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HUNG HING

HUNG HING PRINTING GROUP LIMITED

(incorporated in Hong Kong with limited liability)

(Stock code: 0450)

FINAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

The directors of Hung Hing Printing Group Limited (the "Company") are pleased to announce the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2018** HK$'000	2017 HK$'000
Revenue	2	**3,276,800**	3,135,659
Cost of sales		**(2,907,463)**	(2,666,224)
Gross profit		**369,337**	469,435
Other revenue		**46,709**	25,535
Other net loss		**(42,563)**	(333)
Distribution costs		**(78,859)**	(74,379)
Administrative and selling expenses		**(367,754)**	(357,222)
Gain on disposal of a subsidiary company	3	**-**	1,143,809
Operating (loss)/profit		**(73,130)**	1,206,845
Finance costs	4	**(4,558)**	(6,192)
(Loss)/profit before income tax		**(77,688)**	1,200,653
Income tax	6	**5,544**	(145,104)
(Loss)/profit for the year		**(72,144)**	1,055,549
Attributable to:			
Equity shareholders of the Company		**(74,518)**	1,050,483
Non-controlling interests		**2,374**	5,066
(Loss)/profit for the year		**(72,144)**	1,055,549
		HK cents	HK cents
(Loss)/earnings per share attributable to equity shareholders of the Company	7		
Basic		**(8.3)**	116.7
Diluted		**(8.3)**	116.3
		HK$'000	HK$'000
Dividends	8	**90,787**	290,517

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018	2017
		(Note(i))
	HK$'000	HK$'000
(Loss)/profit for the year	**(72,144)**	1,055,549
Other comprehensive income for the year (net of tax):		
Item that will not be reclassified to profit or loss		
Change in fair value of equity investments at FVOCI (non-recycling)	**(1,250)**	-
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of overseas subsidiaries	**(48,593)**	58,883
Change in fair value of intangible assets	**1,000**	700
Change in fair value of available-for-sale financial assets (recycling) (note(ii))	**-**	2,020
Other comprehensive income for the year	**(48,843)**	61,603
Total comprehensive income for the year	**(120,987)**	1,117,152
Attributable to:		
Equity shareholders of the Company	**(116,197)**	1,102,204
Non-controlling interests	**(4,790)**	14,948
Total comprehensive income for the year	**(120,987)**	1,117,152

Notes:

(i) The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(i).

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to financial assets at FVOCI reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 1(i).

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		At 31 December 2018	At 31 December 2017
			(Note)
	Note	**HK$'000**	HK$'000
Non-current assets			
Property, plant and equipment		**1,142,918**	1,094,232
Land use rights		**75,519**	63,251
Properties under construction		**31,592**	5,699
Intangible assets		**11,912**	11,357
Deposits for acquisition of non-current assets		**63,407**	55,765
Interest in an associate		**11,309**	-
Financial investments		**112,330**	49,200
Deferred tax assets		**23,002**	10,521
		1,471,989	1,290,025

Current assets			
Inventories		**527,968**	497,815
Trade and bills receivables	9	**873,228**	838,042
Prepayments, deposits and other receivables		**105,864**	486,493
Pledged time deposits		**97,244**	125,938
Time deposits with original maturity over three months		**5,885**	6,075
Cash and cash equivalents		**983,957**	1,299,409
Income tax recoverable		**108**	15
		2,594,254	3,253,787
Current liabilities			
Trade and bills payables	10	**213,537**	224,685
Other payables and accrued liabilities		**266,198**	220,467
Bank borrowings		**24,000**	76,752
Income tax payable		**4,528**	19,087
		508,263	540,991
Net current assets		**2,085,991**	2,712,796
Total assets less current liabilities		**3,557,980**	4,002,821
Non-current liabilities			
Bank borrowings		**107,000**	131,000
Deferred tax liabilities		**53,065**	56,799
		160,065	187,799
Net assets		**3,397,915**	3,815,022
Capital and reserves			
Share capital		**1,652,854**	1,652,854
Reserves		**1,527,991**	1,731,499
Proposed dividends		**63,551**	272,360
Total equity attributable to equity shareholders of the Company		**3,244,396**	3,656,713
Non-controlling interests		**153,519**	158,309
Total equity		**3,397,915**	3,815,022

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 1(i).

