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 2017

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 2017 as follows:

CONSOLIDATED INCOME STATEMENT

	Note	**2017** **HK$'000**	2016 HK$'000
Revenue	2	**3,135,659**	2,955,924
Cost of sales		**(2,666,224)**	(2,510,845)
Gross profit		**469,435**	445,079
Other revenue		**25,535**	31,523
Other net loss		**(333)**	(15,587)
Distribution costs		**(74,379)**	(80,568)
Administrative and selling expenses		**(357,222)**	(314,048)
Gain on disposal of a subsidiary company	3	**1,143,809**	-
Operating profit		**1,206,845**	66,399
Finance costs	4	**(6,192)**	(5,972)
Profit before income tax		**1,200,653**	60,427
Income tax	6	**(145,104)**	(18,087)
Profit for the year		**1,055,549**	42,340
Attributable to:			
Equity shareholders of the Company		**1,050,483**	37,785
Non-controlling interests		**5,066**	4,555
Profit for the year		**1,055,549**	42,340
		HK cents	HK cents
Earnings per share attributable to equity shareholders of the Company	7		
Basic		**116.7**	4.2
Diluted		**116.3**	4.2
		HK$'000	HK$'000
Dividends	8	**290,517**	36,315

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017 HK$'000	2016 HK$'000
Profit for the year	**1,055,549**	42,340
Other comprehensive income for the year (net of tax):		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of overseas subsidiaries	**58,883**	(60,832)
Change in fair value of intangible assets	**700**	(200)
Change in fair value of available-for-sale financial assets	**2,020**	900
	61,603	(60,132)
Total comprehensive income for the year	**1,117,152**	(17,792)
Attributable to:		
Equity shareholders of the Company	**1,102,204**	(12,059)
Non-controlling interests	**14,948**	(5,733)
	1,117,152	(17,792)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	At 31 December 2017 HK$'000	At 31 December 2016 HK$'000
Non-current assets			
Property, plant and equipment		**1,094,232**	1,113,515
Land use rights		**63,251**	77,736
Properties under construction		**5,699**	517
Intangible assets		**11,357**	8,970
Deposits for acquisition of non-current assets		**55,765**	40,577
Available-for-sale financial assets		**49,200**	45,755
Deferred tax assets		**10,521**	16,065
		1,290,025	1,303,135
Current assets			
Inventories		**497,815**	523,470
Trade and bills receivables	9	**838,042**	787,196
Prepayments, deposits and other receivables		**486,493**	47,642
Pledged time deposits		**125,938**	136,395
Time deposits with original maturity over three months		**6,075**	5,590
Cash and cash equivalents		**1,299,409**	684,831
Income tax recoverable		**15**	3,511
		3,253,787	2,188,635

	Note	2017	2016
Current liabilities			
Trade and bills payables	10	**224,685**	201,930
Other payables and accrued liabilities		**220,467**	188,589
Bank borrowings		**76,752**	110,655
Income tax payable		**19,087**	21,915
		540,991	523,089
Net current assets		**2,712,796**	1,665,546
Total assets less current liabilities		**4,002,821**	2,968,681
Non-current liabilities			
Bank borrowings		**131,000**	155,000
Deferred tax liabilities		**56,799**	55,434
		187,799	210,434
Net assets		**3,815,022**	2,758,247
Capital and reserves			
Share capital		**1,652,854**	1,652,854
Reserves		**1,731,499**	932,766
Proposed dividends		**272,360**	27,236
Total equity attributable to equity shareholders of the Company		**3,656,713**	2,612,856
Non-controlling interests		**158,309**	145,391
Total equity		**3,815,022**	2,758,247

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	2017	2016
	HK$'000	HK$'000
Net cash generated from/(used in):		
Operating activities	**37,694**	153,546
Investing activities	**688,679**	51,184
Financing activities	**(131,036)**	(45,733)
Net increase in cash and cash equivalents	**595,337**	158,997
Cash and cash equivalents at 1 January	**684,831**	546,391
Effect of foreign exchange rate changes	**19,241**	(20,557)
Cash and cash equivalents at 31 December	**1,299,409**	684,831
Analysis of balances of cash and cash equivalents		
Cash and bank balances	**314,657**	432,099
Time deposits with original maturity less than three months	**984,752**	252,732
	1,299,409	684,831

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of final results for the year ended 31 December 2017 does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2016, 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 Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 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 2017 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 HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these impact on the accounting policies of the Group except the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative,* which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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.

