



HUNG HING
PRINTING GROUP LIMITED
鴻興印刷集團有限公司

ANNUAL REPORT 年報

07



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Corporate Profile

Founded in 1950 as a small printing shop in Hong Kong, Hung Hing Printing Group Limited has, over the course of half a century, built an integrated and technologically-advanced operation in the printing and manufacturing of paper and carton boxes, corrugated cartons, trading of paper, and manufacturing of paper.

Headquartered at the Tai Po Industrial Estate in Hong Kong, Hung Hing also has one plant in Fuyong (Shenzhen, China), two plants in Zhongshan, China and one plant in Wuxi (near Shanghai, China) and a new plant in Heshan, China. Production has resumed in Hong Kong. Total production floor space reaches 5.7 million square feet, with a workforce of over 16,000 in Hong Kong and China.

The Group places strong emphasis on providing reliable and value-added services. These qualities have won the Group many customers, including brand name manufacturers of toys and consumer goods from Australia, Europe and the U.S.A., as well as Chinese and Hong Kong companies.

Hung Hing's financial objective is to deliver consistent and superior returns to shareholders from a leading position in its industry. The strategy to achieve this involves long-term investments in fixed and human assets, and an unwavering focus on quality, efficiency and customer service.

Corporate Information

Executive Directors

Yam Cheong Hung, Chairman
Yum Chak Ming, Matthew, Managing Director
Yam Ho Ming, Michael
Yam Hon Ming, Tommy

Non-Executive Directors

Chu Shu Ho, David, JP
Yum Pui Ming, Anna

Independent Non-Executive Directors

Wong Siu Ping
Yap, Alfred Donald
Yip Yu Bun, MH

Company Secretary

Tung Yu Bui

Registered Office

Hung Hing Printing Centre
17-19 Dai Hei Street
Tai Po Industrial Estate
New Territories, Hong Kong
Tel: (852) 2664 8682
Fax: (852) 2664 2070
E-mail: info@hhop.com.hk

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Hang Seng Bank Limited
The Bank of Tokyo-Mitsubishi, Limited

Auditors

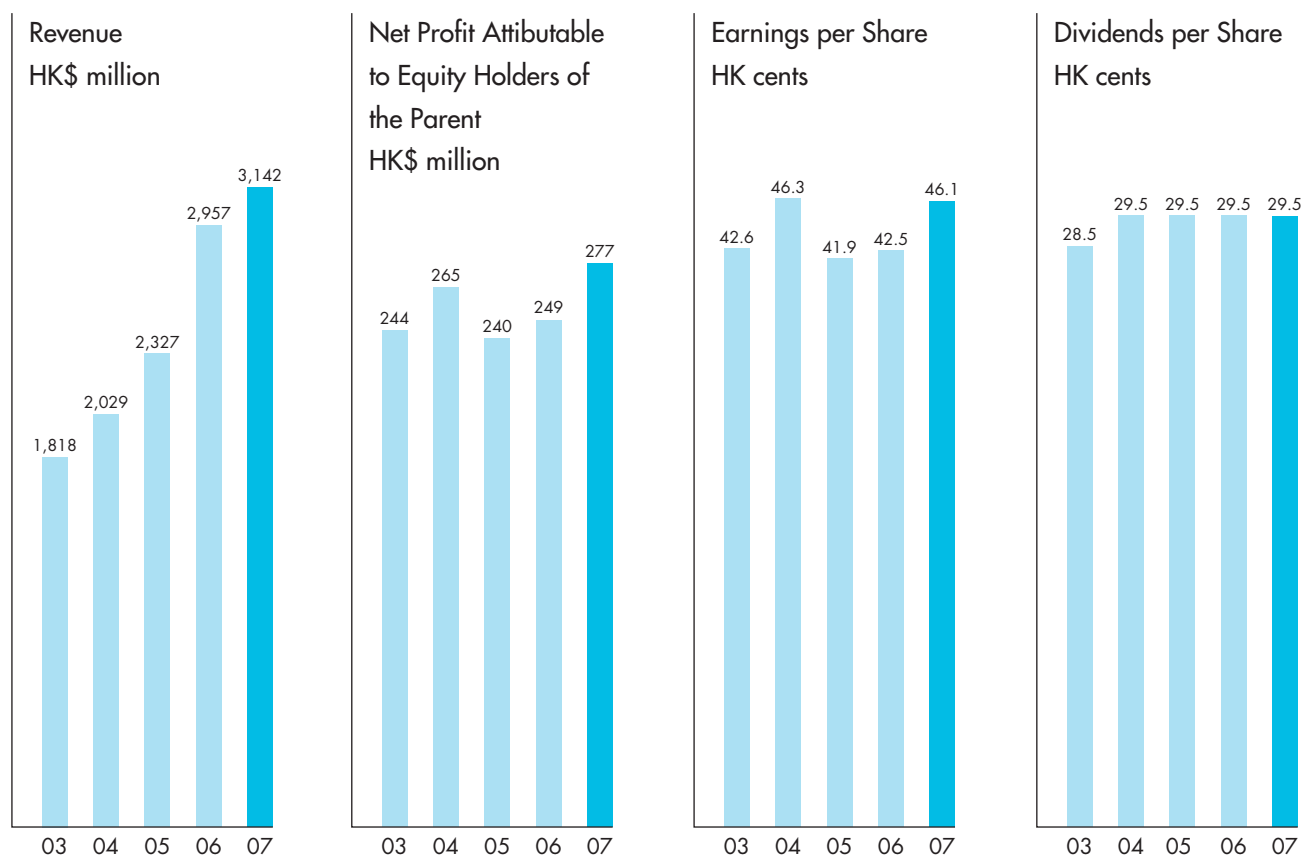
Ernst & Young
Nexia Charles Mar Fan & Co.

Share Registrar

Tengis Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

Financial Highlights

Year ended 31 March	2007 HK\$'000	2006 HK\$'000	Percentage change
Revenue	3,141,985	2,956,885	+6
Profit from Operating Activities	363,872	351,678	+3
Net Profit Attributable to Equity Holders of the Parent	277,139	248,891	+11
Property, Plant and Equipment	1,493,144	1,373,577	+9
Equity Attributable to Equity Holders of the Parent	2,167,208	2,037,213	+6
Earnings per Share (HK cents)	46.1	42.5	+8
Dividends per Share (HK cents)	29.5	29.5	0



Chairman's Statement



"While Hung Hing achieved solid results on the business front in 2006/07, it was also a successful year for environmental programs and sustainable development."

Yam Cheong Hung, Chairman

To our shareholders:

2006/07 was a year of steady growth for Hung Hing, which benefited from a number of strategic initiatives as well as the improvement in global economy. The Group achieved revenue growth in all its business divisions, particularly during the second half of the year, to achieve overall revenues of HK\$3,142 million, an increase of 6% over 2005/06.

A number of challenges persisted in mainland China. These included the rising cost of sales due to oil and material price adjustments, and the minimum wage increase in China which affected our labour costs. While the trend of supplier consolidation has become well established in mainland China, competition is still intense, which has invariably affected prices. Although the Group continued to face pressure on margins as a result of these factors, interest income and exchange gains from the strong RMB helped increase operating profit by 3%.

With the implementation of a uniform corporate income tax of 25% in China starting January 2008, the Group increased the provision for deferred tax for its China subsidiaries. As a result, the Group's overall tax expenditure increased 10% to HK\$50 million.

In the year under review, the Group recognized a significant gain of HK\$55 million as a result of change in the fair value of the derivative component of its convertible bond. This gain has led to an increase in profit for the year of 11%.

Hung Hing continued its strategy of diversification and made steady progress:

Product portfolio: The printing and paper trading businesses received positive customer response for the diversification of their product range through the printing of more conventional books as well as offering new brands of paper.

Geographic markets: The Group continued to expand its customer base geographically and increased its presence in its non-traditional markets, making inroads into Australia, Canada, Eastern Europe, Germany and South America. The Group also took advantage of the strong domestic economy to make additional progress in the mainland China market.

Manufacturing base: The Group continued to make strategic investments to expand and enhance its facilities in Wuxi and Heshan to serve the China and overseas markets more effectively and also to expand its cost base.

While Hung Hing achieved solid results on the business front in 2006/07, it was also a successful year for environmental programs and sustainable development. Every business division strives to integrate environmental considerations into the entire production process through the adoption of new technologies, materials and design that minimize impact on the environment at every stage. Environmental awareness programs for our employees and a regular review of company performance ensure that we are on the right track.

The Group achieved Forest Stewardship Council (FSC) certification in May 2007. This is the world's leading environmental certification that provides a guarantee that a product comes from well-managed, sustainable forests. We are very proud of this accomplishment, which also enables us to accept FSC orders from our customers.

Chairman's Statement

Earning per share was HK46.1 cents. The Board of Directors is proposing a final dividend of HK20 cents per share bringing total dividends for the year to HK29.5 cents per share. Subject to shareholders approval, the final dividend will be paid on 27 September 2007 to shareholders whose names appear on the Register of Members of the Company on 31 August 2007.

Outlook

The Group is cautiously optimistic about the prospects of continued growth in the year ahead. The first half of the coming financial year is expected to be stable, with a potential slowing down of customer orders in the latter half of the year on the back of a slowdown in the US economy. The steady expansion in geographic markets has helped the Group reduce its reliance on any one market.

The macro economic factors associated with doing business on mainland China will likely improve over the long term. During the year ahead, due to strong demand in mainland China, slight labour cost adjustments might persist. Other challenges including price based competition as well as power shortages are likely to continue. The Group's prudent and forward looking strategies as well as its continued investment in long term growth will help it sustain its business and reputation as a value added and reliable partner.

The Group will continue to focus on value-added business and aggressive marketing overseas. We will also make further strategic investments to capitalize on future growth, especially in Heshan and Wuxi.

We remain committed to being an employer of choice and to employing a sustainable business model that is sensitive to environmental considerations.

In closing, I would like to thank our employees around the world whose hard work is the foundation of Hung Hing's success.

Yam Cheong Hung

Chairman

Hong Kong, 9 July 2007

Management Discussion And Analysis



"The Group expanded capacity by adding new machinery in the Tai Po, Shenzhen and Heshan plants. The new Heshan plant commenced operations in March 2007 and has shown satisfactory progress, now employing 1,000 staff."

**Yum Chak Ming, Matthew,
Managing Director**

During the period under review, the global economy continued to improve, helping the Group achieve turnover growth of 6%. The Group capitalized on the exchange rate environment as well as a continued trend among overseas customers to consolidate their orders with a smaller number of reliable, value added suppliers. As a result, the Group achieved steady growth in Europe and Australia.

Several factors continued to affect the Group and the entire industry throughout the year, including power shortages across southern China. Oil price adjustments remained a factor globally, impacting the Group's transportation and paper costs and ultimately increasing the Group's cost of sales by 8%. Due to intense competition in mainland China, these cost increases could not be fully passed on to customers, which exerted pressure on margins.

The appreciation of the Renminbi has had an impact on our operating costs. However, conversion of our Renminbi monetary assets into Hong Kong dollars resulted in exchange gains. Together with interest income earned on surplus cash placed on deposits with bank, other income and gains were up 92% to HK\$70 million.

Operating efficiencies and cost controls also helped increase operating profit by 3%.

ANALYSIS BY BUSINESS DIVISION

An analysis by business division is as follows:

	Turnover			Contribution to operating profit		
	2007 HK\$'000	% from 2006	% change from 2006	2007 HK\$'000	% from 2006	% change from 2006
Paper & carton box printing & manufacturing	1,572,656	50	+1	210,580	58	-17
Paper trading	281,025	9	+4	35,454	10	+30
Corrugated carton	538,487	17	+9	24,697	6	-4
Paper manufacturing	749,817	24	+18	79,814	22	+43
Eliminations	—	—	—	(610)	—	N/A
	<u>3,141,985</u>	100	+6	<u>349,935</u>	96	-4
Interest, dividend income and other gains				36,918	10	+221
Corporate and unallocated expenses				(22,981)	-6	-5
				<u>363,872</u>	100	+3

PAPER AND CARTON BOX PRINTING AND MANUFACTURING

Our biggest division reported a slight increase in turnover of 1%, which was achieved largely on volume growth from existing as well as new customers. However, increases in material costs resulted in a decline of operating profit of 17%.

The division increased its production of traditional books and expanded its product range into premium packaging for high-end products such as cosmetics. This strategy helped improve margins through a focus on value-added business, as did a number of initiatives to reduce costs and improve efficiencies.

Management Discussion And Analysis



Technician at work at our plant in Tai Po, Hong Kong

The division continued with its aggressive marketing efforts in Europe with appointment of new marketing agents and was successful in expanding its customer base to new geographic markets such as Ireland, Russia and Spain. The Group now has four agents in Europe based in the UK, Germany, Scandinavia and the Benelux region (Belgium, Netherlands and Luxembourg).

The Group also expanded capacity by adding new machinery in its Tai Po, Shenzhen and Heshan plants. The launch of the Heshan plant faced slight delays due to power supply and road construction. The factory commenced operations in March 2007 and has shown satisfactory progress, now employing 1,000 staff.