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of final results for the year ended 31 December 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2017, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance ("Companies Ordinance") is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2018 in due course. The Company's auditor has reported on these financial statements for both years. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The consolidated financial statements of the Company have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The significant accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017 except for the accounting policy changes that are reflected in the consolidated financial statements for the year ended 31 December 2018.

Details of any change in accounting policies are set out below.

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- HKFRS 9, *Financial instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK (IFRIC) Interpretation 22*, Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current period, except for the amendments to HKFRS 9, *Prepayment features with negative compensation*, which have been adopted at the same time as HKFRS 9.

(i) HKFRS 9, *Financial Instruments*

HKFRS 9 replaces HKAS 39, *Financial Instruments: Recognition and Measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition on HKFRS 9 on retained earnings and reserves and the related tax impact at 1 January 2018.

	HK$'000
Retained earnings	
Transferred from financial assets at FVOCI reserve (recycling) relating to financial assets now measured at FVPL	238
Recognition of additional expected credit losses on financial assets measured at amortised cost:	
- Trade and bills receivables	(2,600)
Related tax	429
Net decrease in retained earnings at 1 January 2018	(1,933)
Financial assets at FVOCI reserve (recycling)	
Transferred to retained earnings relating to financial assets now measured at FVPL	(238)
Transferred to financial assets at FVOCI reserve (non-recycling) relating to equity securities now measured at FVOCI	(27,910)
Net decrease in financial assets at FVOCI reserve (recycling) at 1 January 2018	(28,148)
Financial assets at FVOCI reserve (non-recycling)	
Transferred from financial assets at FVOCI reserve (recycling) relating to equity securities now measured at FVOCI and increase in financial assets at FVOCI reserve (non-recycling) at 1 January 2018	27,910

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

a. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's four classification categories: held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL.

The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. The adoption of HKFRS 9 does not affect the measurement basis, and hence the carrying amounts, of the Group's financial assets as at 1 January 2018. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017 HK$'000	Re-classification HK$'000	Re-measurement HK$'000	HKFRS 9 carrying amount at 1 January 2018 HK$'000
Financial assets measured at FVOCI (non-recyclable)				
Unlisted equity investments (note(i))	-	33,474	-	33,474
Hong Kong listed equity investments (note(i))	-	14,938	-	14,938
	-	48,412	-	48,412
Financial assets carried at FVPL				
Club debentures (note(ii))	-	788	-	788
Financial assets carried at amortised cost				
Trade and bills receivables	838,042	-	(2,600)	835,442
Prepayments, deposits and other receivables	486,493	-	-	486,493
Pledged time deposits	125,938	-	-	125,938
Time deposits with original maturity over three months	6,075	-	-	6,075
Cash and cash equivalents	1,299,409	-	-	1,299,409
	2,755,957	-	(2,600)	2,753,357
Financial assets classified as available-for-sale under HKAS 39 (notes (i) & (ii))	49,200	(49,200)	-	-

Notes:

(i) Under HKAS 39, equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as at FVPL under HKFRS 9, unless they are eligible for and designated at FVOCI by the Group.

(ii) Under HKAS 39, club debentures were classified as available-for-sale financial assets. They are classified as at FVPL under HKFRS 9.

b. Credit losses

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the expected credit loss ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than the “incurred loss” accounting model in HKAS 39. The ECL model applies to the Group’s financial assets measured at amortised cost, but not to the Group’s financial assets measured at fair value.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

For the Group's trade and other receivables, the loss allowance is measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For the Group's other financial assets measured at amortised cost, the loss allowance is measured at an amount equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to HK$2,600,000, which decreased retained earnings by HK$2,171,000 and decreased deferred tax liabilities by HK$429,000 at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	HK$'000
Loss allowance at 31 December 2017 under HKAS 39	8,140
Additional credit loss recognised at 1 January 2018 on trade receivables	2,600
Loss allowance at 1 January 2018 under HKFRS 9	10,740

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

Timing of revenue recognition

Previously under HKAS 18, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had been passed to the customers, whereas revenue arising from provision of services recognised over time.

Under HKFRS 15, revenue is recognised when a performance obligation is satisfied. This is when the customer obtains control of the promised goods or services in the contract, which may be at a single point in time or over time.

HKFRS 15 identifies the following three situations in which control of the promised goods or services is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of those situations, then the entity recognises revenue for the sale at a single point in time, being when control has been passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 did not have any significant impact on the Group.

