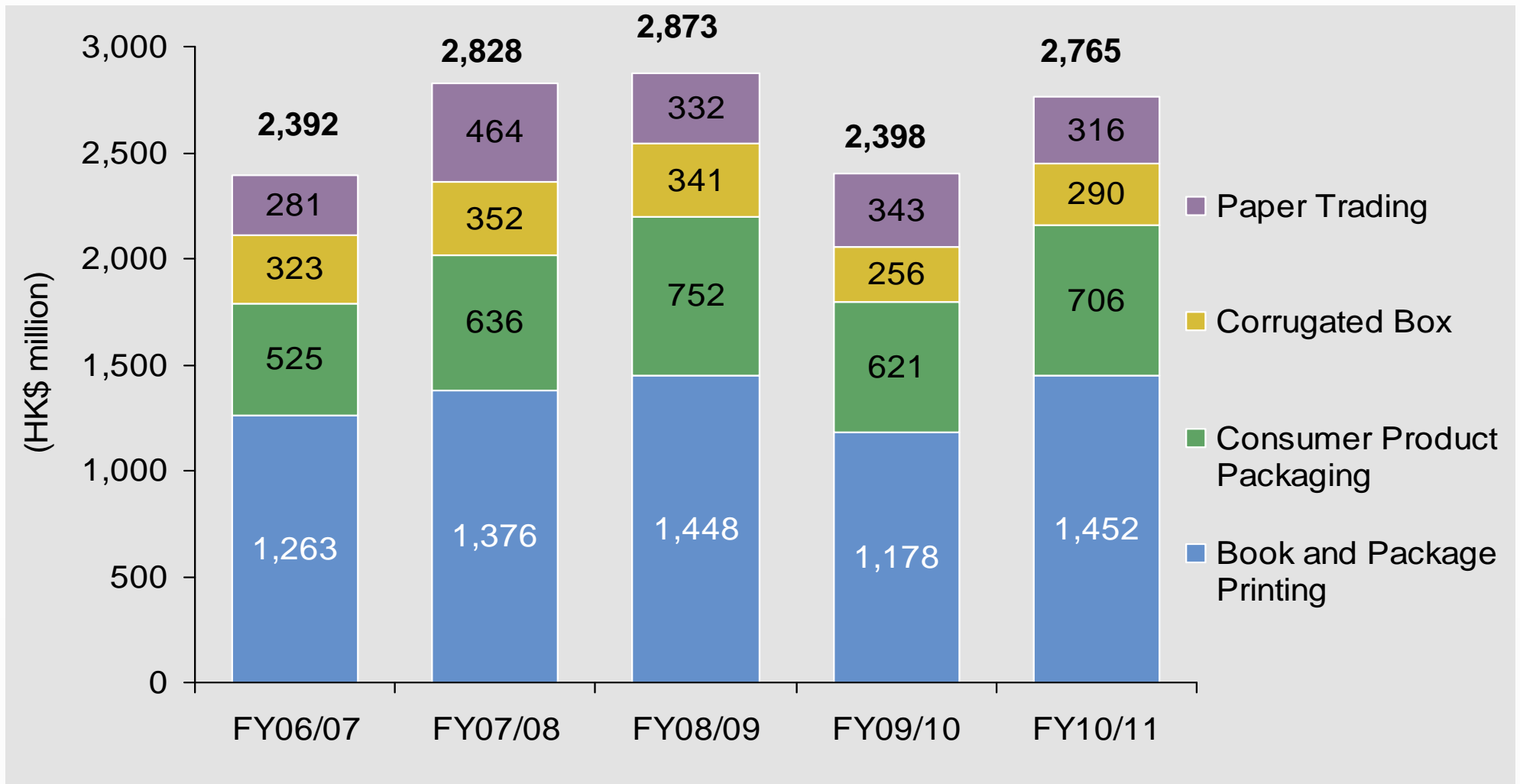
Revenue growth ¹	NA	4.1%	65.1%	(28.4%)	3.3%	(8%)
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¹ Based on change in external sales