Steady progress has been made in terms of implementing sustainable business practices. The Group recycles over 60,000 metric tonnes of waste paper from all our printing plants each year, much of it through the paper manufacturing division.

PAPER TRADING

This division was able to take advantage of the prevailing paper price adjustments across the globe to increase revenue and operating profit by 4% and 30% respectively.

The increase in revenue was also driven by sales of more high value items such as woodfree paper, art paper, ivory board and two-side coated board.

The Shenzhen distribution and logistic warehouse is now in its fourth year of operations and has built a reputation for a broad product range and the provision of value added services including paper cutting and slitting. The division achieved increases in revenues from local customers who purchased on credit terms.

The division distributed kraft liner and medium paper manufactured by the Group's paper manufacturing division, taking the Group's vertically integrated business strategy a step further. Strong demand from the Group's own printing division, especially conventional book printing, also boosted the division's operating profits.

The paper trading division has also achieved Forest Stewardship Council (FSC) certification for its sustainable practices, an achievement for the Group.

CORRUGATED CARTON MANUFACTURING

The corrugated carton manufacturing division achieved steady revenue growth of 9%, in part by entering segments such as dairy products and electronics in mainland China.

Management Discussion And Analysis



Photo

- 1 Senior Hong Kong and South China management at the Hong Kong showroom
- 2 Folding machine for the production of conventional books
- 3 Paper used by the printing division
- 4 Inside the Heshan plant
- 5 Senior management of the Wuxi plant

Despite revenue growth, the division incurred depreciation charges on the new corrugator at the Zhongshan plant. Intense competition continued to persist in the industry together with increases in labour as well as material costs, exerting pressure on margins. As a result, operating profit declined by 4%.

The division will continue to focus as much as possible on higher-margin business and diversify its customer base to enhance profitability.

PAPER MANUFACTURING

The paper manufacturing division capitalised on strong domestic demand to achieve an increase of 18% in sales. Global paper price adjustments and continued emphasis on operating efficiencies led to an increase of 43% in operating profit.

The Group plans to further upgrade the division's machinery and acquire additional land. This will enable the division to expand its capacity and position itself to capitalize on future growth opportunities.

The division continued to spearhead the Group's practice of implementing environmentally conscious measures across the board. The paper manufacturing division alone recycled over 400,000 metric tonnes of waste paper last year, which were used to produce kraft liner and medium paper for the corrugating paper market.

FINANCIAL AND CAPITAL RESOURCES

Ongoing investment in machinery and facilities is an important part of the Group's plan to support its strategic growth plans. The expenditure incurred during the year was as follows:

	HK\$ million
Buildings and machinery at the Heshan plant	101
Machinery and equipment at the Shenzhen plant	39
Machinery and equipment at the Tai Po plant	39
Buildings and machinery upgrade at the paper manufacturing facilities in Zhongshan	16
Buildings and machinery at the printing and corrugating facilities in Zhongshan	14
Buildings and machinery at the Wuxi plant	8
Total	217

Management Discussion And Analysis

The Group plans to invest further in machinery for the Heshan plant and land acquisition in Zhongshan to facilitate expansion of the paper manufacturing facilities.

At 31 March 2007, the Group had total bank borrowings including structured borrowings of HK\$515 million of which HK\$347 million was repayable within 1 year and HK\$168 million was repayable within 2–4 years. Of the Group's total bank borrowings, 71% was borrowed in Hong Kong dollars, 15% in Renminbi and 14% in U.S. dollars.

With the appreciation of the Renminbi, the Group's paper manufacturing companies in China took steps to reduce their RMB borrowings and turned to Hong Kong dollar borrowings.

The Group accrued loan interest of HK\$38 million on the convertible bonds (CB) at an interest rate of 5.9% which was then the market rate for straight bonds when the Group issued the CB in March 2006. This led to an increase of the Group's interest expenses by 118% to HK\$61 million.

Excluding the loan interest on the CB, interest expenses declined by 18% to HK\$23 million.

During the year, the Group made total loan repayments of HK\$316 million but also drew down and made arrangements for new loans of HK\$235 million. Some of the new loans were arranged in Hong Kong dollars for its mainland China subsidiaries. Net loan repayment during the year amounted to HK\$81 million.

The Group had a net cash inflow from operating activities of HK\$158 million. The cash inflow was impacted by increases in accounts receivable and inventory.

Compared to last year, the Group had a stronger fourth quarter as sales surged. This seasonality factor coupled with longer trade terms in conventional book printing, as well as an increased number of credit term customers for the paper trading and paper manufacturing divisions, led to a higher level of accounts receivable.

Inventory also increased as a result of the Group's long-term inventory strategy in anticipation of global paper price adjustments.

As at 31 March 2007, the Group had total cash on hand including structured deposit of HK\$979 million of which HK\$795 million was placed on deposits with bank. Of the total cash on hand, 40% was in Hong Kong dollars, 36% was in Renminbi, 22% in U.S. dollars and 2% in Euro and Sterling Pound.

The total debt of the Group including the loan component of the CB, was HK\$1,195 million. Net debt (total debt net of cash on hand) was HK\$216 million which as a ratio to shareholders' equity was 10%.

BUSINESS SUSTAINABILITY

The Group has implemented a number of measures across the board to ensure its business model is environmentally and socially sustainable. Some of our recent achievements in this regard include:

- Reducing the cost of water heating in our staff dormitories by about 60% through the use of solar power.
- Achieving savings of 50,000 kilowatt hours of electricity per month by using energy-saving fluorescent lights in our factories.
- Conserving about 60 metric tonnes of fuel per month used in steam generators by installing a waste steam collection facility.

The Group's entire supply chain is fully FSC certified. The Group is committed to sustainable business practices and meeting the environmental standards of our customers as well as local regulations.

EMPLOYEES

As of 31 March 2007, the Group employed a total of 16,732 staff in Hong Kong and China. Of the total, 362 were employed in Hong Kong and 16,370 in China. During the year the Group continued to conduct training, safety and employee care programs, to motivate staff, boost morale and loyalty, build strong career paths, and foster productivity and efficiency.

As always, I would like to take this opportunity to thank our talented and dedicated staff whose commitment and efforts have been central to our continued success over the years.

Yum Chak Ming, Matthew

Managing Director

Hong Kong, 9 July 2007

Report of the Directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES

The principal activities of the Company during the year consisted of investment holding and the provision of management services.

The principal activities of the Group during the year consisted of the printing and manufacturing of paper and carton boxes, the trading of paper, the manufacturing of corrugated cartons and the manufacturing of paper. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 March 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 34 to 100.

An interim dividend of HK9.5 cents per share was paid on 11 January 2007. The directors recommend the payment of a final dividend of HK20 cents per ordinary share in respect of the year, to shareholders on the register of members on 31 August 2007. This recommendation has been incorporated in the financial statements as an allocation of retained profits within the equity section of the balance sheet.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out below. This summary does not form part of the audited financial statements.

RESULTS

	Year ended 31 March				
	2007	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE	3,141,985	2,956,885	2,327,393	2,028,920	1,818,333
PROFIT FROM OPERATING ACTIVITIES	363,872	351,678	314,595	336,617	305,419
Fair value gain/(loss) on derivative component of convertible bonds	55,275	(1,800)	—	—	—
Finance costs	(61,493)	(28,247)	(12,203)	(5,551)	(6,119)
Share of profits and losses of associates	—	—	4,756	8,571	8,444
PROFIT BEFORE TAX	357,654	321,631	307,148	339,637	307,744
Tax	(50,123)	(45,540)	(44,096)	(54,653)	(43,502)
PROFIT FOR THE YEAR	307,531	276,091	263,052	284,984	264,242
Attributable to:					
Equity holders of the parent	277,139	248,891	240,281	264,742	243,531
Minority interests	30,392	27,200	22,771	20,242	20,711
	307,531	276,091	263,052	284,984	264,242
EARNINGS PER SHARE					
Basic	HK46.1 cents	HK42.5 cents	HK41.9 cents	HK46.3 cents	HK42.6 cents

Report of the Directors

SUMMARY FINANCIAL INFORMATION (Continued)

ASSETS, LIABILITIES AND MINORITY INTERESTS

	At 31 March				
	2007	2006	2005	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
PROPERTY, PLANT AND EQUIPMENT	1,493,144	1,373,577	1,289,684	859,151	750,180
PREPAID LAND LEASE PAYMENTS	147,700	145,531	149,682	98,178	80,686
GOODWILL	3,041	3,041	3,041	—	—
AVAILABLE-FOR-SALE INVESTMENTS	11,554	10,766	10,438	6,825	5,666
PROPERTIES UNDER CONSTRUCTION	50,090	46,058	57,382	41,291	46,399
INTERESTS IN ASSOCIATES	—	—	—	137,557	137,022
DEFERRED TAX ASSETS	4,731	5,869	6,060	2,387	2,384
CURRENT ASSETS	2,401,498	2,400,552	1,604,097	1,331,498	1,137,369
TOTAL ASSETS	4,111,758	3,985,394	3,120,384	2,476,887	2,159,706
CURRENT LIABILITIES	706,587	797,458	634,545	338,922	269,357
CONVERTIBLE BONDS	679,590	641,185	—	—	—
INTEREST-BEARING BANK AND OTHER BORROWINGS	110,833	169,167	325,000	230,000	90,000
STRUCTURED BORROWINGS	56,896	—	—	—	—
DEFERRED TAX LIABILITIES	36,550	23,354	19,325	16,628	14,179
TOTAL LIABILITIES	1,590,456	1,631,164	978,870	585,550	373,536
MINORITY INTERESTS	354,094	317,017	298,854	151,478	148,031
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	2,167,208	2,037,213	1,842,660	1,739,859	1,638,139

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and convertible bonds during the year are set out in notes 31 and 29 to the financial statements, respectively.

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 listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 32(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 March 2007, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK\$192,602,000, of which HK\$120,156,000 has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount of HK\$724,845,000, may be distributed in the form of fully paid bonus shares.

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totalling HK\$97,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for 32% of the total purchases for the year and purchases from the largest supplier included therein amounted to 13%.

Report of the Directors

DIRECTORS

The directors of the Company during the year were:

Executive directors:

Yam Cheong Hung

Yum Chak Ming, Matthew

Yam Ho Ming, Michael

Yam Hon Ming, Tommy

Non-executive directors:

Chu Shu Ho, David

Yum Pui Ming, Anna

Independent non-executive directors:

Yip Yu Bun

Wong Siu Ping

Yap Alfred Donald

In accordance with the Company's articles of association, the following directors will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting:

Yam Cheong Hung

Yum Chak Ming, Matthew

Chu Shu Ho, David

The Company has received annual confirmations of independence from Mr. Yip Yu Bun, Mr. Wong Siu Ping and Mr. Yap Alfred Donald, and as at the date of this report still considers them to be independent.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP

Executive directors

Mr. Yam Cheong Hung, aged 78, has been the Chairman and a director of the Company since 1991. He is responsible for the strategic policy and the corporate development of the Group. He has over 50 years of experience in the printing industry.

Mr. Yum Chak Ming, Matthew, aged 49, has been the Managing Director and a director of the Company since 1991. He holds a Bachelor of Applied Science degree in Industrial Engineering and a Master of Business Administration degree in Marketing and Finance, both from the University of Toronto, Canada. He is responsible for the overall management of the Group. He has been with the Group since 1983 and is a son of Mr. Yam Cheong Hung.

Mr. Yam Ho Ming, Michael, aged 48, is a director of the Company and is responsible for overseeing the Group's paper trading and paper manufacturing operations in China. He holds a Bachelor of Science degree in Printing Management from Rochester Institute of Technology, U.S.A. He has over 10 years of experience in the printing industry both in Hong Kong and overseas. He worked for 3 years in the sales and marketing department with a paper mill in Canada before rejoining the Group in 1992. He became a director of the Company in June 1996. He is a son of Mr. Yam Cheong Hung.

Mr. Yam Hon Ming, Tommy, aged 43, was a director of the Company from 1991 to 1996. He rejoined the Group in 1999 and became a director of the Company in July 2000. He holds a Bachelor of Arts degree in Economics from York University, Canada. He is the General Manager of the Group's subsidiary, Hung Hing Packaging (Wuxi) Company Limited and is responsible for its general management. He has over 10 years of experience in the printing industry. He is a son of Mr. Yam Cheong Hung.

Dr. Chu Shu Ho, David, JP, aged 57, has been a director of the Company since 1991. He has over 30 years of experience in the paper packaging industry. He is the Honorary Chairman of the Hong Kong Corrugated Paper Manufacturers Association Limited. He is also a member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC) and a Vice Chairman of the Subcommittee for Handling Proposals of the CPPCC. He is well known in the Chinese sports society. He has made significant contribution in Beijing's successful application for holding the 2008 Olympic Games. Dr. Chu is the Chairman of the Mission Hills Group and Mission Hills Golf Club.