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 and other senior management, that are used to make strategic decisions and assess performance.

Management committee 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 and other revenue less distribution costs, administrative and selling expenses, and other net loss 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 an arm's length basis.

2018

	Segment revenue*			Segment results
	Revenue from external customers	**Inter-segment revenue**	**Total**	
	HK'$000	**HK'$000**	**HK'$000**	**HK'$000**
Book and Package Printing	**1,850,481**	**309**	**1,850,790**	**(73,713)**
Consumer Product Packaging	**752,676**	**5,188**	**757,864**	**18,069**
Corrugated Box	**285,906**	**152,155**	**438,061**	**25,974**
Paper Trading	**387,737**	**438,701**	**826,438**	**6,589**
Eliminations	**-**	**(596,353)**	**(596,353)**	**1,036**
	3,276,800	**-**	**3,276,800**	**(22,045)**
Interest income and other income				**35,213**
Corporate and unallocated expenses				**(86,298)**
Operating loss				**(73,130)**
Finance costs				**(4,558)**
Loss before income tax				**(77,688)**
Income tax				**5,544**
Loss for the year				**(72,144)**

2017

	Segment revenue*			Segment results
	Revenue from external customers	Inter-segment revenue	Total	
	HK'$000	HK'$000	HK'$000	HK'$000
Book and Package Printing	1,837,419	445	1,837,864	30,477
Consumer Product Packaging	687,882	6,488	694,370	28,898
Corrugated Box	185,813	151,522	337,335	26,016
Paper Trading	424,545	448,922	873,467	17,304
Eliminations	-	(607,377)	(607,377)	1,164
	3,135,659	-	3,135,659	103,859
Interest income and other income				13,706
Corporate and unallocated expenses				(54,529)
Gain on disposal of a subsidiary company				1,143,809
Operating profit				1,206,845
Finance costs				(6,192)
Profit before income tax				1,200,653
Income tax				(145,104)
Profit for the year				1,055,549

* All the revenue for the year was recognised at a point of time.

3. Gain on Disposal of a Subsidiary Company

During the year ended 31 December 2017, the Group entered into an agreement to dispose of its wholly owned subsidiary, Sun Hing Paper (Shenzhen) Company Limited (the "Disposal"), to an independent third party at a consideration of RMB1,026,000,000 (equivalent to HK$1,211,221,000). The Disposal was completed on 14 December 2017. The principal activity of the former subsidiary is paper trading.

A pre-tax gain of HK$1,143,809,000 and related income tax expenses of HK$117,365,000 were recognised in the consolidated income statement for the year ended 31 December 2017.

At 31 December 2017, HK$390,339,000 of the consideration was held in an escrow account and recorded as other receivables. All the consideration of HK$1,093,856,000, net of income tax of HK$117,365,000, was received by the Group in 2018.

4. Finance Costs

	2018 **HK$'000**	2017 HK$'000
Interest on bank borrowings	**4,558**	6,192

5. (Loss)/Profit Before Income Tax

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

	2018 **HK$'000**	2017 HK$'000
After charging -		
Depreciation	**100,888**	96,996
Amortisation of land use rights	**2,696**	2,538
Amortisation of intangible assets	**1,307**	1,297
Impairment loss of trade receivables, net	**602**	1,393
Operating lease charges in respect of land and buildings	**21,207**	8,525
Employee benefits expense (including directors' emoluments)	**863,340**	822,656
Net realised loss on derivative financial instruments not qualified as hedges, net	**46,258**	-
Net foreign exchange loss	**2,789**	-
After crediting -		
Dividend income from financial investments	**439**	404
Bank interest income	**28,200**	13,366
Net realised gain on derivative financial instruments not qualified as hedges, net	**-**	2,195
Net foreign exchange gain	**-**	12,001
Reversal of write-down of inventories, net	**2,384**	1,793

6. Income Tax

	2018	2017
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
- Provision for the year	**60**	-
- Over-provision in respect of prior years	**-**	(30)
	60	(30)
Current tax - PRC Income Tax		
- Provision for the year	**7,082**	140,643
- Under-provision in respect of prior years	**103**	50
	7,185	140,693
Deferred tax		
Origination and reversal of temporary differences	**(12,789)**	4,441
	(5,544)	145,104

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax was made for 2017 as the tax losses brought forward from previous years of the Hong Kong subsidiaries exceeded their estimated assessable profits.