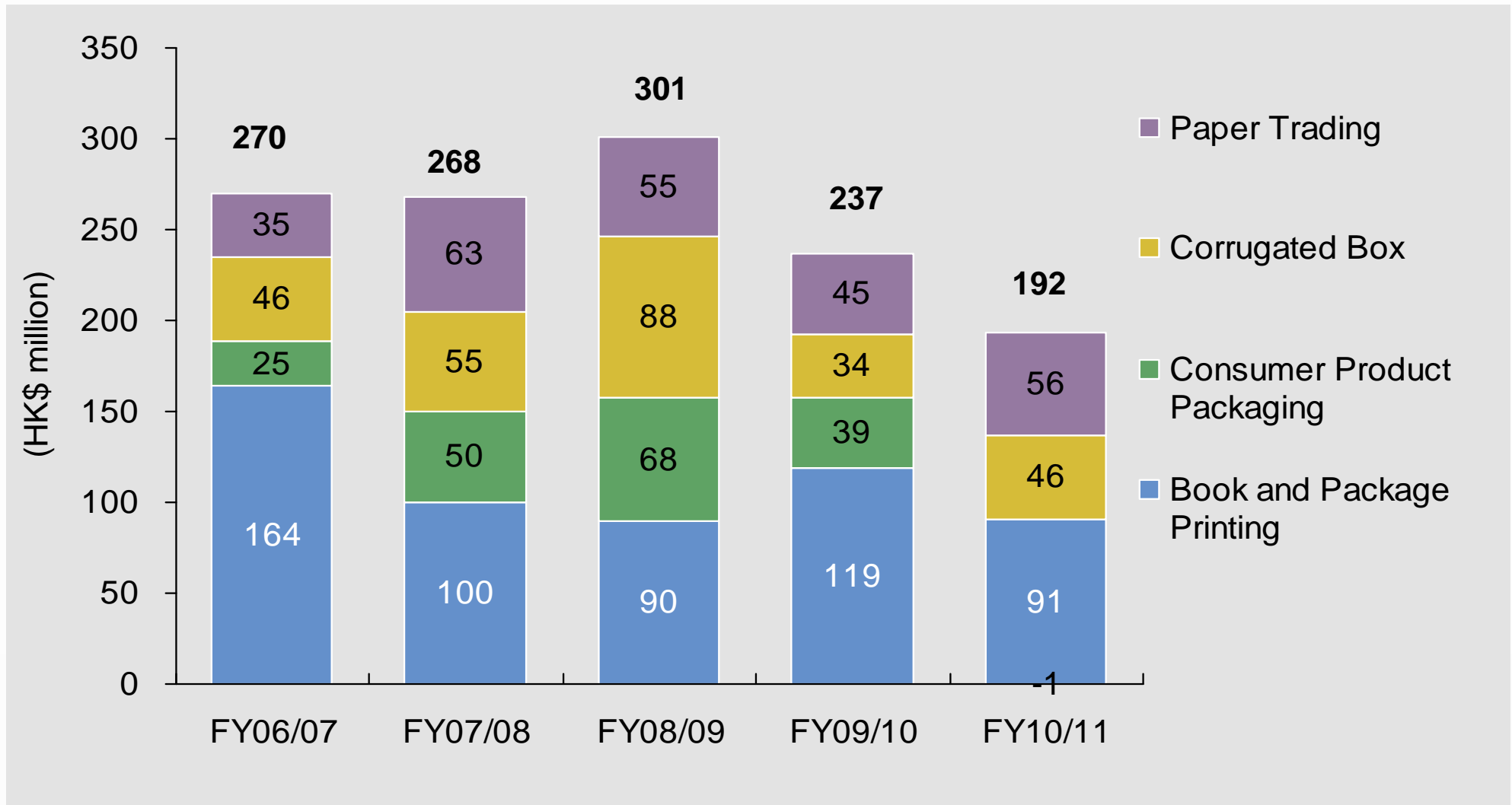
Commentary

- Benefitting from rising paper prices, operating profit margins rose to 8% from 6%
- Inventory flexibility to use internally or sell externally provides a natural raw material hedge mechanism that other printing companies do not have
- Serves as centralized procurement of paper for internal use
- Large volumes of paper purchased help Hung Hing achieve more competitive pricing given bulk purchases