Ms. Yum Pui Ming, Anna, aged 46, has been a director of the Company since 1992. She has 12 years of experience in administration and finance. She is a daughter of Mr. Yam Cheong Hung.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (Continued)

Independent non-executive directors

Mr. Yip Yu Bun, MH, aged 80, has been a director of the Company since 1994. He is the Managing Director of The Green Pagoda Press Limited. He is the Honorary President of the Hong Kong Printers Association, the former Chairman of the Printing, Publishing & Newspaper Industry Safety and Health Committee of the Occupational Safety & Health Council and the former Chairman of the Printing Industry Training Board of the Vocational Training Council. He has over 40 years of experience in the printing industry.

Mr. Wong Siu Ping, aged 58, was a non-executive director of the Company from 2000 to 2002 and re-appointed as an independent non-executive director of the Company in July 2004. He is the Deputy General Manager, Finance Department of China Resources (Holdings) Company Limited. He has been an associate member of the Hong Kong Institute of Certified Public Accountants since 1984. Mr. Wong has over 15 years of experience in financial management with a diversified business group in Hong Kong.

Mr. Yap, Alfred Donald, JP, aged 68, is presently a consultant of Messrs. K.C. Ho & Fong, Solicitors & Notaries. He is the former president of The Law Society of Hong Kong and of The Law Association for Asia and The Pacific (LAWASIA). He has served and presently still serves on various public and community bodies. Mr. Yap is currently an independent non-executive director of eSun Holdings Limited, and Wong's International (Holdings) Limited, which are listed on the Stock Exchange of Hong Kong Limited. He became a director of the Company in March 2006.

Senior management

Mr. Man Lim Huen, aged 73, is a director and co-founder of the Group's subsidiary, Tai Hing Paper Products Company, Limited. He is an advisor to the Group's subsidiary, Hung Hing Printing (China) Company Limited. He has over 30 years of experience in production and factory management in the corrugated carton industry. He has been with the Group since 1966.

Mr. Chan Siu Man, Alvin, aged 49, is the executive director of the Group's subsidiary, Hung Hing Off-Set Printing Company, Limited and is responsible for sales and marketing. He holds a Bachelor of Applied Science degree in Electrical Engineering from the University of Toronto. He has been with the Group since 1990. He is a son-in-law of Mr. Yam Cheong Hung.

Mr. Sung Chee Keung, aged 48, is the Operation Officer of the Zhongshan Region, the People's Republic of China (the "PRC"). He is responsible for overseeing the operation of the Group's manufacturing facilities in Zhongshan, PRC. He holds a Bachelor of Science degree in Printing Engineering from Rochester Institute of Technology, U.S.A. He has 20 years of experience in the printing industry and has been with the Group since 1986.

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (Continued)

Senior management (Continued)

Mr. Chan Lai Him, Raymond, aged 50, is the executive director of the Group's subsidiary, Tai Hing Paper Products Company, Limited and is responsible for its general management. He holds a Bachelor of Arts degree in Commerce from the University of Toronto. He has over 16 years of experience in different manufacturing industries and has been with the Group since 1999. He is a son-in-law of Mr. Yam Cheong Hung.

Mr. Chan Tai Ho, aged 58, is the General Manager of the Group's subsidiary, Tai Hing Paper Products Company, Limited and is responsible for sales and marketing. He has over 30 years of experience in the corrugated carton industry and has been with the Group since 1969.

Mr. Song Zhi Yi, aged 46, is the General Manager of the Group's subsidiary, Hung Hing Printing (China) Company Limited and is responsible for its general management. He holds a Bachelor's degree in Forestry from the Southern China University, the People's Republic of China. He has been with the Group since 1990.

Ms. Chong Wai Kan, Winky, aged 37, is the General Manager of the Group's subsidiary, Sun Hing Paper Company, Limited and is responsible for its general management. She has over 10 years of experience in sales and marketing in paper trading. She has been with the Group since 1992.

Mr. Tung Yu Bui, aged 58, is the Financial Controller and Company Secretary of the Company and is responsible for the financial and secretarial affairs of the Group. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. Prior to joining the Group, he had 5 years of experience with a major international accounting firm in Hong Kong and 11 years of experience in financial management with a multinational company in Hong Kong. He has been with the Group since 1992.

Mr. Lee Kwok Wai, Raymond, aged 47, is the General Manager of the Group's subsidiaries Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited and Zhongshan Ren Hing Paper Manufacturing Company Limited and is responsible for their general management. He holds a Bachelor of Economics degree in Finance and a Master of Business Administration degree from Royal Melbourne Institute of Technology, Australia. Prior to joining the Group, he had extensive experience in finance, manufacturing, sales and marketing with multinational companies in Mainland China. He has worked in the paper manufacturing industry over 10 years. He has been with the Group since 2006.

Report of the Directors

BIOGRAPHICAL DETAILS OF THE DIRECTORS OF THE COMPANY AND SENIOR MANAGEMENT OF THE GROUP (Continued)

Senior management (Continued)

Mr. Wong Fu Cheung, Dennis, aged 47, is the Deputy General Manager, MIS, Compliance and Standards of the Company and is responsible for information technology, social responsibility and quality assurance. He holds a Bachelor of Science degree with Honours in Computational and Statistical Science from the University of Liverpool, United Kingdom. He has been with the Group since 1992.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 34 to the financial statements, no director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES AND CONVERTIBLE BONDS

At 31 March 2007, the interests of the directors in the share capital and convertible bonds of the Company, as recorded in the register required to be kept by the Company pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation		
			(Note)		
Yam Cheong Hung	1,300,000	1,650,207	282,676,379	285,626,586	47.54
Yum Chak Ming, Matthew	9,184,537	—	—	9,184,537	1.53
Yum Pui Ming, Anna	1,246,135	951,134	—	2,197,269	0.37
Yap, Alfred Donald	27,504	—	—	27,504	—

Note: Yam Cheong Hung, and his family own C.H. Yam International Limited, which directly holds 88,887,189 shares of the Company and indirectly holds 193,789,190 shares of the Company through its subsidiary, Hung Tai Industrial Company Limited.

Save as disclosed above, as at 31 March 2007, none of the directors had registered an interest or short position in the shares or underlying shares or convertible bonds of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND CONVERTIBLE BONDS

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or convertible bonds of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

At 31 March 2007, the following interests of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Yam Cheong Hung	(a)	Directly beneficially owned and through controlled corporation and his spouse	285,626,586	47.54
C.H. Yam International Limited	(a)	Directly beneficially owned and through controlled corporation	282,676,379	47.05
C.H. Yam Holding Limited	(a)	Through controlled corporation	193,789,190	32.26
Hung Tai Industrial Company Limited	(a)	Directly beneficially owned	193,789,190	32.26
Aberdeen Asset Management PLC		Through controlled corporation	30,112,000	5.01
Commonwealth Bank of Australia		Through controlled corporation	48,037,210	8.00
Morgan Stanley		Through controlled corporation	32,729,362	5.45

Short position:

Name	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Morgan Stanley	Through controlled corporation	27,608,131	4.60

Note:

- (a) C.H. Yam International Limited is a company owned by Yam Cheong Hung and his family. C.H. Yam International Limited in turn owns Hung Tai Industrial Company Limited as to 96.6% through its wholly-owned subsidiary, C.H. Yam Holding Limited. Further, under the SFO, Yam Cheong Hung is deemed to be interested in the 1,650,207 shares (0.27% of the Company's issued share capital) owned by his spouse.

There is a duplication of interests of 193,789,190 shares in the Company among C.H. Yam International Limited, C.H. Yam Holding Limited and Hung Tai Industrial Company Limited.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (Continued)

Save as disclosed above, as at 31 March 2007, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests in shares and convertible bonds" above, had registered an interest and short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

AUDITORS

Ernst & Young and Nexia Charles Mar Fan & Co. retire and a resolution for their reappointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Yam Cheong Hung

Chairman

Hong Kong, 9 July 2007

Corporate Governance Report

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principle of the Company emphasizes on accountability and transparency and is adopted in the best interests of the Company and its shareholders.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices (the “CG Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year ended 31 March 2007 with the exception that the Non-executive Directors 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 in every year at the annual general meeting. Hence every director of the Company is subject to retirement by rotation at least once every three years and the terms of appointment of the Non-executive Directors are limited accordingly.

BOARD COMPOSITION AND BOARD PRACTICES

The Board of Directors (the “Board”) of the Company is composed of 9 Directors, including the Chairman and the Managing Director who are Executive Directors, 2 additional Executive Directors, 3 Independent Non-executive Directors and 2 Non-executive Directors. All the Independent Non-executive Directors have appropriate professional qualifications, experience, or accounting or related financial management expertise. The Directors biography and relevant relationships amongst them are set out in the Biographical Details of Directors section on pages 21 to 22 of this Annual Report.

Review will be made regularly on the Board to ensure that it has a balance of skills and experience appropriate for the requirement of the business of the Company and its subsidiaries (the “Group”). Also, a balanced composition of Executive Directors and Non-executive Director is maintained to ensure independence and effective management. The Company has satisfied the Listing Rules in having one of the Independent Non-executive Directors with appropriate accounting qualifications and expertise to sit in the Audit Committee.

Each of the Independent Non-executive Director has made an annual confirmation of independence pursuant to Rule 3.13 and Appendix 16 (12B) of the Listing Rules. The Company is of the view that all Independent Non-executive Directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. The Company still considers that all Independent Non-executive Directors to be independent.

When selecting potential candidates for directors, skills, experience, expertise, his devotion of time, conflicts of interests are key factors for consideration. No Nomination Committee has been set up, and, hence, the nomination and selection process are performed by the Board.

The Board is accountable to shareholders and is responsible for the formulation of the Group’s strategy, overseeing the management of the business and affairs of the Group.

BOARD COMPOSITION AND BOARD PRACTICES (Continued)

The roles of the Chairman and the Managing Director who is the chief executive officer of the Company are separate with division of duties and responsibilities to ensure a balance of power and authority. Key and important decisions shall be fully discussed at the board meetings. All Directors have been fully consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the support of the Executive Directors and the Company Secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at board meetings and receive adequate and reliable information in a timely manner.

Daily operation and managing of the business of the Group, inter alia, the implementation of strategies are delegated to the Executive Directors. They report periodically to the Board their work and business decisions.

The Board meets regularly and held four full board meetings in 2006/07.

Attendance

Executive Directors

Yam Cheong Hung (<i>Chairman</i>)	1/4
Yum Chak Ming, Matthew (<i>Managing Director</i>)	4/4
Yam Ho Ming, Michael	4/4
Yam Hon Ming, Tommy	4/4

Non-executive Director

Chu Shu Ho, David	0/4
Yum Pui Ming, Anna	3/4

Independent Non-executive Directors

Wong Siu Ping	4/4
Yap Alfred Donald	4/4
Yip Yu Bun	4/4

Notice of at least fourteen days are given to the Directors for regular meetings, while Board papers are sent to the Directors not less than three days before the intended date of a board or board committee meeting. The Directors can attend meetings in persons or through other means of electronic communication. The Company Secretary ensures that the procedure and all applicable rules and regulations are strictly and fully complied with. Minutes of board meetings and meetings of board committees are kept by the Company Secretary and are available for inspection at any reasonable time on reasonable notice by any Directors.

Directors have full access to information on the Group and are able to obtain independent professional advice whenever necessary.

Corporate Governance Report

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors set out in Appendix 10 of the Listing Rules. The Chairman or the Managing Director (other than himself) are persons to be notified for securities dealings by Directors and a designed form is used for notification and acknowledgement purpose.

All Directors have confirmed, following specific enquiry by the Company, their compliance with the required standards of dealings and its code of conduct regarding the directors' securities transaction throughout the year ended 31 March 2007.

INTERNAL CONTROL

The Company places great importance on internal control and risk management to safeguard the assets of the Company and the interests of shareholders. The Board has overall responsibility for the system of internal control and for reviewing its effectiveness. The Board conducted a review of the Group's internal control system for the year ended 31 March 2007 including financial, operational and compliance controls and risk management functions. The Board assessed the effectiveness of internal control by considering reviews performed by the Audit Committee and the Company's Internal Audit Department.

Based on the assessment of risk exposure, the Internal Audit Department formulates audit plan and ensures the audit programs cover key internal control areas of key operating subsidiaries on a rotational basis for the review by the Audit Committee on a regular interval. Special review may also be performed on areas of concern identified by management or the Audit Committee from time to time.

The Internal Audit Department monitors the internal control procedures and systems of the Group and reports its findings and recommendations to management, and the Audit Committee on regular interval. The department also monitors the follow-up actions agreed upon in response to its recommendations.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements of the Group. The Directors ensure the preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditors' Report on pages 32 to 33 of this Annual Report.

AUDITORS' REMUNERATION

For the year ended 31 March 2007, the Auditors of the Company will receive approximately HK\$2,463,000 for their audit service. Non-audit service which covered taxation service provided to the Group was approximately HK\$1,034,000 in 2006/07.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 29 August 2005 with specific terms of reference and comprises of three Independent Non-executive Directors, Mr. Alfred Donald Yap (Committee Chairman), Mr. Yip Yu Bun and Mr. Wong Siu Ping. The Committee met twice in 2006/07 with a 100% attendance by all of the Committee members. The policy and the practices for the remuneration of Executive Directors and the Senior Management were reviewed by the Committee. Remuneration, including basic salary, performance bonus, of the Executive Directors and Senior Management is based on skills, knowledge, involvement and performance of the individuals by reference to the Company's performance and profitability. Annual salary adjustment and profit linked performance bonus are subject to review and approval by the Committee.