PRC Income Tax represents PRC Corporate Income Tax calculated at 25% (2017: 25%) and PRC withholding tax at the applicable rates. Pursuant to the income tax rules and regulations, provision for PRC withholding tax on dividend income is calculated based on 5% of the dividend income from subsidiaries in the PRC and capital gain is calculated based on 10% of the consideration from disposal, net of the registered capital of the disposed subsidiary company.

7. (Loss)/Earnings Per Share Attributable to Equity Shareholders of the Company

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of HK$74,518,000 (2017: profit of HK$1,050,483,000) and the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company under the Share Award Scheme.

	2018	2017
(Loss)/profit attributable to equity shareholders of the Company (HK$'000)	**(74,518)**	1,050,483
Weighted average number of ordinary shares in issue ('000)	**907,865**	907,865
Weighted average number of own held shares for Share Award Scheme ('000)	**(14,364)**	(8,030)
Weighted average number of ordinary shares in issue for calculation of basic (loss)/earnings per share ('000)	**893,501**	899,835
Basic (loss)/earnings per share (HK cents per share)	**(8.3)**	116.7

(b) Diluted (loss)/earnings per share

The calculation of diluted (loss)/earnings per share is based on the adjusted 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.

For the year ended 31 December 2018, the diluted and basic loss per share were the same as the ordinary shares repurchased for the Share Award Scheme are anti-dilutive to the loss per share.

	2017
Profit attributable to equity shareholders of the Company (HK$'000)	1,050,483
Weighted average number of ordinary shares in issue for calculation of basic earnings per share ('000)	899,835
Effect of dilutive potential ordinary shares in respect of own held shares for Share Award Scheme ('000)	3,266
Weighted average number of ordinary shares in issue for calculation of diluted earnings per share ('000)	903,101
Diluted earnings per share (HK cents per share)	116.3

8. Dividends

	2018	2017
	HK$'000	HK$'000
Interim dividend of HK3 cents (2017: HK2 cents) per ordinary share	**27,236**	18,157
Proposed special dividend of HK4 cents (2017: HK27 cents) per ordinary share	**36,315**	245,124
Proposed final dividend of HK3 cents (2017: HK3 cents) per ordinary share	**27,236**	27,236
	90,787	290,517

The directors recommend the payment of a special dividend of HK4 cents per ordinary share and a final dividend of HK3 cents per ordinary share. Such dividends are to be approved by the shareholders at the forthcoming annual general meeting of the Company. These consolidated financial statements do not reflect these as dividends payable but account for it as proposed dividends in reserves.

9. Trade and Bills Receivables

	2018	2017
	HK$'000	HK$'000
Trade receivables	**876,392**	840,557
Less: Loss allowance	**(9,292)**	(8,140)
	867,100	832,417
Trade receivables due from related parties	**577**	1,020
Total trade receivables, net	**867,677**	833,437
Bills receivables	**5,551**	4,605
	873,228	838,042

Trade receivables are normally due within 30 to 90 days from the date of billing.

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

	2018 HK$'000	2017 HK$'000
1 - 30 days	**345,791**	305,826
31 - 60 days	**187,504**	204,956
61 - 90 days	**124,445**	94,420
Over 90 days	**209,937**	228,235
	867,677	833,437

Movement in the loss allowance account in respect of trade and bills receivables during the year is as follows:

	2018 HK$'000	2017 HK$'000
At beginning period under HKAS 39	**8,140**	7,314
Impact on initial application of HKFRS 9	**2,600**	-
At 1 January	**10,740**	7,314
Acquisition of a subsidary company	**14**	-
Impairment loss of trade receivables	**602**	1,393
Amount written off as uncollectible	**(1,881)**	(798)
Exchange differences	**(183)**	231
At 31 December	**9,292**	8,140

10. Trade and Bills Payables

	2018 HK$'000	2017 HK$'000
Trade payables	**164,988**	183,830
Trade payables due to related parties	**301**	-
Total trade payables	**165,289**	183,830
Bills payables	**48,248**	40,855
	213,537	224,685

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

	2018 HK$'000	2017 HK$'000
1 - 30 days	**117,172**	143,410
31 - 60 days	**31,559**	27,874
61 - 90 days	**5,487**	6,301
Over 90 days	**11,071**	6,245
	165,289	183,830

11. Non-adjusting Event After The Reporting Period

In August 2018, the Group entered into an agreement with an independent third party to form a joint venture company in Vietnam with a registered capital of USD10,000,000 (equivalent to HK$78,500,000), in which the Group will contribute USD9,050,000 (90.5% of the total registered capital) to the joint venture company.