Revenue Is Up By +15%



Operating Profit Impacted By Higher Paper & Labor Costs



Business Unit Analysis for Continuing Operations

	Year Ended 31/3/2011		Year Ended 31/3/2010	
	External Sales HK\$'000	Inter- segment sales HK\$'000	Contribution HK\$'000	Contribution HK\$'000
Continuing operations				
Book & Package Printing	1,452	4	91	119
Consumer Product Packaging	706	7	(1)	39
Corrugated Box	290	102	46	34
Paper Trading	316	391	56	45
Eliminations		(504)	(1)	(4)
	<u>2,765</u>	<u>-</u>	<u>190</u>	<u>234</u>
Interest, dividend income and other gains			14	9
Corporate and unallocated expenses			(33)	(38)
Gain on deemed disposal of associates			52	-
Operating profit			<u>223</u>	<u>205</u>
Finance costs			(10)	(11)
Share of losses of associates			(16)	(3)
Profit before income taxation			<u>197</u>	<u>191</u>
Income tax expense			(37)	(25)
Profit for the year from continuing operations			<u>160</u>	<u>166</u>

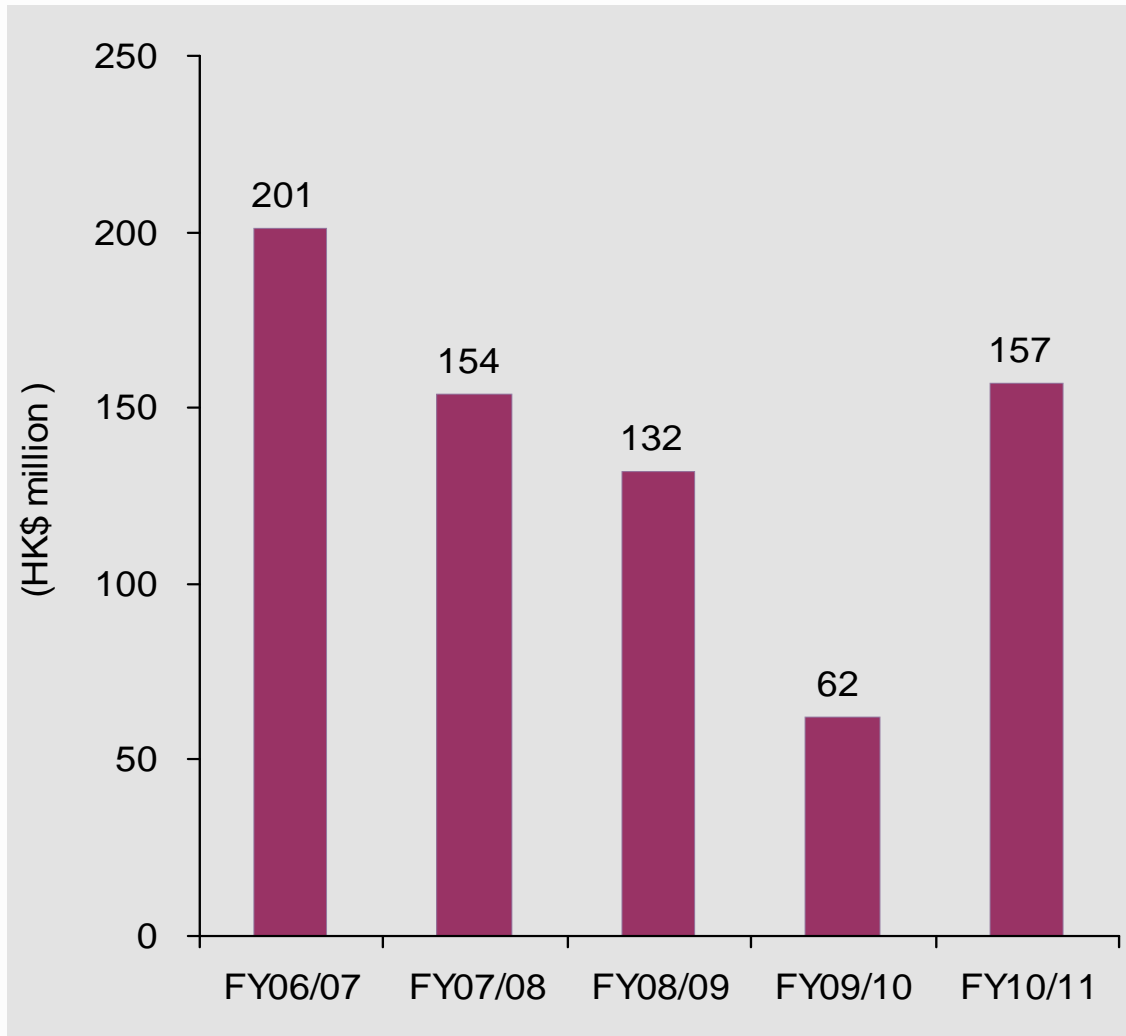
Solid Financial Position

(HK\$ million)	2011	2010	2009	2008	2007