Executive Directors are not eligible for additional remuneration of director fee for Board activities and director fee of Non-executive Directors is subject to annual assessment for shareholders' approval at the annual general meeting. Reimbursement is allowed for out-of-pocket expenses incurred in connection with the performance of their duties including attendance at board meetings and committee meetings.

AUDIT COMMITTEE

The Audit Committee comprises of three Independent Non-executive Directors, Mr. Yip Yu Bun (Committee Chairman), Mr. Wong Siu Ping and Mr. Alfred Donald Yap. The Audit Committee met twice in 2006/07 with a 100% attendance by all of the Audit Committee members. The Company's Internal Audit Department has a duty to report its work to the Audit Committee on a regular interval. The principal duties of the Audit Committee include the review of the Internal Audit Department's audit plan and progress reports with management and the external auditors, participation in the discussion of appointment of external auditors and review of their independence, review of the Group's interim results and annual results and their related financial statements for submission to the Board for approval. The Committee's authority and duties are set out in its terms of reference which is substantially the same as the CG Code.

The Committee is satisfied with the findings of their review of the work of the external auditors, their audit fees, results of their audits and has recommended to the Board their re-appointment in 2007/08 at the forthcoming annual general meeting.

Independent Auditors' Report



To the Shareholders of Hung Hing Printing Group Limited

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Hung Hing Printing Group Limited set out on pages 34 to 100, which comprise the consolidated and company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, in accordance with Section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

Auditors' responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Ernst & Young

Certified Public Accountants

Nexia Charles Mar Fan & Co.

Certified Public Accountants

Hong Kong, 9 July 2007

Consolidated Income Statement

Year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
REVENUE	5	3,141,985	2,956,885
Cost of sales		(2,523,810)	(2,337,515)
Gross profit		618,175	619,370
Other income and gains	5	69,553	36,309
Distribution costs		(75,541)	(70,942)
Administrative and selling expenses		(242,832)	(225,979)
Other expenses		(5,483)	(7,080)
		363,872	351,678
Fair value gain/(loss) on derivative component of convertible bonds	29	55,275	(1,800)
Finance costs	7	(61,493)	(28,247)
PROFIT BEFORE TAX	6	357,654	321,631
Tax	10	(50,123)	(45,540)
PROFIT FOR THE YEAR		307,531	276,091
Attributable to:			
Equity holders of the parent	11	277,139	248,891
Minority interests		30,392	27,200
		307,531	276,091
DIVIDENDS	12		
Interim		57,074	56,265
Proposed final		120,156	120,156
		177,230	176,421
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	13		
Basic		HK46.1 cents	HK42.5 cents

Consolidated Balance Sheet

31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	1,493,144	1,373,577
Prepaid land lease payments	15	147,700	145,531
Goodwill	16	3,041	3,041
Available-for-sale investments	17	11,554	10,766
Properties under construction	18	50,090	46,058
Deferred tax assets	30	4,731	5,869
Total non-current assets		1,710,260	1,584,842
CURRENT ASSETS			
Inventories	20	596,372	500,714
Accounts and bills receivable	21	757,120	542,132
Prepayments, deposits and other receivables		40,741	45,444
Derivative financial instruments	22	4,768	1,231
Structured deposits	23	375,818	—
Short-term note	24	23,095	—
Cash and cash equivalents	25	603,584	1,311,031
Total current assets		2,401,498	2,400,552
CURRENT LIABILITIES			
Accounts payable	26	181,246	113,838
Tax payable		17,048	25,574
Other payables and accrued liabilities		120,367	142,750
Derivative component of convertible bonds	29	32,775	88,050
Derivative financial instruments	22	7,517	—
Structured borrowings	28	17,042	—
Interest-bearing bank and other borrowings	27	330,592	427,246
Total current liabilities		706,587	797,458
NET CURRENT ASSETS		1,694,911	1,603,094

Consolidated Balance Sheet

31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		3,405,171	3,187,936
NON-CURRENT LIABILITIES			
Convertible bonds	29	679,590	641,185
Interest-bearing bank and other borrowings	27	110,833	169,167
Structured borrowings	28	56,896	—
Deferred tax liabilities	30	36,550	23,354
Total non-current liabilities		883,869	833,706
Net assets		2,521,302	2,354,230
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	31	60,078	60,078
Reserves		1,986,974	1,856,979
Proposed final dividend	12	120,156	120,156
Minority interests		2,167,208	2,037,213
Total equity		354,094	317,017
		2,521,302	2,354,230

Yam Cheong Hung
Director

Yum Chak Ming, Matthew
Director

Consolidated Statement of Changes in Equity

Year ended 31 March 2007

Attributable to equity holders of the parent														
		Issued capital	Share premium account	Capital redemption reserve	Capital reserve (note 16)	Hedging reserve	Available-for-sale investment revaluation reserve	Legal reserves (note 32(a)(ii))	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Minority interests	Total equity
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2005		57,779	621,373	966	(814)	—	—	59,887	—	988,565	115,559	1,843,315	298,854	2,142,169
Exchange realignment		—	—	—	—	—	—	—	11,783	—	—	11,783	5,812	17,595
Changes in fair value of available-for-sale investments	17	—	—	—	—	—	328	—	—	—	—	328	—	328
Net losses on cash flow hedge	25	—	—	—	—	(1,051)	—	—	—	—	—	(1,051)	—	(1,051)
Total income and expense recognised directly in equity		—	—	—	—	(1,051)	328	—	11,783	—	—	11,060	5,812	16,872
Profit for the year		—	—	—	—	—	—	—	—	248,891	—	248,891	27,200	276,091
Total income and expense for the year		—	—	—	—	(1,051)	328	—	11,783	248,891	—	259,951	33,012	292,963
Final 2005 dividend declared		—	—	—	—	—	—	—	—	—	(115,559)	(115,559)	—	(115,559)
Issue of shares pursuant to scrip dividend schemes		2,299	103,472	—	—	—	—	—	—	—	—	105,771	—	105,771
Transfer from retained profits		—	—	—	—	—	—	14,751	—	(14,751)	—	—	—	—
Interim 2006 dividend	12	—	—	—	—	—	—	—	—	(56,265)	—	(56,265)	—	(56,265)
Proposed final 2006 dividend	12	—	—	—	—	—	—	—	—	(120,156)	120,156	—	—	—
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	—	13,200	13,200
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	—	—	(28,049)	(28,049)
At 31 March 2006		60,078	724,845*	966*	(814)*	(1,051)*	328*	74,638*	11,783*	1,046,284*	120,156	2,037,213	317,017	2,354,230
At 1 April 2006		60,078	724,845	966	(814)	(1,051)	328	74,638	11,783	1,046,284	120,156	2,037,213	317,017	2,354,230
Exchange realignment		—	—	—	—	—	—	—	28,247	—	—	28,247	15,758	44,005
Changes in fair value of available-for-sale investments	17	—	—	—	—	—	788	—	—	—	—	788	—	788
Net gain on cash flow hedge	25	—	—	—	—	702	—	—	—	—	—	702	—	702
Total income and expense recognised directly in equity		—	—	—	—	702	788	—	28,247	—	—	29,737	15,758	45,495
Profit for the year		—	—	—	—	—	—	—	—	277,139	—	277,139	30,392	307,531
Total income and expense for the year		—	—	—	—	702	788	—	28,247	277,139	—	306,876	46,150	353,026
Transfer to property, plant and equipment		—	—	—	—	349	—	—	—	—	—	349	—	349
Final 2006 dividend declared		—	—	—	—	—	—	—	—	—	(120,156)	(120,156)	—	(120,156)
Transfer from retained profits		—	—	—	—	—	—	14,603	—	(14,603)	—	—	—	—
Interim 2007 dividend	12	—	—	—	—	—	—	—	—	(57,074)	—	(57,074)	—	(57,074)
Proposed final 2007 dividend	12	—	—	—	—	—	—	—	—	(120,156)	120,156	—	—	—
Contribution from minority shareholders		—	—	—	—	—	—	—	—	—	—	—	17,096	17,096
Dividends paid to minority shareholders		—	—	—	—	—	—	—	—	—	—	—	(26,169)	(26,169)
At 31 March 2007		60,078	724,845*	966*	(814)*	—*	1,116*	89,241*	40,030*	1,131,590*	120,156	2,167,208	354,094	2,521,302

* These reserve accounts comprise the consolidated reserves of HK\$1,986,974,000 (2006: HK\$1,856,979,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		357,654	321,631
Adjustments for:			
Bank interest income	5	(23,004)	(8,405)
Finance costs	7	61,493	28,247
Depreciation	6	122,307	111,267
Recognition of prepaid land lease payments	15	3,270	4,393
Loss on disposal of items of property, plant and equipment	6	236	974
Impairment on accounts receivable	6	3,801	3,174
Dividend income from available-for-sale investments	5	(361)	(361)
Fair value (gain)/loss on derivative component of convertible bonds		(55,275)	1,800
Transaction cost related to derivative component of convertible bonds	6	—	2,932
Fair value (gain)/loss on derivative financial instruments	6	1,090	(2,726)
Fair value loss on short-term note	6	275	—
Fair value gain on structured deposits	5	(8,734)	—
Fair value gain on structured borrowings	5	(257)	—
		462,495	462,926
Decrease/(increase) in inventories		(95,658)	52,897
Decrease/(increase) in accounts and bills receivable		(218,475)	99,203
Decrease in prepayments, deposits and other receivables		8,877	26,117
Increase/(decrease) in accounts payable		67,349	(10,178)
Decrease in other payables and accrued liabilities		(21,507)	(10,319)
		203,081	620,646
Cash generated from operations		203,081	620,646
Hong Kong profits tax paid		(24,339)	(15,274)
Mainland China tax paid		(20,509)	(29,579)
		158,233	575,793
Net cash inflow from operating activities		158,233	575,793

	Notes	2007 HK\$'000	2006 HK\$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in a short-term note		(23,370)	—
Receipt from derivative financial instruments		2,890	2,289
Receipt from structured deposits		9,525	—
Interest received		21,504	8,405
Dividend received from available-for-sale investments		361	361
Purchases of items of property, plant and equipment	14	(146,651)	(120,738)
Additions to prepaid land lease payments	15	(2,483)	(242)
Additions to properties under construction	18	(67,504)	(50,037)
Acquisition of subsidiaries	33	(136)	—
Proceeds from disposal of items of property, plant and equipment		3,631	3,228
Increase in time deposits with original maturity of over three months		(142,120)	(38,385)
Fair value adjustment on time deposits designated as hedging instruments		702	(1,051)
Increase in structured deposits		(379,340)	—
Net cash outflow from investing activities		(722,991)	(196,170)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from the issue of convertible bonds	29	—	750,000
Issue cost of convertible bonds		—	(25,497)
Dividends paid		(177,230)	(66,053)
Dividends paid to minority shareholders		(26,169)	(28,049)
New bank loans		150,710	131,050
Repayment of bank loans		(312,145)	(177,397)
New/(repayment) of trust receipt loans		6,252	(10,999)
Contributions from minority shareholders		17,096	13,200
Interest paid		(24,248)	(28,247)
New structured borrowings		78,100	—
Repayment of structured borrowings		(3,905)	—
Net cash inflow/(outflow) from financing activities		(291,539)	558,008

Consolidated Cash Flow Statement

Year ended 31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS			
		(856,297)	937,631
Cash and cash equivalents at beginning of year		1,272,400	334,416
Effect of foreign exchange rate changes, net		6,535	353
CASH AND CASH EQUIVALENTS AT END OF YEAR		422,638	1,272,400
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	184,710	196,285
Time deposits with original maturity of less than three months when acquired		238,369	1,076,361
Bank overdraft, unsecured	27	(441)	(246)
		422,638	1,272,400

Balance Sheet

31 March 2007

	Notes	2007 HK\$'000	2006 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	272	388
Prepaid land lease payments	15	10,996	11,555
Available-for-sale investments	17	378	378
Interests in subsidiaries	19	1,231,537	800,910
Deferred tax assets	30	26	5
Total non-current assets		1,243,209	813,236
CURRENT ASSETS			
Prepayments, deposits and other receivables		3,704	2,256
Derivative financial instruments	22	4,768	1,231
Structured deposits	23	375,818	—
Short-term note	24	23,095	—
Cash and cash equivalents	25	218,803	981,355
Total current assets		626,188	984,842
CURRENT LIABILITIES			
Other payables and accrued liabilities		3,867	4,153
Tax payable		18	—
Derivative financial instruments	22	7,393	—
Structured borrowings	28	17,042	—
Total current liabilities		28,320	4,153
NET CURRENT ASSETS		597,868	980,689
TOTAL ASSETS LESS CURRENT LIABILITIES		1,841,077	1,793,925
NON-CURRENT LIABILITIES			
Structured borrowings	28	56,896	—
Due to subsidiaries	19	806,114	818,086
Total non-current liabilities		863,010	818,086
Net assets		978,067	975,839
EQUITY			
Issued capital	31	60,078	60,078
Reserves	32(b)	797,833	795,605
Proposed final dividend	12	120,156	120,156
Total equity		978,067	975,839

Yam Cheong Hung
Director

Yum Chak Ming, Matthew
Director

Notes to the Financial Statements

31 March 2007

1. CORPORATE INFORMATION

The registered office of Hung Hing Printing Group Limited is located at Hung Hing Printing Centre, 17–19 Dai Hei Street, Tai Po Industrial Estate, New Territories, Hong Kong.