	2017			
	Segment revenue			**Segment results**
	Sales to external customers HK'$000	**Inter-segment sales HK'$000**	**Total 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**

	2016			
	Segment revenue			Segment results
	Sales to external customers	Inter-segment sales	Total	
	HK'$000	HK'$000	HK'$000	HK'$000
Book and Package Printing	1,766,428	690	1,767,118	39,654
Consumer Product Packaging	625,881	1,907	627,788	11,892
Corrugated Box	149,788	98,261	248,049	3,447
Paper Trading	413,827	397,949	811,776	14,609
Eliminations	-	(498,807)	(498,807)	1,834
	2,955,924	-	2,955,924	71,436
Interest income and other income				13,388
Corporate and unallocated expenses				(18,425)
Operating profit				66,399
Finance costs				(5,972)
Profit before income tax				60,427
Income tax				(18,087)
Profit for the year				42,340

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.

An analysis on gain on disposal is as follows:

	HK'$000
Net assets of the Disposal:	
Property, plant and equipment	20,059
Land use right	14,115
Inventories	17,233
Deferred tax assets	42
Trade receivables	48,715
Prepayments, deposits and other receivables	9,860
Cash and cash equivalents	19,054
Other payables and accrued liabilities	(96,467)
Net assets disposed of	32,611
Gain on disposal of a subsidiary company:	
Consideration, pre-tax	1,211,221
Expenses in connection with the Disposal	(34,801)
Net assets disposed of	(32,611)
Gain on disposal, pre-tax	1,143,809
Less: Withholding tax	(117,365)
Gain on disposal, net of tax	1,026,444

Net cash inflow arising on the Disposal during the year:

Cash consideration received	820,882
Bank balances and cash disposed of	(19,054)
Expenses paid in connection with the Disposal	(32,282)
Net proceeds received from the Disposal	769,546
Withholding tax paid	(117,365)
	652,181

At 31 December 2017, HK$390,339,000 of the consideration was held in an escrow account and recorded as other receivables. Up to 28 February 2018, all the consideration of HK$1,093,856,000, net of withholding tax of HK$117,365,000, was received by the Group.

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.

4. Finance Costs

	2017	2016
	HK$'000	HK$'000
Interest on bank borrowings	**6,192**	5,972

5. Profit Before Income Tax

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

	2017	2016
	HK$'000	HK$'000
After charging -		
Depreciation	**96,996**	101,733
Amortisation of land use rights	**2,538**	2,756
Amortisation of intangible assets	**1,297**	948
Provision for impairment loss of trade receivables, net	**1,393**	32
Operating lease charges in respect of land and buildings	**8,525**	7,454
Employee benefits expense (including directors' emoluments)	**822,656**	797,910
Fair value loss on derivative financial instruments not qualified as hedges, net	**-**	1,921
Net foreign exchange loss	**-**	6,939
After crediting -		
Dividend income from available-for-sale financial assets	**404**	404
Bank interest income	**13,366**	13,388
Fair value 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	**1,793**	7,289

6. Income Tax

	2017	2016
	HK$'000	HK$'000
Current tax - Hong Kong Profits Tax		
- Provision for the year	**-**	-
- Over-provision in respect of prior years	**(30)**	(178)
	(30)	(178)
Current tax - PRC Corporate Income Tax		
- Provision for the year	**21,822**	18,504
- Under-provision in respect of prior years	**50**	7,273
	21,872	25,777
Withholding tax		
- PRC withholding tax	**118,821**	582
	118,821	582
Deferred tax		
Origination and reversal of temporary differences	**4,441**	(8,094)
	145,104	18,087

No provision for Hong Kong Profits Tax was made for 2016 and 2017 as the tax losses brought forward from previous years of the Hong Kong subsidiaries exceeded their estimated assessable profits. Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

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 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. Earnings Per Share Attributable to Equity Shareholders of the Company

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK$1,050,483,000 (2016: HK$37,785,000) and the weighted average number of ordinary shares in issue during the year excluding ordinary shares purchased by the Company.