In February 2019, the joint venture company, HH Dream Printing Company Limited was established.

MANAGEMENT DISCUSSION AND ANALYSIS

Consolidating leadership through expanded capabilities

In 2018, the Hung Hing Printing Group continued to expand and build on its leadership position as one of the largest printers in Asia and world-leading manufacturer of children ' s books. Our state-of-the-art capabilities span book and package printing, consumer product packaging, corrugated box manufacturing and paper trading. Spread across six locations in Hong Kong and China, including Shenzhen, Zhongshan, Heshan, Foshan and Wuxi, our manufacturing setup incorporates automation and pursues Industry 4.0 principles. In mid-2018, we completed the construction of a new 25,000 sq.m. production facility at the Heshan plant which was ready for operation.

We are in the process of implementing a strategic expansion plan that will make us more versatile, and enable us to handle more complex projects with advanced technology, satisfying demanding requirements in global markets. The key project under this plan is a 35,000 sq. m. state-of-the-art printing facility that is presently under construction in Hanoi, Vietnam. When it commences operations in the second half of 2019, it will increase our total production floor area to 585,000 sq. m.

Revenue

Group revenue increased slightly by 4.5% over the previous year to HK$3,277 million. This growth was attributable to a broader portfolio of high-quality products and enhanced large-scale production capabilities that allowed us to secure orders in both export and domestic markets. While the book and package printing (BPP) and consumer product packaging (CPP) business increased revenues organically, the corrugated box (CB) unit's revenues were boosted by the contribution from the Group ' s new acquisition, Guangdong Rengo, whose operations were consolidated with the Group in the middle of 2018.

Operating profit and margins

During the period, the Group was able to avoid industry-wide adversity by focussing on high-return business segments and signing long-term and mutually beneficial agreements with customers that passed on certain paper price changes. An increase in provisions made for labour benefits and abrupt shifts in paper pricing however, impacted gross margins by approximately HK$100 million. Despite our prudent hedging strategies based on actual demand, we incurred fair value losses of approximately HK$46 million arising from complete settlement of forward contracts for hedging against the Group's currency exposure to erratic fluctuations in Renminbi at the end of the year. These macro-economic factors, which were largely beyond our control, resulted in an overall net loss of HK$72 million for the year.

Loss attributable to equity shareholders of the company

The Group incurred a loss attributable to equity shareholders of the Company of HK$75 million compared to a profit of HK$1,050 million achieved in the last financial year, mainly due to the absence of the one-off pre-tax gain of approximately HK$1,144 million in 2017 arising from the disposal of a subsidiary, Sun Hing Paper (Shenzhen) Company Limited.

Strong liquidity: net cash up to HK$956 million

The Group leveraged its strong cash position by committing to a range of high value-potential investments to create synergies and increase our prospects for our long-term growth, for a total consideration of approximately HK$250 million. These included acquiring a 100% stake in Guangdong Rengo, a 90.5% stake in a joint venture printing and packaging manufacturing facility in Hanoi, Vietnam, and 10% to 20% stakes in each of the following three companies: kikki.K, a high-end design and retail company with a global distribution network and business; Guangzhou Honghai Enterprise Co., Limited, a company that provides a mobile platform for creative photo printing and document production with high potential for retail installation; and Oyalabs, that engages in research into an Internet of Things platform to support children's cognitive learning. We also acquired over 50% stake in STEM Plus Limited – a consortium comprised of professional entities in related fields to set up platforms and organise exhibitions on STEM (Science, Technology, Engineering and Mathematics) education.

Throughout the year we continue to conduct systematic capital investments, upgrading our existing manufacturing facilities in China, investing (including capital commitment) HK$237 million in new equipment, facilities and systems to enhance our competitive position with capabilities including customisation and bespoke printing, as well as process and automation improvements.

The Group still maintains a very strong net cash in hand (total cash net of bank borrowings) of approximately HK$956 million as at 31 December 2018, which will give us the financial leverage to invest in future growth and create shareholder value.

Gearing was maintained at a healthy and conservative level of 3.9% (2017: 5.4%).