During the year, the Group was involved in the following principal activities:

- Printing and manufacturing of paper and carton boxes
- Trading of paper
- Manufacturing of corrugated cartons
- Manufacturing of paper

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for short-term note, structured deposits, structured borrowings, derivative financial instruments and available-for-sale investments, which have been measured at fair value, as further explained in note 2.4. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand ("HK\$'000") except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2007. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies and additional disclosures, the adoption of these new and revised standards and interpretation has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC) — Int 7	Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"

This principal changes in accounting policies are as follows:

(a) HKAS 21 Amendment — The Effects of Changes in Foreign Exchange Rates

Upon the adoption of the HKAS 21 Amendment regarding a net investment in a foreign operation, all exchange differences arising from a monetary item that forms part of the Group's net investment in a foreign operation are recognised in a separate component of equity in the consolidated financial statements irrespective of the currency in which the monetary item is denominated. This change has had no material impact on these financial statements as at 31 March 2007 or 31 March 2006.

(b) HKAS 27 Amendment — Consolidated and Separate Financial Statements

The adoption of the revised HKAS 27 has resulted in a change in accounting policy relating to the definition of a subsidiary for the purpose of the consolidated financial statements as described in note 2.4 "Summary of significant accounting policy" below.

(c) HKAS 39 — Financial Instruments: Recognition and Measurement

(i) *Amendment for financial guarantee contracts*

This amendment has revised the scope of HKAS 39 to require financial guarantee contracts issued that are not considered insurance contracts, to be recognised initially at fair value and to be remeasured at the higher of the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" and the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue". The adoption of this amendment has had no material impact on these financial statements.

Notes to the Financial Statements

31 March 2007

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) HKAS 39 — Financial Instruments: Recognition and Measurement (Continued)

(ii) *Amendment for cash flow hedge accounting of forecast intragroup transactions*

This amendment has revised HKAS 39 to permit the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the consolidated income statement. As the Group currently has no such transactions, the amendment has had no effect on these financial statements.

(iii) *Amendment for the fair value option*

This amendment has changed the definition of a financial instrument classified as fair value through profit or loss and has restricted the use of the option to designate any financial asset or any financial liability to be measured at fair value through the consolidated income statement. The Group had not previously used this option, and hence the amendment has had no effect on the financial statements.

(d) HK(IFRIC) — Int 4 — Determining whether an Arrangement contains a Lease

The Group has adopted this interpretation as of 1 April 2006, which provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The Group has determined based on this interpretation that certain arrangements of the Group contained leases and accordingly, the Group has treated them in accordance with HKAS 17 "Leases". However, the adoption of this interpretation has had no material impact on these financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HK(IFRIC) — Int 8	Scope of HKFRS 2
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

The HKAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objectives, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments.

HKFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires the disclosure of information about the operating segments of the Group, the products and services provided by the segments, the geographical areas in which the Group operates, and revenues from the Group's major customers. This standard will supersede HKAS 14 "Segment Reporting".

HK(IFRIC) — Int 8, HK(IFRIC) — Int 9, HK(IFRIC) — Int 10, HK(IFRIC) — Int 11 and HK(IFRIC) — Int 12 shall be applied for annual periods beginning on or after 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, it has concluded that while the adoption of the HKAS 1 Amendment, HKFRS 7 and HKFRS 8 may result in new or amended disclosures, these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

Notes to the Financial Statements

31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint ventures (Continued)

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as a subsidiary, if the Group, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors; or over which the Company has a contractual right to exercise a dominant influence with respect to that entity's financial and operating policies.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's share of the fair values of the identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 April 2005

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill (Continued)

Goodwill on acquisitions for which the agreement date is on or after 1 April 2005 (Continued)

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of the HKICPA's Statement of Standard Accounting Practice 30 "Business Combinations" ("SSAP 30") in 2001, goodwill arising on acquisition was eliminated against consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against consolidated reserves and is not recognised in the income statement when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill and certain financial assets is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the income statement in the period in which it arises.

Notes to the Financial Statements

31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties

A party is considered to be related to the Group if:

- (a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;
- (b) the party is a member of the key management personnel of the Group or its parent;
- (c) the party is a close member of the family of any individual referred to in (a) or (b);
- (d) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (b) or (c); or
- (e) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than properties under construction, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation is provided so as to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates and bases used are as follows:

Buildings situated in Hong Kong	Over the lease terms
Buildings situated in Mainland China	Over the shorter of the lease terms and useful lives which is 2.5–10% on the straight-line basis
Plant and machinery	10–20% on the reducing balance basis
Motor vehicles	30% on the reducing balance basis
Furniture, fixtures and equipment	20–30% on the reducing balance basis

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Properties under construction

Properties under construction represent buildings under construction on sites in Mainland China whose land use rights have been acquired by the Group, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction. Properties under construction are reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Financial assets in the scope of HKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group considers whether a contract contains an embedded derivative when the Group first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Notes to the Financial Statements

31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other two categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Notes to the Financial Statements

31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group’s continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group’s continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, interest-bearing bank and other borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities at fair value through profit or loss (Continued)

Financial liabilities are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the income statement.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Convertible bonds

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the balance sheet, net of transaction costs. On issuance of convertible bonds, the fair value of the derivative component is determined using an option pricing model; and this amount is carried as a derivative liability until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the liability component and is carried as a liability on the amortised cost basis until extinguished on conversion or redemption. The derivative component is measured at fair value with gains and losses recognised in the income statement.

Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are first recognised.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts, cross currency swaps, callable currency swaps, foreign currency options and structured forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

Notes to the Financial Statements

31 March 2007

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

The fair value of certain forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair values of other derivatives are determined with reference to the fair value quoted by investment bankers.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative financial instruments and hedging (Continued)

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

Inventories

Inventories are stated at the lower of cost and net realisable value. The cost of raw materials includes the cost of purchased materials determined using the weighted average basis. The cost of finished goods and work in progress includes direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs expected to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or different period directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or loss.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (b) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and
- (c) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs

Borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

Employee benefits

Paid leave carried forward

The Group provides paid annual leave to its employees under their employment contracts. Under certain circumstances, such leave which remains untaken as at the balance sheet date is permitted to be carried forward and utilised by the respective employees in the following year. An accrual is made at the balance sheet date for the expected future cost of such paid leave earned during the year by the employees and carried forward.

Staff retirement schemes

The Group operates a defined contribution staff retirement scheme (the "Scheme") for certain of its employees, the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the Scheme. When an employee leaves the Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

The Group also operates another defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance. Contributions to the MPF Scheme are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 were only eligible to join the MPF Scheme.

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currencies of certain overseas subsidiaries are currencies other than the Hong Kong dollar. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are included in a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Impairment of assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Presentation of convertible bonds and fair value of derivative component of convertible bonds

Convertible bonds of the Group are presented into the derivative component and the liability component of the convertible bonds upon the adoption of HKAS 39 in the current year. This requires an initial recognition of the derivative component and the liability component at fair value.

The derivative component initially recognised and subsequently measured at fair value is determined by an option pricing model.

The amount of liability component initially recognised is determined with reference to the net proceeds from the issuance of the convertible bonds and the fair value of derivative component at initial recognition. The liability component is subsequently measured at amortised cost using the effective interest rate method until it is extinguished on conversion or redemption.

The fair value of the derivative component and the carrying amount of the liability component of convertible bonds at 31 March 2007 were HK\$32,775,000 and HK\$679,590,000 (2006: HK\$88,050,000 and HK\$641,185,000), respectively (note 29).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Fair value of derivative instruments

The fair value of structured derivative instruments is the estimated amount that the Group would receive or pay to terminate these derivative instruments at the balance sheet date, taking into account current market conditions.

Provision for obsolete inventories

Management of the Group reviews an aged analysis at each balance sheet date, and make allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. Management estimates the net realisable value for such finished goods and work in progress based primarily on the latest invoice prices and current market conditions.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses and deductible temporary differences arising from impairment on receivables to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying values of deferred tax assets relating to deductible temporary differences on impairment on receivables as at 31 March 2007 were HK\$6,312,000 (2006: HK\$7,479,000). The Group has not recognised tax losses at 31 March 2007 and 2006. The amount of unrecognised tax losses at 31 March 2007 was HK\$68,113,000 (2006: HK\$56,322,000). Further details are contained in note 30 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, expected usage of the asset, expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits on the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Impairment allowances on accounts receivables

The Group regularly reviews its portfolio of accounts receivables to assess impairment. In determining whether an impairment loss should be recorded in the income statement, the Group considers whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of accounts receivables before the decrease can be identified with an individual receivable balance in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of customers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows differs from previous calculation, the provision estimated would be changed.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

- (a) the paper and carton box printing and manufacturing segment;
- (b) the paper trading segment;
- (c) the corrugated carton manufacturing segment; and
- (d) the paper manufacturing segment.

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

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4. SEGMENT INFORMATION (Continued)

(a) Business segments

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the years ended 31 March 2007 and 2006.

	Paper and carton box printing and manufacturing		Paper trading		Corrugated carton manufacturing		Paper manufacturing		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	1,572,656	1,556,040	281,025	269,544	538,487	493,269	749,817	638,032	—	—	3,141,985	2,956,885
Intersegment sales	34,702	32,916	342,673	322,682	108,696	103,866	139,596	189,645	(625,667)	(649,109)	—	—
Total	1,607,358	1,588,956	623,698	592,226	647,183	597,135	889,413	827,677	(625,667)	(649,109)	3,141,985	2,956,885
Segment results	210,580	255,247	35,454	27,266	24,697	25,721	79,814	55,839	(610)	208	349,935	364,281
Interest, dividend income and other gains											36,918	11,492
Corporate and unallocated expenses											(22,981)	(24,095)
											363,872	351,678
Fair value gain/(loss) on derivative component of convertible bonds											55,275	(1,800)
Finance costs											(61,493)	(28,247)
Profit before tax											357,654	321,631
Tax											(50,123)	(45,540)
Profit for the year											307,531	276,091

4. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Paper and carton box printing and manufacturing		Paper trading		Corrugated carton manufacturing		Paper manufacturing		Eliminations		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets and liabilities												
Segment assets	1,560,400	1,273,659	438,376	300,350	718,219	703,792	681,057	625,856	(139,408)	(75,018)	3,258,644	2,828,639
Unallocated assets	—	—	—	—	—	—	—	—	—	—	853,114	1,156,755
Total assets	1,560,400	1,273,659	438,376	300,350	718,219	703,792	681,057	625,856	(139,408)	(75,018)	4,111,758	3,985,394
Segment liabilities	234,127	156,766	28,493	28,345	81,697	62,547	82,253	71,947	(139,408)	(75,018)	287,162	244,587
Unallocated liabilities	—	—	—	—	—	—	—	—	—	—	1,303,294	1,386,577
Total liabilities	234,127	156,766	28,493	28,345	81,697	62,547	82,253	71,947	(139,408)	(75,018)	1,590,456	1,631,164
Other segment information:												
Depreciation	59,394	51,490	3,312	3,210	33,094	30,059	26,397	26,362	—	—	122,197	111,121
Unallocated depreciation	—	—	—	—	—	—	—	—	—	—	110	146
	59,394	51,490	3,312	3,210	33,094	30,059	26,397	26,362	—	—	122,307	111,267
Capital expenditure	188,291	108,568	509	5,641	11,761	31,217	16,077	25,512	—	—	216,638	170,938
Unallocated capital expenditure	—	—	—	—	—	—	—	—	—	—	—	79
	188,291	108,568	509	5,641	11,761	31,217	16,077	25,512	—	—	216,638	171,017
Impairment/(write-back of impairment) on accounts receivable	2,523	3,296	—	(1,910)	115	235	1,163	1,553	—	—	3,801	3,174

(b) Geographical segments

The following table presents revenue and certain asset and expenditure information for the Group's geographical segments for the years ended 31 March 2007 and 2006.

	Hong Kong		Mainland China		United States of America		Europe		Others		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	1,204,090	1,322,743	1,141,811	959,084	268,412	282,804	383,256	290,314	144,416	101,940	3,141,985	2,956,885
Other segment information:												
Segment assets	1,067,007	1,343,513	2,826,349	2,471,237	59,130	53,423	97,120	67,573	62,152	49,648	4,111,758	3,985,394
Capital expenditure	38,595	18,676	178,043	152,341	—	—	—	—	—	—	216,638	171,017

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5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced sales, net of allowances for returns and trade discounts.