	2017	2016
Profit attributable to equity shareholders of the Company (HK$'000)	**1,050,483**	37,785
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)	**(8,030)**	(1,633)
Weighted average number of ordinary shares in issue for calculation of basic earnings per share ('000)	**899,835**	906,232
Basic earnings per share (HK cents per share)	**116.7**	4.2

(b) Diluted earnings per share

The calculation of diluted 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.

	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**

For the year ended 31 December 2016, diluted earnings per share was the same as the basic earnings per share as there was no dilutive potential ordinary shares.

8. Dividends

	2017	2016
	HK$'000	HK$'000
Interim dividend of HK2 cents (2016: HK1 cent) per ordinary share	**18,157**	9,079
Proposed special dividend of HK27 cents (2016: nil) per ordinary share	**245,124**	-
Proposed final dividend of HK3 cents (2016: HK3 cents) per ordinary share	**27,236**	27,236
	290,517	36,315

The Directors recommend a one-off special dividend of HK27 cents per share and a final dividend of HK3 cents per share in cash. 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. Including the interim dividend of HK2 cents per share, total dividend for the year (excluding the special dividend) increased by 25% to HK5 cents per share.

9. Trade and Bills Receivables

	2017 HK$'000	2016 HK$'000
Trade receivables	**840,557**	782,034
Less: Provision for impairment loss of trade receivables	**(8,140)**	(7,314)
	832,417	774,720
Trade receivables due from related parties	**1,020**	5,988
Total trade receivables, net	**833,437**	780,708
Bills receivables	**4,605**	6,488
	838,042	787,196

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:

	2017 HK$'000	2016 HK$'000
1 - 30 days	**305,826**	287,219
31 - 60 days	**204,956**	173,693
61 - 90 days	**94,420**	108,902
Over 90 days	**228,235**	210,894
	833,437	780,708

The movements in provision for impairment loss of trade receivables are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**7,314**	12,481
Provision for impairment loss of trade receivables	**1,393**	32
Amount written off as uncollectible	**(798)**	(4,880)
Exchange differences	**231**	(319)
At 31 December	**8,140**	7,314

10. Trade and Bills Payables

	2017 HK$'000	2016 HK$'000
Trade payables	**183,830**	175,132
Bills payables	**40,855**	26,798
	224,685	201,930

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

	2017 HK$'000	2016 HK$'000
1 - 30 days	**143,410**	128,603
31 - 60 days	**27,874**	32,736
61 - 90 days	**6,301**	4,876
Over 90 days	**6,245**	8,917
	183,830	175,132

MANAGEMENT DISCUSSION AND ANALYSIS

Balanced structure and diversified portfolio achieve growth

In 2017, the Hung Hing Printing Group maintained and consolidated its position as one of the region’s largest printers with a strong presence in book and package printing, consumer product packaging, corrugated box and paper trading. Through our headquarters in Hong Kong and manufacturing plants strategically located in four key areas in China – three in Guangdong province and one in Wuxi near Shanghai, we provide a broad range of advanced printing solutions to multiple industries. Our end-to-end capabilities go beyond conventional printing and manufacturing to encompass product design, paper engineering, digital services, paper trading, warehousing and distribution.

2017 saw us achieve 6% revenue growth by focusing on higher value-added clients and projects in domestic and overseas markets. We successfully engaged with clients to move further up the value chain with creative design and paper engineering solutions, including packaging that integrates advanced technologies. We made a strategic decision a few years ago to invest in the future of the business by integrating technology and design into our operations. Staying true to this strategy enabled us to deliver margin growth as a result of more streamlined operations, increased automation, and workflow improvements. This achievement is particularly significant at a time when numerous players in the sector are being affected adversely by the ongoing trends of shorter lead times and increased customization, twinned with persistent strained labour supply and abrupt paper price movements.

Revenue

Group revenue increased by 6% over the previous year to HK$3,136 million. This growth was driven by successful re-negotiation of customer pricing in tandem with paper price movements, as well as increased export orders into key markets including the US and Eurozone as a result of improved consumer confidence and a gradual economic recovery around the world. Increased utilization and a more diversified portfolio enabled us to increase the turnover of all four business units, book and package printing (BPP), consumer product packaging (CPP), corrugated box (CB), and paper trading (PT).