Assets					
Non-current	1,569	1,467	1,563	1,840	1,713
Current	2,076	2,356	2,525	2,956	2,401
	<u>3,645</u>	<u>3,823</u>	<u>4,088</u>	<u>4,796</u>	<u>4,114</u>
Liabilities					
Non-current	57	41	100	297	803
Current	776	795	895	2,063	787
	<u>833</u>	<u>836</u>	<u>995</u>	<u>2,360</u>	<u>1,590</u>
Net Assets	<u>2,812</u>	<u>2,987</u>	<u>3,093</u>	<u>2,436</u>	<u>2,524</u>
Equity					
Equity attributable to equity holders	2,674	2,859	2,874	2,053	2,170
Non-controlling interest	138	128	219	383	354
	<u>2,812</u>	<u>2,987</u>	<u>3,093</u>	<u>2,436</u>	<u>2,524</u>
Gearing Ratio	15%	14%	22%	72%	20%
Current Ratio	2.7	3.0	2.8	1.4	3.1

Key Balance Sheet Items

(HK\$ million)	31 Mar 2011	31 Mar 2010	Change	%
Property, plant & equipment	1,331	1,304	27 ↑	2%
Properties under construction	35	-	35 ↑	N/A
Inventories	683	656	27 ↑	4%
Trade and bills receivables	559	525	34 ↑	6%
Cash	788	1,109	(321) ↓	-29%
Borrowings	411	425	(14) ↓	-3%
Short-term	400	425	(25) ↓	-6%
Long-term	11	-	11 ↑	N/A
Trade and bills payables	204	167	37 ↑	22%