An analysis of revenue, other income and gains is as follows:

	<i>Note</i>	Group	
		2007 HK\$'000	2006 HK\$'000
Revenue — Sale of goods		3,141,985	2,956,885
Other income and gains:			
Dividend income from available-for-sale investments		361	361
Bank interest income		23,004	8,405
Fair value gains, net:			
Derivative instruments not qualified as hedges		—	2,726
Structured deposits	23	8,734	—
Structured borrowings	28	257	—
Exchange differences, net		25,507	4,787
Sundry income		11,690	20,030
		69,553	36,309

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

		Group	
		2007	2006
	<i>Note</i>	HK\$'000	HK\$'000
Depreciation	14	122,307	111,267
Auditors' remuneration		2,463	2,137
Employee benefits expense (including directors' remuneration — note 8):			
Wages, salaries and other allowances		445,312	402,879
Retirement scheme contributions		22,422	15,347
Less: Forfeited contributions *		(62)	(58)
Net retirement scheme contributions		22,360	15,289
Total employee benefits expense		467,672	418,168
Minimum lease payments under operating leases			
in respect of land and buildings		7,233	7,251
Impairment on accounts receivable		3,801	3,174
Loss on disposal of items of property, plant and equipment		236	974
Fair value losses, net:			
Derivative instruments not qualified as hedges	22	1,090	—
Short-term note	24	275	—
Transaction cost related to derivative component of convertible bonds		—	2,932

* At 31 March 2007, the Group had no forfeited contributions available to reduce its contributions to the retirement schemes in future years (2006: Nil).

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7. FINANCE COSTS

	Group	
	2007	2006
	HK\$'000	HK\$'000
Interest on convertible bonds (note 29)	38,405	—
Interest on bank loans	23,088	28,247
	61,493	28,247

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2007	2006
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Non-executive directors	420	420
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	12,826	14,101
Retirement scheme contributions	396	395
Discretionary bonuses	11,131	12,285
	24,773	27,201

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2007	2006
	HK\$'000	HK\$'000
Yip Yu Bun	100	100
Wong Siu Ping	100	100
Yap, Alfred Donald	120	120
	320	320

There were no other emoluments payable to the independent non-executive directors during the year (2006: Nil).

8. DIRECTORS' REMUNERATION (Continued)

(b) Executive directors and non-executive directors

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Discretionary bonuses HK\$'000	Total remuneration HK\$'000
2007					
Executive directors:					
Yam Cheong Hung	—	5,984	215	3,424	9,623
Yum Chak Ming, Matthew	—	3,334	122	4,673	8,129
Yam Ho Ming, Michael	—	1,136	—	1,667	2,803
Yam Hon Ming, Tommy	—	2,372	59	1,367	3,798
	—	12,826	396	11,131	24,353
Non-executive directors:					
Chu Shu Ho, David	50	—	—	—	50
Yum Pui Ming, Anna	50	—	—	—	50
	100	—	—	—	100
	100	12,826	396	11,131	24,453
2006					
Executive directors:					
Yam Cheong Hung	—	6,867	215	4,543	11,625
Yum Chak Ming, Matthew	—	3,752	121	4,889	8,762
Yam Ho Ming, Michael	—	1,199	—	1,555	2,754
Yam Hon Ming, Tommy	—	2,283	59	1,298	3,640
	—	14,101	395	12,285	26,781
Non-executive directors:					
Chu Shu Ho, David	50	—	—	—	50
Yum Pui Ming, Anna	50	—	—	—	50
	100	—	—	—	100
	100	14,101	395	12,285	26,881

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2006: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (2006: one) non-director, highest paid employee for the year are as follows:

	2007 HK\$'000	2006 HK\$'000
Salaries, allowances and benefits in kind	1,155	1,284
Retirement scheme contributions	46	46
Discretionary bonuses paid and payable	1,881	2,242
	<u>3,082</u>	<u>3,572</u>

The remuneration of the non-director, highest paid employee fell within the following band:

	Number of employees	
	2007	2006
HK\$3,000,001–HK\$3,500,000	1	—
HK\$3,500,001–HK\$4,000,000	—	1

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2007 HK\$'000	2006 HK\$'000
Group:		
Current — Hong Kong		
— Charge for the year	10,982	13,396
— Overprovision in prior years	(1,325)	(1,798)
Current — Mainland China		
— Charge for the year	33,044	36,528
— Tax refund [#]	(6,816)	(6,646)
Deferred tax (<i>note 30</i>)	14,238	4,060
Total tax charge for the year	50,123	45,540

- [#] Under certain PRC local income tax laws, a company is entitled to certain tax refund concession, representing the difference between the statutory tax rate and the reduced concession tax rate, upon successful application as an "export enterprise" whereby more than 70% of its turnover is derived from export sales. During the year, a subsidiary of the Group was granted such status from relevant authorities in respect of its operations in prior years and was entitled to a tax refund.

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10. TAX (Continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the locations in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

Group

	Hong Kong		2007 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	135,989		221,665		357,654	
Tax at the statutory tax rate	23,798	17.5	73,149	33.0	96,947	27.1
Lower tax rate for local authority*	—	—	(30,071)	(13.6)	(30,071)	(8.4)
Profits not subject to tax, due to concessions**	—	—	(7,412)	(3.3)	(7,412)	(2.1)
Effect on deferred tax due to change in tax rates#	—	—	5,628	2.5	5,628	1.6
Adjustment in respect of current tax of previous period	(1,325)	(1.0)	—	—	(1,325)	(0.4)
Tax refund	—	—	(6,816)	(3.1)	(6,816)	(1.9)
Income not subject to tax	(15,263)	(11.2)	(1,349)	(0.6)	(16,612)	(4.6)
Expenses not deductible for tax	7,285	5.3	986	0.5	8,271	2.3
Tax losses utilised from previous period	—	—	(245)	(0.1)	(245)	(0.1)
Tax losses not recognised	786	0.6	972	0.4	1,758	0.5
Tax charge at the Group's effective rate	15,281	11.2	34,842	15.7	50,123	14.0

10. TAX (Continued)

Group (Continued)

	Hong Kong		2006 Mainland China		Total	
	HK\$'000	%	HK\$'000	%	HK\$'000	%
Profit before tax	97,428		224,203		321,631	
Tax at the statutory tax rate	17,050	17.5	73,987	33.0	91,037	28.3
Lower tax rate for local authority*	—	—	(33,451)	(14.9)	(33,451)	(10.4)
Profits not subject to tax, due to concessions**	—	—	(3,944)	(1.7)	(3,944)	(1.2)
Effect on opening deferred tax of increase in rates	—	—	(315)	(0.1)	(315)	(0.1)
Adjustment in respect of current tax of previous periods	(1,798)	(1.8)	—	—	(1,798)	(0.5)
Tax refund	—	—	(6,646)	(3.0)	(6,646)	(2.1)
Income not subject to tax	(3,130)	(3.2)	(1,075)	(0.5)	(4,205)	(1.3)
Expenses not deductible for tax	1,888	1.9	1,081	0.5	2,969	0.9
Tax losses not recognised	896	0.9	997	0.4	1,893	0.6
Tax charge at the Group's effective rate	14,906	15.3	30,634	13.7	45,540	14.2

* Under the PRC income tax laws, enterprises are subject to corporate income tax ("CIT") at rate of 33%. However, certain of the Group's subsidiaries are operating in specific development zones in Mainland China, and the relevant authorities have granted these subsidiaries preferential CIT rates ranging from 15% to 27%.

** In addition to preferential CIT rates granted to the Group's certain subsidiaries in Mainland China, tax holiday was also granted by the relevant authorities to these subsidiaries, where CIT is exempted for the first two profitable years of the subsidiaries and is chargeable at half of the applicable rate for the next subsequent three years.

Under the new CIT Law approved by the National People's Congress on 16 March 2007 which shall become effective on 1 January 2008, the corporate income tax rate shall unify at 25%.

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11. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to equity holders of the parent of HK\$277,139,000 (2006: HK\$248,891,000) for the year ended 31 March 2007 includes a profit of HK\$178,407,000 (2006: HK\$196,567,000) which has been dealt with in the financial statements of the Company (note 32(b)).

12. DIVIDENDS

	2007 HK\$'000	2006 HK\$'000
Interim dividend of HK9.5 cents (2006: HK9.5 cents) per ordinary share	57,074	56,265
Proposed final dividend of HK20.0 cents (2006: HK20.0 cents) per ordinary share	120,156	120,156
	177,230	176,421

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

(a) Basic earnings per share

The calculation of basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent of HK\$277,139,000 (2006: HK\$248,891,000) and the weighted average of 600,780,529 (2006: 586,141,600) shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share amounts for the years ended 31 March 2007 and 31 March 2006 have not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for these years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
31 March 2007					
At 1 April 2006:					
Cost	542,286	1,411,036	33,528	67,307	2,054,157
Accumulated depreciation	(88,213)	(523,821)	(23,334)	(45,212)	(680,580)
Net carrying amount	454,073	887,215	10,194	22,095	1,373,577
At 1 April 2006, net of accumulated depreciation	454,073	887,215	10,194	22,095	1,373,577
Additions	2,463	131,999	4,875	7,314	146,651
Acquisition of a subsidiary (note 33)	57	—	—	92	149
Transfer from properties under construction (note 18)	53,821	4,461	—	5,761	64,043
Disposals	—	(2,852)	(853)	(162)	(3,867)
Depreciation provided during the year	(17,589)	(95,241)	(3,403)	(6,074)	(122,307)
Transfer from hedging reserve (note 25)	—	349	—	—	349
Exchange realignment	11,687	22,123	(142)	881	34,549
At 31 March 2007, net of accumulated depreciation	504,512	948,054	10,671	29,907	1,493,144
At 31 March 2007:					
Cost	611,629	1,570,930	34,892	81,060	2,298,511
Accumulated depreciation	(107,117)	(622,876)	(24,221)	(51,153)	(805,367)
Net carrying amount	504,512	948,054	10,671	29,907	1,493,144

Certain buildings and plant and machinery of the Group with a total net book value of HK\$266,834,000 (2006: HK\$283,637,000) have been pledged to secure banking facilities granted to the Group (note 27).

Notes to the Financial Statements

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14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Group (Continued)

	Buildings HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
31 March 2006					
At 1 April 2005:					
Cost	472,251	1,298,291	32,208	64,003	1,866,753
Accumulated depreciation	(71,277)	(443,458)	(21,173)	(41,161)	(577,069)
Net carrying amount	400,974	854,833	11,035	22,842	1,289,684
At 1 April 2005, net of accumulated depreciation	400,974	854,833	11,035	22,842	1,289,684
Additions	1,497	113,068	2,359	3,814	120,738
Transfer from properties under construction (note 18)	62,627	—	—	—	62,627
Disposals	—	(3,898)	(147)	(157)	(4,202)
Depreciation provided during the year	(16,417)	(86,971)	(3,177)	(4,702)	(111,267)
Exchange realignment	5,392	10,183	124	298	15,997
At 31 March 2006, net of accumulated depreciation	454,073	887,215	10,194	22,095	1,373,577
At 31 March 2006:					
Cost	542,286	1,411,036	33,528	67,307	2,054,157
Accumulated depreciation	(88,213)	(523,821)	(23,334)	(45,212)	(680,580)
Net carrying amount	454,073	887,215	10,194	22,095	1,373,577

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company

	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
31 March 2007			
At 1 April 2006:			
Cost	3,321	827	4,148
Accumulated depreciation	(3,063)	(697)	(3,760)
Net carrying amount	258	130	388
At 1 April 2006, net of accumulated depreciation	258	130	388
Additions	—	—	—
Disposals	(6)	—	(6)
Depreciation provided during the year	(76)	(34)	(110)
At 31 March 2007, net of accumulated depreciation	176	96	272
At 31 March 2007:			
Cost	3,002	827	3,829
Accumulated depreciation	(2,826)	(731)	(3,557)
Net carrying amount	176	96	272

Notes to the Financial Statements

31 March 2007

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

Company (Continued)

	Motor vehicles HK\$'000	Furniture, fixtures and equipment HK\$'000	Total HK\$'000
<hr/>			
31 March 2006			
At 1 April 2005:			
Cost	4,080	748	4,828
Accumulated depreciation	(3,701)	(663)	(4,364)
	<hr/>		
Net carrying amount	379	85	464
	<hr/>		
At 1 April 2005, net of accumulated depreciation	379	85	464
Additions	—	79	79
Disposals	(9)	—	(9)
Depreciation provided during the year	(112)	(34)	(146)
	<hr/>		
At 31 March 2006, net of accumulated depreciation	258	130	388
	<hr/>		
At 31 March 2006:			
Cost	3,321	827	4,148
Accumulated depreciation	(3,063)	(697)	(3,760)
	<hr/>		
Net carrying amount	258	130	388
	<hr/>		

15. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Carrying amount at beginning of year	145,531	149,682	11,555	12,115
Additions	2,483	242	—	—
Recognised during the year	(3,270)	(4,393)	(559)	(560)
Exchange realignment	2,956	—	—	—
Carrying amount at 31 March	147,700	145,531	10,996	11,555

The Group's leasehold lands are situated in Hong Kong and Mainland China and are held under the following lease terms:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong:				
Medium term leases	21,047	21,587	—	—
Mainland China:				
Medium term land use rights	126,653	123,944	10,996	11,555
Carrying amount at 31 March	147,700	145,531	10,996	11,555

Certain leasehold lands of the Group with total net book value of HK\$47,478,000 (2006: HK\$46,584,000) have been pledged to banks to secure banking facilities granted to the Group (note 27).