Operating profit and margins

The Group completed the sale of one of the paper trading warehouses during the year, a landmark transaction that will greatly enhance our competitive position while causing no interruption to our paper trading business. The significant pre-tax gain of HK$1,144 million from this disposal, along with the margin improvement that was initiated in the first half, allow us to achieve a total full-year operating profit of HK$1,207 million, compared to HK$66 million achieved in the previous year. Excluding the benefits from the disposal of HK$1,144 million and the effect of a one-off charge representing discretionary bonus of HK$17 million in light of the disposal, the operating profit would be around HK$80 million, representing an increase of 20% over the previous financial year.

The Group's product mix rationalization and focus on higher value-added business helped improve gross margins. The CB and CPP business units in particular achieved significant improvements in profit contribution on the back of timely price adjustments in tandem with paper price trends. The PT unit also showed improved earnings but was to some extent impacted by prudent inventory management and additional accounting provisions on assets related to the disposal transaction. Profit contribution of the BPP division showed a temporary decline due to timing of implementation of new contracts that reflected the extraordinary paper price increases.

Profit attributable to equity shareholders of the company

Profit attributable to equity shareholders of the Company increased 27-fold to HK$1,050 million, compared to HK$38 million achieved in the last financial year. Excluding the benefits from the disposal of HK$1,144 million and the effect of a one-off charge representing discretionary bonus of HK$17 million in light of the disposal, the profit attributable to equity shareholders would be around HK$41 million, representing an increase of 8% over the previous financial year.

Strong liquidity: net cash up to HK$1,224 million following asset disposal

The disposal of one of the warehousing facilities of the paper trading division for a consideration of RMB1,026 million greatly augmented net cash on hand. With more liquidity and financial clout, the Board of Directors has proposed increasing short-term shareholder returns through special dividends, while pursuing longer-term investment opportunities offering more lucrative margins. As at 31 December 2017, total cash net of bank borrowings stood at HK$1,224 million, more than double of HK$561 million at the end of the previous year. The Group's net cash will increase to over HK$1,600 million with the inclusion of the remaining proceeds of around HK$390 million from the sale of the warehousing facility collected by the end of February 2018, which has been recorded under “Other receivables”.

In anticipation of strong market demand for our high performing corrugated carton and packaging printing business lines we decided in March 2018 to invest RMB60 million to acquire a 100% stake in Guangdong Rengo. Over and above this strategic transaction, we continued to make considered capital investments in the core business, committing in 2017 HK$173 million in equipment, facilities and technology to increase automation, streamline workflows and acquire new capabilities including bespoke printing. We also made appropriate investments to place ourselves ahead of the curve vis- à -vis competition and tightened environmental regulations in China: both of which are healthy and positive developments for the industry in the long run.

To meet operating needs, approximately 24% of cash was held in RMB (excluding the RMB equivalent of HK$390 million recorded under “Other receivables” as mentioned earlier), with the rest held in HKD (24%) and USD (51%). 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 minimize interest rate risk. Gearing was maintained at a healthy and conservative level of 5.4% (2016: 9.6%).

Market performance

Our proactive investments in equipment, processes and talent placed us in a strong position to take advantage of a macro economic revival in our key markets of the US as well as Europe. The Chinese market remains extremely attractive with sustained economic growth and the continued emergence of a middle class with increased disposable income. Having steadily increased our network and infrastructure in this key market, we were also successful in growing our presence in tandem with the demand for children's books, novelty items and packaging for luxury products. The positive trends in consumer confidence have also macerated a more conducive environment for our suite of creative, electronic and value-added services that we have been developing as part of our design hub Beluga.

Our vertically integrated, automation-intensive operations enabled us to counter the impact of paper price volatility, labour constraints and cost inflation that prevailed throughout the year. Another factor exerting pressure on the manufacturing sector as a whole is the increasing severity of environmental scrutiny and regulation in China. Our proactive investments in training, equipment and processes, and ability to source materials from different sources of supply, domestic and overseas, meant that adverse consequences of these trends on our operations were minimised.

We continue to move forward to create an agile enterprise and expand our capabilities with high quality assets and strong cashflows that play to our strengths and expertise. We will build on and replicate our successful experience in 2017. As such we are confident that we will consolidate and grow our position in this new era of printing.