Capital Investment – business capability

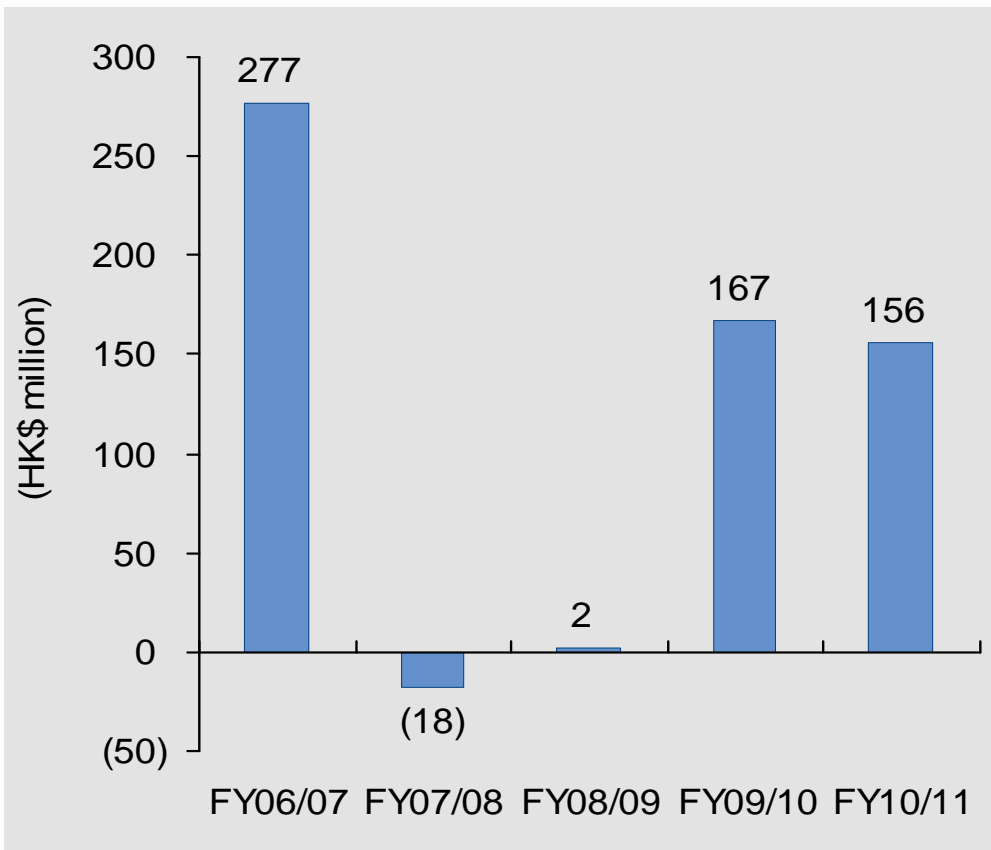


Commentary

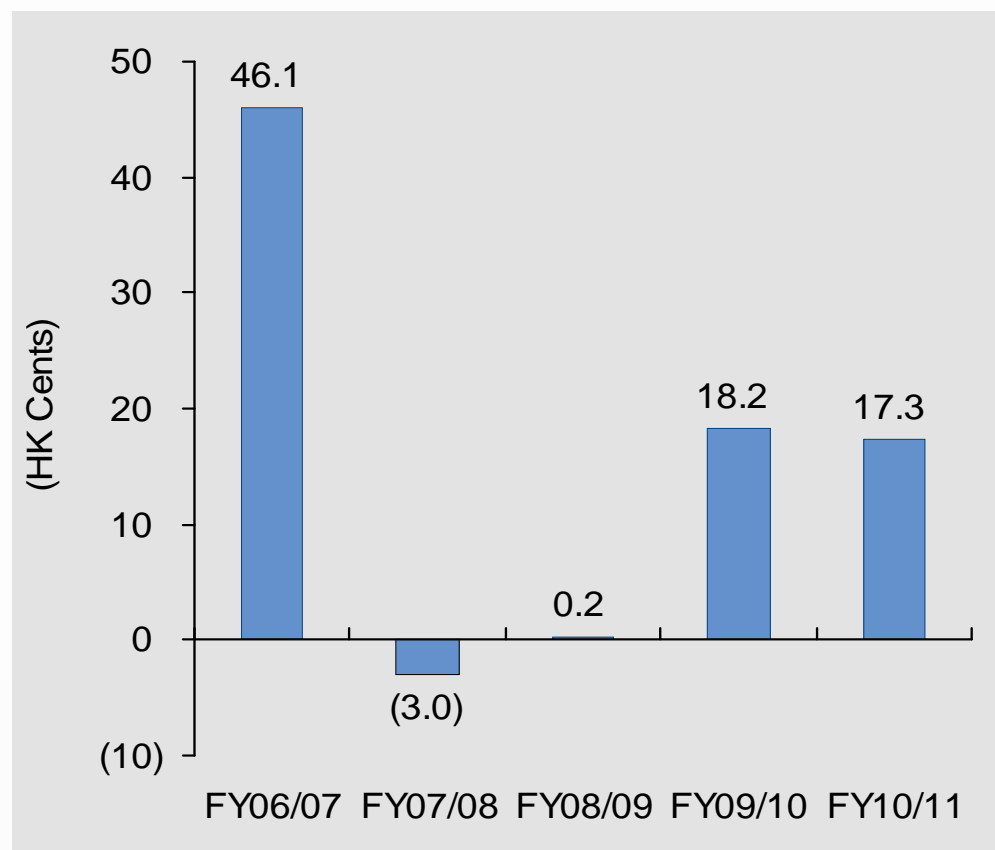
- We have continued to invest in technology that enhances efficiency and quality.
- Increased Capex to support business growth in the export and domestic markets
- Bought 5 advanced printing presses to replace older ones; enhancing quality, efficiency and capability
- Additional commitment for 4 more in the next year.