Notes to the Financial Statements

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16. GOODWILL

	Group	
	2007	2006
	HK\$'000	HK\$'000
At beginning of year and at 31 March:		
Cost and carrying amount	3,041	3,041

As further detailed in note 2.4 to the financial statements, the Group applied the transitional provisions of HKFRS 3 that permitted goodwill in respect of business combinations which occurred prior to 2001, to remain eliminated against the consolidated retained profits.

The amounts of goodwill remaining in consolidated capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK\$814,000 as at 31 March 2006 and 31 March 2007. The amount of goodwill is stated at its cost.

17. AVAILABLE-FOR-SALE INVESTMENTS

	Group		Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity investments, at fair value	80	60	—	—
Club debentures, at fair value	3,128	1,948	378	378
	3,208	2,008	378	378
Hong Kong listed equity investments, at market value	8,346	8,758	—	—
	11,554	10,766	378	378

During the year, the net gains on fair values of the Group's available-for-sale investments of HK\$788,000 (2006: HK\$328,000) were recognised in the available-for-sale investment revaluation reserve.

Available-for-sale investments consist of investments in listed and unlisted ordinary shares and club debentures, and have no fixed maturity date or coupon rate.

17. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

The fair values of listed equity investments are based on quoted market prices. The fair values of unlisted available-for-sale equity investments have been estimated by directors having regard to, inter alia, the prices of most recent reported sales or purchases of the securities. The directors believe that the estimated fair values resulting, which are recorded in the consolidated balance sheet, and the related changes in fair values, which are recorded in the consolidated reserves, are reasonable, and that they are the most appropriate values at the balance sheet date.

18. PROPERTIES UNDER CONSTRUCTION

	Group	
	2007	2006
	HK\$'000	HK\$'000
At beginning of year	46,058	57,382
Additions	67,504	50,037
Transfer to property, plant and equipment (note 14)	(64,043)	(62,627)
Exchange realignment	571	1,266
At 31 March	50,090	46,058

The properties under construction are located in Mainland China.

19. INTERESTS IN SUBSIDIARIES

	Company	
	2007	2006
	HK\$'000	HK\$'000
Unlisted shares, at cost	407,961	407,744
Due from subsidiaries	824,929	394,519
	1,232,890	802,263
Impairment	(1,353)	(1,353)
	1,231,537	800,910
Due to subsidiaries	(806,114)	(818,086)

The balances with subsidiaries are unsecured, interest-free and not repayable within one year. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

Notes to the Financial Statements

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19. INTERESTS IN SUBSIDIARIES (Continued)

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Hung Hing Off-Set Printing Company, Limited	Hong Kong	HK\$100	100	—	Production and trading of paper products and carton box
Sun Hing Paper Company, Limited	Hong Kong	HK\$100	100	—	Paper trading
Hung Hing Printing (China) Company Limited ^{ss}	People's Republic of China (the "PRC")/ Mainland China	HK\$180,000,000	—	100	Production and colour printing of paper products
Tai Hing Paper Products Company, Limited	Hong Kong	HK\$100	100	—	Trading of corrugated cartons
Piguet Graphic & Prints Company Limited	Hong Kong	HK\$1,000,000	100	—	Provision of colour separation services
Zhongshan Hung Hing Printing & Packaging Company Limited ^s	the PRC/Mainland China	US\$15,000,000	—	56	Printing and manufacturing of paper cartons
Zhongshan Hung Hing Off-Set Printing Company Limited ^s	the PRC/Mainland China	US\$5,000,000	—	56	Production and colour printing of paper products
Hung Hing International Limited	British Virgin Islands ("BVI")/ Mainland China	US\$100	100	—	Investment holding
South Gain Enterprises Limited	Hong Kong	HK\$1,200,000	—	56	Selling and purchasing agent
Po Hing Packaging (Shenzhen) Company Limited ^{ss}	the PRC/Mainland China	US\$11,200,000	—	100	Printing and manufacturing of paper cartons
South Gain Paper Products Company Limited ^{ss}	the PRC/Mainland China	US\$15,000,000	—	56	Printing and manufacturing of paper cartons

19. INTERESTS IN SUBSIDIARIES (Continued)

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary share/ registered capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Sun Hing Paper (Shenzhen) Company Limited ^{§§}	the PRC/Mainland China	HK\$30,000,000	—	100	Paper trading
Hung Hing Packaging (Wuxi) Company Limited ^{§§}	the PRC/Mainland China	US\$24,000,000	100	—	Production and colour printing of paper products
Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited ("Rengo") [§]	the PRC/Mainland China	US\$28,830,000	51	8	Paper manufacturing
Zhongshan Ren Hing Paper Manufacturing Company Limited ("Ren Hing") [§]	the PRC/Mainland China	US\$14,710,000	51	8	Paper manufacturing
Hung Hing Printing (Heshan) Company Limited ^{§§#}	the PRC/Mainland China	HK\$80,000,000	—	100	Production and colour printing of paper products
Greatest Joy Investments Limited [§]	BVI/Hong Kong	US\$1	100	—	Issue of convertible bonds
Sinope Design Group Limited*	Hong Kong	HK\$2	100	—	Provision of graphic design services

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

§ Sino-foreign equity joint venture

§§ Wholly foreign-owned enterprise

* Acquired during the year

Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms or Nexia Charles Mar Fan & Co.

Notes to the Financial Statements

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20. INVENTORIES

	Group	
	2007	2006
	HK\$'000	HK\$'000
Raw materials	423,859	332,951
Work in progress	60,157	46,699
Finished goods	112,356	121,064
	596,372	500,714

21. ACCOUNTS AND BILLS RECEIVABLE

The Group's trading terms with customers are mainly on credit. Invoices are normally payable between 30 and 90 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has a credit control policy to minimise credit risk. Overdue balances are regularly reviewed by senior management. In view of the aforementioned and the fact that the Group's accounts and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk. Accounts and bills receivable are non-interest-bearing.

	Group	
	2007	2006
	HK\$'000	HK\$'000
Accounts receivable	688,437	506,900
Bills receivable	68,683	35,232
	757,120	542,132

21. ACCOUNTS AND BILLS RECEIVABLE (Continued)

An aged analysis of accounts receivable at the balance sheet date, based on invoice date and net of provisions, is as follows:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Within 30 days	268,849	204,676
31 to 60 days	176,874	126,579
61 to 90 days	122,232	88,783
Over 90 days	120,482	86,862
	688,437	506,900

The carrying amounts of the accounts and bills receivable approximate to their fair values.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2007	2006	2007	2006
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Forward currency contracts	218	1,231	218	1,231
Structured forward currency contracts	4,550	—	4,550	—
	4,768	1,231	4,768	1,231
Liabilities				
Forward currency contracts	1,127	—	1,003	—
Structured forward currency contracts	6,390	—	6,390	—
	7,517	—	7,393	—

The Group has entered into these derivatives financial instruments to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The net fair value losses of non-hedging currency derivatives amounting to HK\$1,090,000 were charged to the consolidated income statement during the year (2006: gains of HK\$2,726,000) (note 6).

Notes to the Financial Statements

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23. STRUCTURED DEPOSITS

The Group's and Company's structured deposits at 31 March 2007 were held for trading. These structured deposits were classified as financial assets at fair value through profit or loss and carried at fair value. Changes in the fair value are recognised in the consolidated income statement. The yields from structured deposits are linked to certain market interest rates, currencies exchange rates and bond index rate. The fair values of the structured deposits are determined based on the quoted prices from investment banks. The net fair value gains amounting to HK\$8,734,000 were credited to the consolidated income statement during the year (2006: Nil) (note 5).

24. SHORT-TERM NOTE

The Group's and Company's short-term note at 31 March 2007 was held for trading. This short-term note was classified as a financial asset at fair value through profit or loss and carried at fair value. Changes in the fair value are recognised in the consolidated income statement. The fair value of the short-term note is determined based on the quoted prices from an investment bank. The note will mature in 2008 and the principal amount is US\$3,000,000. 95% of the principal and yield which are linked to paper stock indices are receivable at maturity date. The net fair value losses amounting to HK\$275,000 were charged to the consolidated income statement during the year (2006: Nil) (note 6).

25. CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Cash and bank balances	184,710	196,285	2,449	2,174
Time deposits	418,874	1,114,746	216,354	979,181
Cash and cash equivalents	603,584	1,311,031	218,803	981,355

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK\$357,747,000 (2006: HK\$285,875,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

25. CASH AND CASH EQUIVALENTS (Continued)

Cash at bank earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and six months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The carrying amounts of the cash and cash equivalents approximate to their fair values.

Forward currency time deposits — cash flow hedges

At 31 March 2006, the Group had several foreign currency time deposits of HK\$26,643,000 designated as hedges of expected future purchase of property, plant and equipment from a supplier in Germany for which the Group has firm commitments. The cash flow hedges of the expected future purchase were assessed to be highly effective and the net gain on cash flow hedges of HK\$702,000 (2006: net loss of HK\$1,051,000) was included in the hedging reserve during the year.

During the year, the hedged purchase was completed and an amount of HK\$349,000 (2006: Nil) was transferred from the hedging reserve to the cost of the property, plant and equipment (note 14).

26. ACCOUNTS PAYABLE

An aged analysis of accounts payable as at the balance sheet date, based on invoice date, is as follows:

	Group	
	2007	2006
	HK\$'000	HK\$'000
Within 30 days	147,540	87,052
31 to 60 days	30,419	24,980
61 to 90 days	421	341
Over 90 days	2,866	1,465
	181,246	113,838

The accounts payables are non-interest-bearing and are normally settled on 30-day terms.

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27. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate (%)		Maturity		Group	
	2007	2006	2007	2006	2007	2006
					HK\$'000	HK\$'000
Current						
Bank overdrafts — unsecured	8	8	On demand	On demand	441	246
Bank loans — unsecured	5	5	2007	2006	194,211	273,154
Bank loans — secured	5–6	6	2007	2006	125,702	149,860
Trust receipt loans	5	6	2007	2006	10,238	3,986
					<u>330,592</u>	<u>427,246</u>
Non-current						
Bank loans — unsecured	3–5	3–5	2008–2010	2007–2009	110,833	169,167
Convertible bonds (note 29)	6	6	2011	2011	679,590	641,185
					<u>790,423</u>	<u>810,352</u>
					<u>1,121,015</u>	<u>1,237,598</u>
					Group	
					2007	2006
					HK\$'000	HK\$'000
Analysed into:						
Bank loans, bank overdrafts and trust receipt loans repayable:						
Within one year or on demand					330,592	427,246
In the second year					51,667	81,667
In the third to fifth years, inclusive					59,166	87,500
					<u>441,425</u>	<u>596,413</u>
Convertible bonds repayable:						
In the third to fifth years, inclusive					679,590	641,185
					<u>679,590</u>	<u>641,185</u>
					<u>1,121,015</u>	<u>1,237,598</u>

27. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

Notes:

- (a) The Group's banking facilities amounting to HK\$161,050,000 (2006: HK\$169,082,000), of which HK\$125,702,000 (2006: HK\$149,860,000) had been utilised as at the balance sheet date, are secured by the pledge of certain of the Group's prepaid land lease payments, buildings and plant and machinery, which had an aggregate carrying value at the balance sheet date of approximately HK\$314,312,000 (2006: HK\$330,221,000) (notes 14 and 15).
- (b) Except for the secured bank loans of HK\$70,702,000 and unsecured bank loan of HK\$5,050,000, which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

Other interest rate information:

	Group			
	2007		2006	
	Fixed rate HK\$'000	Floating rate HK\$'000	Fixed rate HK\$'000	Floating rate HK\$'000
Bank overdrafts — unsecured	—	441	—	246
Bank loans — unsecured	80,000	225,044	160,000	282,321
Bank loans — secured	120,651	5,051	130,435	19,425
Trust receipt loans	—	10,238	—	3,986

The carrying amounts of the Group's borrowings approximate to their fair values. The fair values of borrowings have been calculated by discounting their expected future cash flows at prevailing interest rates at 31 March 2007.

The fair value of the liability portion of the convertible bonds is calculated with reference to the market value of the convertible bonds and the fair value of the derivative component of the convertible bonds. The fair value of other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

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28. STRUCTURED BORROWINGS

During the year, the Group entered into two contracts of structured borrowings with a bank for a period of five years. The entire contracts were designated as financial liabilities at fair value through profit or loss.