To meet operating needs, approximately 63% of cash was held in RMB, with the rest held in HKD (5%) and USD (30%). Loans were also confined to HKD and USD to control currency exposures and reduce interest expenses. We also carefully managed our loan portfolio, using a balanced mix of floating and fixed interest rate facilities depending on market conditions to minimise interest rate risk.

Market performance

We are confident that China's domestic market will continue to grow with solid demand for books and luxury packaging from an increasingly affluent middle class. On the export front, consumers remained conservative in major markets such as the US and Europe because of ongoing trade uncertainties, resulting in unpredictable order quantities with extremely short lead times. Our proactive investments in product design and development, brand management, production efficiencies and automation allowed us to exert more influence in the whole development process, thus increasing our share in the market. In addition, our high value-added features with digital+print elements, luxury packaging and new product ideas all received a positive response.

In China, the market for paper has undergone consolidation in past years and the raw materials for paper supply have now become more restricted in the region. In anticipation of persistent variability in paper prices, we have broadened our supply base to South East Asia and Europe so that we can procure a reliable supply of paper at more advantageous conditions and rates.

Another market factor that underwent abrupt and profound movements during the year was exchange rates. Despite our prudent hedging strategies based on actual demand, the Group was not immune to unpredictable shifts in exchange rates, particularly RMB and Euro, which led to margin pressure and ultimately resulted in a fair value loss on hedging contracts. These hedging contracts have all been completed as at 31 December 2018.

Our new capabilities, efficiencies through automation, vertically integrated operations and the economies of scale that we can achieve have enabled us to emerge stronger despite adverse macro conditions that have impacted many other sector participants. Our topline results have started to see the benefits of systematic investment in automation and agility, enabling us to tap into new and emerging trends, minimise the impact of regulatory and environmental restrictions, and position ourselves favourably for further transformation. We face the coming year with confidence in our ability to remain the partner of choice for global clients in the transition to a global, connected and digital economy.

Business Unit Report

Book and Package Printing (BPP)

Book and Package Printing is the Group's largest business unit, with 57% of total sales.

BPP is one of the world's leading producers of folding cartons and packaging for toys, cosmetics and other consumer products, and conventional and children's novelty books. Traditional printing aside, BPP also offers creative design and product development for 'print + digital' solutions through its subsidiary Beluga and has launched a range of interactive photo-printing kiosks through an investment in the YumMePrint platform. As a value-added service, BPP also helps Chinese and global publishing clients reaching licensing agreements of popular book titles in global markets.

The business unit has manufacturing plants in three locations - Shenzhen and Heshan in China's Guangdong province, and Hong Kong, with a combined production space of 300,000 square meters over a total land area of approximately 414,000 square meters, and a workforce of approximately 6,000. This manufacturing capacity will be augmented with the addition of a new 35,000 square meter facility in Hanoi, Vietnam, that will come onstream in the second half of 2019.

The BPP business reported the following results in 2018:

- Revenues of HK$1,850 million, an increase of 0.7% over the previous year's revenues of HK$1,837 million

- Loss of HK$73.7 million, compared to a profit contribution of HK$30.5 million in the previous year

Review of operations

The BPP unit managed to mitigate the impact of the US-China trade dispute and turmoil from Brexit, and achieved steady sales from key export markets such as the US and UK. It also continued to expand its domestic sales through aggressive marketing and product portfolio growth to augment export sales. Luxury and high-end products made significant contributions to the unit's revenues. Value-added services such as the acquisition of publication rights in China on behalf of local and overseas publishers, launched in previous years, became well established and delivered steady business. BPP further expanded its core service offering during the year on the back of new equipment installation at Heshan, by consolidating hard-bound book printing services, and acquired new customers in major export markets.

Beluga, the design and innovation hub under the BPP unit, plays a key role in helping the Group move beyond the traditional business-to-business portfolio through the implementation of a roadmap to move up the value chain and closer to the end consumer. During the year, the hub expanded its team and services, building out its portfolio to include innovative sales and promotion solutions through special paper engineering. In addition to creative digital+print products, Beluga also launched YumMePrint, a mobile photo customisation and printing platform, which made its debut at Stanley Plaza in Hong Kong during Chinese New Year and Valentine's Day in February 2019. The launch attracted hundreds of people to take and print photos in a new way at beautifully decorated themed photography spots.