Business Unit Report

Book and Package Printing (BPP)

Book and Package Printing is the Group's largest business unit, with 59% 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. As a value-added service, it helps Chinese and global publishing clients acquire licensing rights 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 467,000 square meters, and a workforce of approximately 6,500.

The BPP business reported the following results in 2017:

- Revenues of HK$1,837 million, an increase of 4% over the previous year's revenues of HK$1,766 million
- Profit contribution of HK$30.5 million, a drop of 23.1% from HK$39.7 million in 2016

Review of operations

The BPP unit achieved stable revenues through long-term contracts and customers from both local and overseas markets, on the back of a macro-economic revival and improved consumer spending levels. In line with the Group's overall strategy BPP has rationalised its customer portfolio to focus on premium business with higher margins, including bespoke products for key clients. The increased adoption of customized and high-end products also helped the packaging business achieve its targets, while the greeting card product line performed to expectations. The book printing product line saw encouraging success in the copyright agency service and maintained its award-winning streak for innovation.

The year saw significant and abrupt fluctuations in paper prices. While the unit has been successful in re-negotiating customer prices to reflect these raw material costs, there is a time lag affecting the implementation of price adjustments, which has temporarily impacted profitability. This effect is expected to be offset when new contracts reflecting these extraordinary price increases come into effect.

Our design hub Beluga, a pioneer in the "print+digital" space, has been working on products to aid IP protection for publishers. These products are in high demand in the food and beverage and healthcare sectors to combat the rise in counterfeit products.

To retain its leading position in the changing and demanding environment, the BPP unit introduced new machines to improve efficiency and quality and offer a new range of features and services, including state-of-the-art digital printing and die-cutting technologies.

Pursuant to our business plans to prepare for future growth and tap the potential in the China market, the Heshan plant is being significantly remodelled and expanded. The new facility, that will provide an additional 25,000 sq.m. of specially designed production space, is expected to commence operations in mid-2018. All our manufacturing sites including the new facility at Heshan will be 'Industry 4.0' smart factories, with RFID-enabled tracking of new material pallets, work-in-progress and finished goods.

Consumer Product Packaging (CPP)

The Consumer Product Packaging (CPP) unit accounts for 22% 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 2017:

- External revenues of HK$688 million, an increase of 9.9% over HK$626 million recorded in the previous year
- Profit contribution of HK$28.9 million, an increase of 143.0% over HK$11.9 million recorded in 2016

Review of Operations

The CPP business recorded strong performance in 2017 with revenues increasing by 9.9%, thanks to new product innovations such as solutions incorporating multi-media and interactive features that cater to high-end products. These solutions were particularly effective in tapping into the robust demand from the Chinese domestic market. Higher-value products, combined with streamlined production processes and an agile manufacturing and distribution system, all contributed to increased margins.

The unit was able to manage paper price rises by implementing timely increases in customer rates more or less in tandem with paper price movements. Together with effective management of labour cost, overheads and inventory, profit contribution from the unit was more than double of 2016, a significant achievement given the year's abrupt paper price trends.

On the production front, the CPP business unit invested in new equipment and processes to support the sales team's deliverables and manufacture value added and higher quality products to meet increasing demands from the affluent and growing Chinese fast-moving consumer goods market.

Corrugated Box (CB)

The Corrugated Box (CB) business unit recorded revenues of HK$337 million, including HK$186 million in external sales and HK$151 million in inter-business unit sales.

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

The business unit operates a manufacturing facility in Shenzhen and a distribution centre in Hong Kong.

The CB business reported the following results in 2017:

- External revenues of HK$186 million, an increase of 24.1% over HK$150 million recorded in the previous year
- Profit contribution of HK$26.0 million, an increase of 654.7% over HK$3.4 million achieved in 2016

Review of Operations

The CB business strengthened its operational setup in 2017 to improve agility and responsiveness to market movements. Even as industry consolidation meant that smaller and non-competitive players had to shut down, CB was able to respond quickly to customer needs to post significantly improved revenues as well as profit contribution. A new agile inventory management system enabled the unit to stay ahead of abrupt paper price fluctuations to deliver these strong results.

The business unit streamlined its warehousing and distribution network during the year, establishing a stronger network of connected sites, so as to move closer to customers, improve efficiencies, manage the order fulfilment process better and establish greater synergy between locations.