Profit Attributable To Equity Holders & Earnings Per Share

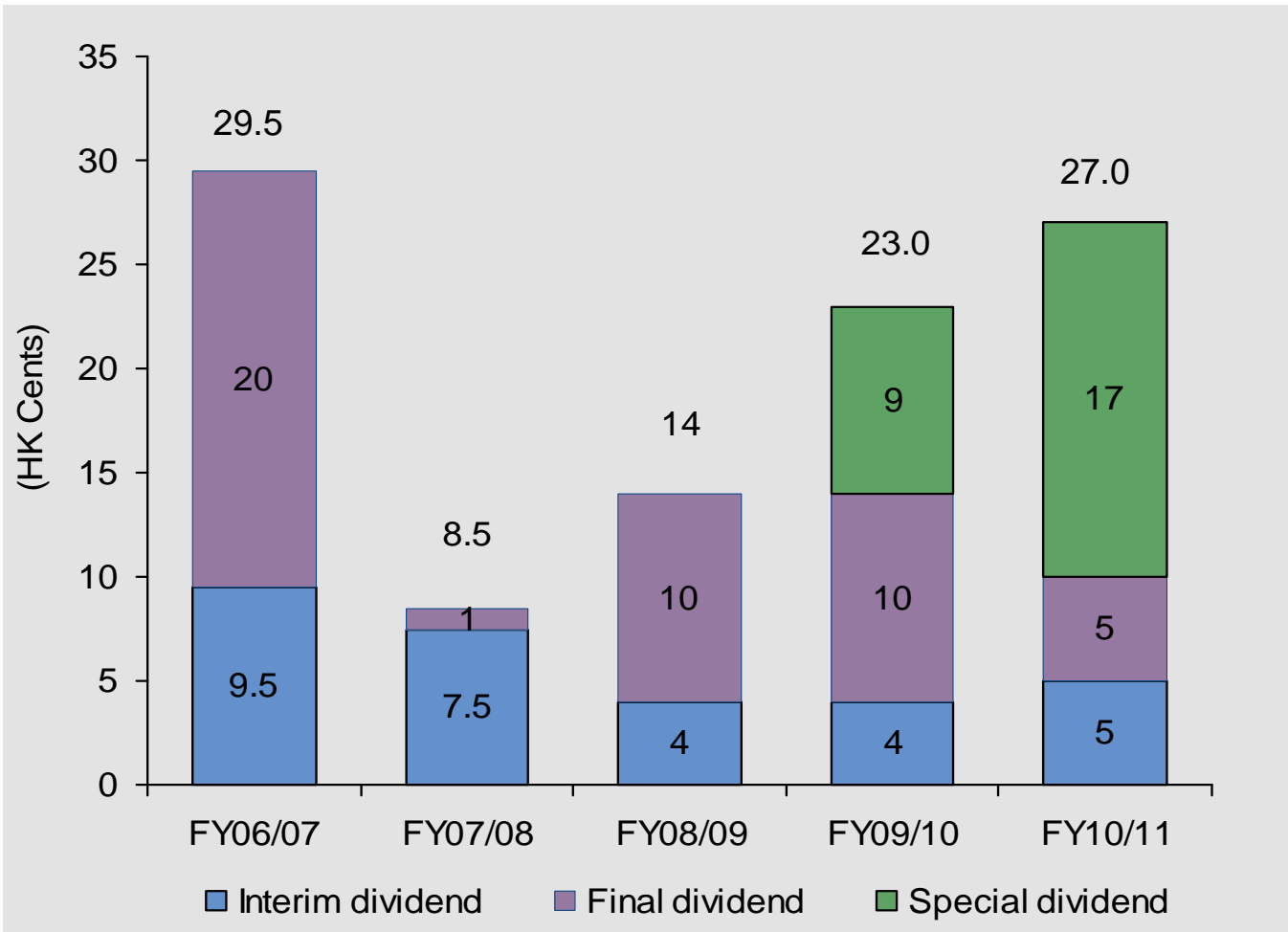
Profit attributable to equity holders



Basic Earnings per share



Proposed Dividends



Commentary

FY 10/11 Dividends

Interim (paid)	5 cents
Special (paid)	17 cents
Final (proposed)	5 cents
	<hr/>
	27 cents

Thank you

Q&A