The STEM Plus investment will help the Group upgrade, transform and diversify into the unique and attractive education sector, providing STEM related organisations with a reliable platform and support to hold exhibitions to promote STEM education and launch new value-added products and services.

Consumer Product Packaging (CPP)

The Consumer Product Packaging (CPP) unit accounts for 23% of the Group's total revenues. CPP provides high quality packaging solutions for customers worldwide, with a particular focus on mainland China's fast-growing consumer market.

Production is done at facilities in Zhongshan in southern China and Wuxi near Shanghai with a combined production space of 180,000 square meters over a total land area of approximately 250,000 square meters, and a skilled workforce of approximately 1,500.

The CPP business reported the following results in 2018:

- External revenues of HK$753 million, an increase of 9.4% over HK$688 million recorded in the previous year

- Profit contribution of HK$18.1 million, a drop of 37.5% compared to HK$28.9 million recorded in 2017

Review of operations

The CPP business delivered a second year of strong revenue growth, on the back of enhanced capabilities and operating efficiencies in the Wuxi plant that allowed it to take advantage of the strong prospects afforded by the Chinese domestic market. Luxury products and high-end packaging solutions drove revenues while new capabilities that have been deployed at the Wuxi plant, including digital printing, performed strongly during the year.

Some of the plant's popular product lines such as greeting cards continued to deliver satisfactory sales, augmenting the business unit's results. Going forward CPP will continue to upgrade its capabilities to grow its target market. A new high-tech digital printing machine installed in the Zhongshan plant will allow the business unit to produce a broader range of high-quality products to meet the demands of the growing Chinese luxury products sector.

The external environment remained challenging with factors such as paper price fluctuations and margin pressure from customers and competitors, which served to shrink margins and reduce the unit's profit contribution. However, the Group's reputation for reliable partnership and cost efficiency from our vertically integrated operating model, combined with long-term positive prospects in the mainland China market render it well positioned for future growth and success.

Corrugated Box (CB)

The Corrugated Box (CB) business unit recorded revenues of HK$438 million, including HK$286 million in external sales and HK$152 million in inter-business unit sales. More than 30% of these revenues were from the Group's new acquisition, Guangdong Rengo, in the second half of 2018.

CB supplies corrugated cartons for packaging to a wide range of companies, including toy, food and beverage, and electronics and household product manufacturers. Over 60% of the CB business is generated from exports out of mainland China.

The business unit operates a multi-location network of manufacturing facilities in Shenzhen, Foshan (newly acquired Guangdong Rengo), and a distribution centre in Hong Kong. This is complemented by additional corrugated box manufacturing capabilities in other business units. This network allows the Group to deliver high quality corrugated carton products to various locations in the Guangdong province quickly and efficiently.

The CB business reported the following results in 2018:

- External revenues of HK$286 million, an increase of 53.9% over HK$186 million recorded in the previous year
- Profit contribution of HK$26 million, on par with 2017

Review of operations

The CB business unit entered into a significant transaction to expand its business with the strategic acquisition of Guangdong Rengo in March 2018. With a strong market position in the production of corrugated cases and packaging, among other product lines, the acquisition was immediately effective in driving revenue growth of the CB unit. Apart from the near-term revenue benefits, the acquisition also provides longer-term strategic advantages, enabling us to create a broader multi-location network to operate closer to our customers, and thereby deliver even better customer service.

The CB unit implemented prudent inventory strategies to reduce risks in the face of abrupt paper price fluctuations and as a result, it was able to maintain same profit contribution. Appropriate investments were made in emissions control equipment to minimise the Group's environmental impact and ensure adherence to any relevant regulatory developments.

Going forward, the unit's priority is to facilitate the efficient integration of the Guangdong Rengo operations into the Group and fully capitalising on the operating synergies of both entities to achieve full-year profit contribution in the coming year.

Paper Trading (PT)

The Paper Trading (PT) business unit recorded revenues of HK$826 million, including HK$388 million in external sales and HK$438 million in inter-business unit sales.

PT is one of the largest paper trading operators in Asia (ex-Japan) and can supply a large variety of paper types and quantities with short lead times at competitive prices. Apart from sales to external customers, the business unit serves as a key strategic partner for paper supply to the Group's other business units.