The decision to acquire Guangdong Rengo in March 2018 is of particular strategic importance to the growth of the CB unit. With a strong market position in the production of corrugated cases and packaging among other product lines, the acquisition will enable us to expand our multi-location network strategy to achieve growth, efficiencies and superior customer service.

<u>Paper Trading (PT)</u>

The Paper Trading (PT) business unit recorded revenues of HK$873 million, including HK$425 million in external sales and HK$448 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 2017:

- External revenues of HK$425 million, an increase of 2.6% over HK$414 million recorded in the previous year
- Profit contribution of HK$17.3 million, an increase of 18.4% from HK$14.6 million the previous year

Review of Operations

The PT business delivered growth in both revenues and profit contribution, primarily due to the unit's agile and prudent inventory management strategy, allowing it to successfully leverage paper price trends and provide value-added products at very competitive prices to customers. The business unit showed improved earnings but was to some extent impacted by prudent additional accounting provisions on assets related to the sale of one of its warehousing facilities in Shenzhen.

Warehousing and distribution is a core part of the Group's end-to-end service chain. The disposal of the warehousing facility made it possible to implement a strategic realignment of the PT business unit's operations and logistics to better enable it to address the needs of both internal and external customers without causing any major interruption to its operations. Key elements of this multifold strategy include business transformation for improved inventory management and a flexible warehousing strategy that aid efficiency, agility and proximity to customers and other units. PT will manage the new warehouse infrastructure and capacity as needed going forward to meet growing business and export demands, including through a new bonded warehouse.

Contingent Liabilities and Pledge of Assets

As at 31 December 2017, the Group has provided corporate guarantees to the extent of HK$28 million to secure the banking facilities of a former related company of the Company governed by shareholders' agreement.

As at 31 December 2017, certain time deposits of the Group with a total carrying value of HK$126 million have been pledged to secure trading facilities granted to the Group.

Outlook

We expect that the currency volatility and intense seasonality in market demand observed in recent seasons will persist, as the global economy continues to recover. World trade improvements, strong consumer confidence and purchasing managers' indices indicate stronger prospects for manufacturers in the year ahead[1]. Consumer confidence and domestic spending in China are also encouraging, offering a positive outlook for our book and novelty item printing and packaging business units.

During the coming months, the major focus will be on enhancing children's and novelty book production as well as deluxe packaging. The completion and commissioning of the new Heshan facility in mid-2018 will support this. Our investment in advanced facilities, realignment of the operational setup, and the recent acquisition, underpinned by a forward-looking strategy and strong financial position, put us in an advantageous position to continue delivering long-term value growth to our shareholders.

In closing, I would like to thank our shareholders, management and hard-working and talented staff whose commitment and support are at the root of all our success.

SPECIAL DIVIDEND AND FINAL DIVIDEND

The Directors recommend a one-off special dividend of HK27 cents (2016: nil) per share and a final dividend of HK3 cents (2016: HK3 cents) per share in cash. The proposed special dividend and final dividend are subject to shareholders' approval at the forthcoming annual general meeting of the Company. Including the interim dividend of HK2 cents (2016: HK1 cent) per share, total dividend for the year (excluding the special dividend) increased by 25% to HK5 cents (2016: HK4 cents) per share, setting the stage for further sustained growth in shareholder returns.

The proposed special dividend and final dividend will be paid by cash on 14 June 2018 to shareholders whose names appear on the Register of Members of the Company on 1 June 2018.

[1] https://www.imf.org/en/Publications/WEO/Issues/2018/01/11/world-economic-outlook-update-january-2018

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Friday, 18 May 2018 to Thursday, 24 May 2018, 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 Thursday, 17 May 2018.

The Register of Members of the Company will be closed from Wednesday, 30 May 2018 to Friday, 1 June 2018, 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 Tuesday, 29 May 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

On 21 December 2009, the Company adopted a Restricted Share Award Scheme. The Trustee of the Restricted Share Award Scheme purchased 12,300,000 shares at a total consideration of approximately HK$19,462,000 on the Stock Exchange pursuant to the Scheme Rules and Trust Deed during the year.

Save as disclosed above, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities during the year.

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 2017 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 2017 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 2017 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 2017. 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, 20 March 2018

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.