The PT business reported the following results in 2018:

- External revenues of HK$388 million, a drop of 8.7% compared to HK$425 million recorded in the previous year
- Profit contribution of HK$6.6 million, a drop of 62% compared to HK$17.3 million recorded in 2017

Review of operations

PT continued to serve as a critical component in the Group's vertically integrated strategy, allowing the other business units to achieve synergies and minimise, to some extent, their overall exposure to paper price fluctuations.

Following the disposal of one of its warehousing facilities in Shenzhen in 2017, the PT unit embarked on a strategic realignment of its operating processes to become more agile, while reducing fixed costs and optimising inventory levels. The unit began to roll out a more dynamic warehousing approach during the year, that enabled capacity to be adjusted based on demand. While this strategy allows the Group to better manage distribution costs and inventory levels, it also resulted in higher-than-anticipated transitional expenditure in the short term, that led to a decline in profit contribution.

Contingent Liabilities and Pledge of Assets

As at 31 December 2018, the Group has provided corporate guarantees to the extent of HK$26 million to secure the banking facilities of a former related company of the Company governed by shareholders' agreement.

As at 31 December 2018, certain time deposits of the Group with a total carrying value of HK$97 million have been pledged to secure trading facilities granted to the Group.

Outlook

2019 will continue to witness persistent uncertainties in the global trading environment, while the China domestic market will stabilise. We expect continued fluctuations in exchange rates and material prices, all of which will serve as an ongoing stimulus for further consolidation. Our strong order pipeline, enhanced capabilities and fundamental strengths as a business will allow us to capitalise on the opportunities ahead.

Building upon the investments we have steadily made in recent years, we are well positioned to make further progress with our long-term strategy and aggressively grow our business and margin. We honoured pre-existing pricing commitments to customers in 2018 to cement customer relationships, but going forward we will be able to reflect the impact of currency volatility and increased paper costs in our pricing strategies.

We provide a more diversified product offering than many of our competitors, offer value through technology and have a highly efficient, automated production process. These factors, combined with our strong cash position and reputation for quality and partnership, will allow us to access new opportunities and keep building towards long-term growth in shareholder returns.

As always, I extend my heartfelt gratitude to our shareholders, management and staff whose loyalty and support underpin all our achievements.

SPECIAL DIVIDEND AND FINAL DIVIDEND

The directors recommend a special dividend of HK4 cents (2017: HK27 cents) per share and a final dividend of HK3 cents (2017: HK3 cents) per share. The proposed special dividend and final dividend are subject to shareholders' approval at the forthcoming annual general meeting of the Company. These, together with an interim dividend of HK3 cents (2017: HK2 cent) per share paid in October 2018, will make a total dividend of HK10 cents (2017: HK32 cents) per share for the financial year.

The proposed special dividend and final dividend will be paid by cash on 14 June 2019 to shareholders whose names appear on the Register of Members of the Company on 3 June 2019.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 20 May 2019 to Thursday, 23 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the forthcoming annual general meeting of the Company, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Friday, 17 May 2019.

The Register of Members of the Company will be closed from Thursday, 30 May 2019 to Monday, 3 June 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed special dividend and final dividend, all transfer of shares accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Wednesday, 29 May 2019.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's shares during the year, except that the trustee of the Restricted Share Award Scheme, pursuant to the terms of the rules and trust deed of the Restricted Share Award Scheme, purchased on the Stock Exchange a total of 3,510,000 shares of the Company at a total consideration of HK$6,341,000.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with all the applicable code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018 except for the following deviations:

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. The roles of the chief executive officer have been undertaken by Mr. Yum Chak Ming, Matthew, the Executive Chairman of the Company. 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 effective to monitor and assess business performance 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") 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 final results.

AUDIT COMMITTEE

The audit committee of the Company has reviewed the final results for the year ended 31 December 2018 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.

REVIEW OF PRELIMINARY ANNOUNCEMENT

The figures in respect of the preliminary announcement of the Group's results for year ended 31 December 2018 have been agreed by the Group's auditor, KPMG ("KPMG"), to the amounts set out in the Group's draft consolidated financial statements for the year ended 31 December 2018. The work performed by KPMG in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by KPMG on the preliminary announcement.

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

Hong Kong, 22 March 2019

As at the date of this announcement, the Board comprises Mr. Yum Chak Ming, Matthew and Mr. Sung Chee Keung as executive directors; Mr. Sadatoshi Inoue, Mr. Hirofumi Hori, Mr. Yoshihisa Suzuki 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.