	Group and Company	
	2007 HK\$'000	2006 HK\$'000
Structured borrowings, classified as:		
Current [#]	17,042	—
Non-current	56,896	—
	<u>73,938</u>	<u>—</u>

The structured borrowings, which contain embedded derivatives, are managed in accordance with documented risk management and are evaluated on fair value basis. The embedded derivatives are closely related to the host contracts, and hence the entire combined contracts were designated as financial liabilities at fair value through profit or loss upon initial recognition. The net fair value gain amounting to HK\$257,000 was credited to the income statement during the year (2006: Nil) (note 5).

[#] The current portion represents the minimum amount repayable to the bank within one year.

Major terms of the structured borrowings are set out below:

Notional amount	Upfront payment	Maturity date	Payment Terms
US\$50,000,000	US\$5,000,000	8 September 2011	First half year: 2%; Remaining 4 and half years: 7.95%-(6.00% x N/M)
US\$50,000,000	US\$5,000,000	18 January 2012	Payment: 10%; Receipt: 8%, if Knock-In Condition is not met; or 8% x n/m, once Knock-In Condition is met.

Interest was calculated on notional amount and on semi-annual, 30/360 day count basis.

28. STRUCTURED BORROWINGS (Continued)

Where:

"N" = number of business days that CMS10y–CMS2y > –0.05% in the period

"M" = total number of business days in the period

"n" = number of business days that CMS10y–CMS2y > 0.20% in the period

"m" = total number of business days in the period

"CMS10y" = mid-market semi-annual swap rate expressed as a percentage for a USD interest rate swap transaction with a term equal to 10 years which appears on the Reuters screen ISDAFIX1 Page at 11:00 a.m. New York time on each day in the accrual period.

"CMS2y" = mid-market semi-annual swap rate expressed as a percentage for a USD interest rate swap transaction with a term equal to 2 years which appears on the Reuters screen ISDAFIX1 Page at 11:00 a.m. New York time on each day in the accrual period.

"Knock-In Condition" = when 3-month LIBOR is less than 4.80%.

29. CONVERTIBLE BONDS

On 29 March 2006, Greatest Joy Investments Limited, a subsidiary of the Company, issued 5-years zero coupon guaranteed convertible bonds with a nominal value of HK\$750,000,000 and there was no movement in the number of these convertible bonds as at the balance sheet date. The bonds are listed on the Stock Exchange of Hong Kong Limited. The bonds are convertible at the option of the bondholders into fully paid ordinary shares with a par value of HK\$0.10 each of the Company on or after 13 April 2006 up to and including 22 March 2011 at an initial conversion price of HK\$6.76 per share. The conversion price was subsequently changed to HK\$6.46 and then to HK\$6.32 on 28 August 2006 and 29 December 2006, respectively. The Group has an option to settle the conversion requested by bondholders in cash. The bonds are redeemable at the option of the bondholders at 105.51% of their principal amount two years after issue date on 29 March 2008. Any convertible bonds not converted will be redeemed on 29 March 2011 at 114.35% of their principal amount. When the bonds were issued, the prevailing market interest rate for similar bonds without the conversion option was higher than the interest rate at which the bonds were issued.

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29. CONVERTIBLE BONDS (Continued)

The fair value of the derivative component was estimated at the issuance date using an option pricing model and the change in fair value of that component is recognised in the consolidated income statement. The residual amount is assigned as the liability component.

The convertible bonds issued in prior year had been split as to the derivative and liability components, and the movement in derivative and liability components was as follows:

	HK\$'000
Nominal value of convertible bonds issued on 29 March 2006	750,000
Transaction cost related to liability component	(22,565)
Derivative component	(86,250)
Liability component at 31 March 2006	641,185
Interest expenses (<i>note 7</i>)	38,405
Liability component at 31 March 2007 (<i>note 27</i>)	679,590
Derivative component at the issuance date	86,250
Fair value loss recognised during the year	1,800
Derivative component at 31 March 2006	88,050
Fair value gain recognised during the year	(55,275)
Derivative component at 31 March 2007	32,775

30. DEFERRED TAX

The movements in deferred tax liabilities and assets during the year are as follows:

Deferred tax liabilities

Group

	Accelerated tax depreciation HK\$'000	Provision for impairment of accounts receivable HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2005	23,186	(3,115)	(746)	19,325
Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>)	4,134	(432)	187	3,889
Exchange realignment	165	(22)	(3)	140
At 31 March 2006 and 1 April 2006	27,485	(3,569)	(562)	23,354
Deferred tax charged/(credited) to the income statement during the year (<i>note 10</i>)	13,387	(156)	(336)	12,895
Exchange realignment	360	(43)	(16)	301
At 31 March 2007	41,232	(3,768)	(914)	36,550

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30. DEFERRED TAX (Continued)

Deferred tax assets

Group

	Accelerated tax depreciation HK\$'000	Provision for impairment of accounts receivable HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2005	(1,786)	(3,755)	(519)	(6,060)
Opening adjustment on derivative instruments not qualified as hedges	—	—	139	139
Deferred tax charged/(credited) to the income statement during the year (note 10)	99	(81)	153	171
Exchange realignment	(45)	(74)	—	(119)
At 31 March 2006 and 1 April 2006	(1,732)	(3,910)	(227)	(5,869)
Deferred tax charged/(credited) to the income statement during the year (note 10)	(157)	1,483	17	1,343
Exchange realignment	(88)	(117)	—	(205)
At 31 March 2007	(1,977)	(2,544)	(210)	(4,731)

The Group has tax losses arising in Hong Kong of HK\$17,201,000 (2006: HK\$12,709,000) and in Mainland China of HK\$50,912,000 (2006: HK\$43,613,000) that are available for offsetting against future taxable profits of the companies in which the losses arose, those arising in Mainland China being due to expire within a maximum period of five years. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time.

30. DEFERRED TAX (Continued)

Deferred tax assets (Continued)

At 31 March 2007, there was no unrecognised deferred tax liability (2006: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

Deferred tax liabilities/(assets)

Company

	Accelerated tax depreciation HK\$'000	Others HK\$'000	Total HK\$'000
At 1 April 2005	65	(233)	(168)
Opening adjustment on derivative instruments not qualified as hedges	—	139	139
Deferred tax charged/(credited) to the income statement during the year	(12)	36	24
At 31 March 2006 and at 1 April 2006	53	(58)	(5)
Deferred tax credit to the income statement during the year	(12)	(9)	(21)
At 31 March 2007	41	(67)	(26)

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31. SHARE CAPITAL

	2007 Number of shares	2006 Number of shares	2007 HK\$'000	2006 HK\$'000
Authorised ordinary shares of HK\$0.10 each	800,000,000	800,000,000	80,000	80,000
Issued and fully paid ordinary shares of HK\$0.10 each	600,780,529	600,780,529	60,078	60,078

32. RESERVES

(a) Group

- (i) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.
- (ii) The Group's legal reserves are statutory reserves for foreign investment enterprises operating in Mainland China. The transfers to these reserves are determined by the boards of directors of the relevant subsidiaries and the use thereof is governed by the relevant laws and regulations of Mainland China.

32. RESERVES (Continued)

(b) Company

		Share premium account	Capital redemption reserve	Hedging reserve	Available- for-sale revaluation reserve	Retained profits	Total
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2005		621,373	966	—	—	51,123	673,462
Changes in fair values of available-for-sale investments		—	—	—	(424)	—	(424)
Losses on cash flow hedges		—	—	(1,051)	—	—	(1,051)
Profit for the year	11	—	—	—	—	196,567	196,567
Issue of shares pursuant to a scrip dividend scheme		103,472	—	—	—	—	103,472
Interim 2006 dividend	12	—	—	—	—	(56,265)	(56,265)
Proposed final 2006 dividend	12	—	—	—	—	(120,156)	(120,156)
At 31 March 2006 and 1 April 2006		724,845	966	(1,051)	(424)	71,269	795,605
Gains on cash flow hedges		—	—	1,051	—	—	1,051
Profit for the year	11	—	—	—	—	178,407	178,407
Interim 2007 dividend	12	—	—	—	—	(57,074)	(57,074)
Proposed final 2007 dividend	12	—	—	—	—	(120,156)	(120,156)
At 31 March 2007		724,845	966	—	(424)	72,446	797,833

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33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT

On 13 June 2006, the Group acquired a 100% interest in Sinope Design Group Limited from its existing shareholders. Sinope Design Group Limited is engaged in the provision of graphic design service. The purchase consideration for the acquisition was in the form of cash with HK\$217,000 being paid on 13 June 2006.

	Notes	2007 HK\$'000	2006 HK\$'000
Property, plant and equipment	14	149	—
Cash and bank balances		81	—
Accounts receivable		314	—
Prepayments and other receivables		16	—
Accounts payable		(59)	—
Accruals and other payables		(284)	—
		<u>217</u>	—
Satisfied by cash		<u>217</u>	—

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	HK\$'000
Cash consideration	(217)
Cash and bank balances acquired	<u>81</u>
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	<u>(136)</u>

Since its acquisition, Sinope Design Group Limited contributed HK\$1,507,000 to the Group's turnover and a loss of HK\$203,000 to the consolidated profit for the year ended 31 March 2007.

34. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	Note	2007 HK\$'000	2006 HK\$'000
Rentals paid to companies in which directors of the Company are controlling shareholders	(i)	840	1,200

- (i) During the year, the rental paid to a company of which a director of the Company is a controlling shareholder was in connection with the housing benefits provided to Mr. Yam Hon Ming, Tommy, a director of the Company and was based on estimated open market rental. It has been included in the directors' remuneration in note 8 to the financial statements.

In the prior year, the rentals paid to two companies of which certain directors of the Companies are controlling shareholders were in connection with the housing benefits provided to Messrs. Yum Chak Ming, Matthew and Yam Hon Ming, Tommy, directors of the Company, and were based on estimated open market rentals.

(b) Outstanding balances with related parties

There were no outstanding balances with related parties as at 31 March 2007 (2006: Nil).

(c) Compensation of key management personnel of the Group

	2007 HK\$'000	2006 HK\$'000
Short term employment benefits	40,754	45,285
Post-employment benefits	668	1,120
	41,422	46,405

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35. CONTINGENT LIABILITIES

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Guarantees given to banks for banking and trading facilities granted to subsidiaries	—	—	1,088,056	922,184
Amount of banking facilities with the Company's guarantees utilised by subsidiaries	—	—	241,224	353,301
Guarantee given to a subsidiary for the settlement of convertible bonds issued	—	—	770,387	750,000

36. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for office properties are negotiated for terms ranging from one to fifty years, and those for staff quarters for terms ranging from one to two years.

At 31 March 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Within one year	3,843	3,885	360	—
In the second to fifth years, inclusive	7,369	6,751	300	—
After five years	65,176	64,161	—	—
	76,388	74,797	660	—

37. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 36 above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Contracted for:				
Land and buildings	17,409	38,486	—	—
Plant and machinery	19,559	99,762	—	—
	<u>36,968</u>	<u>138,248</u>	<u>—</u>	<u>—</u>

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank borrowings, convertible bonds and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally interest rate swaps, forward currency contracts and structured forward currency contracts. The purpose is to manage the interest rate and currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, market risk, credit risk and liquidity risk. The policies to mitigate each of these risks are summarised below. The board manages and monitors these risks to ensure appropriate measures are implemented on a timely and effective manner. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

Interest rate risk

The Group's main interest rate risk exposure relates to its Renminbi and Hong Kong dollar bank borrowings. The Group manages its interest rate exposure with a focus on reducing the Group's overall cost of debt and exposure to changes in interest rates. When considered appropriate, the Group uses interest rate swaps to manage its long term borrowings which bear floating interest rates. At 31 March 2007, the Group had approximately 45% (2006: 49%) of bank borrowings which bear fixed interest rates.

In respect of the structured borrowings, the repayment amounts are mainly based on the spread rates between CMS10y Swap Rate and CMS2y Swap Rate, the entire borrowings are designated as financial liabilities at fair value through profit or loss as disclosed in note 28. Management closely monitors the potential interest risk related to the structured borrowings on a continuing basis. Based on the historical data of the spread rates, the level of interest rate exposure so far is acceptable to the Group.

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38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

The Group is subject to foreign currency risk arising from future commercial transactions, recognised assets and liabilities and net investments in PRC subsidiaries. Majority of the Group's transactions, balances and investments are denominated in Hong Kong dollars, Renminbi and U.S. dollars. When there are significant foreign currency transactions other than the above currencies arise, the Group will use forward currency contracts and structured forward currency contracts to manage the foreign currency exposure. The forward currency contracts and structured forward currency contracts must be in the same currency as the hedged item.

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit approval procedures. In addition, receivable balances are monitored on an ongoing basis and follow-up action is taken to recover overdue debts. The Group reviews regularly the recoverable amount of individual trade receivable to ensure adequate provision for impairment is made for irrecoverable amounts.

Market risk

Market risk represents the risk that the fair values or future cash flows of financial instruments will fluctuate due to changes in market variables, such as interest rates, foreign exchange rates and equity prices. The Group is exposed to market risk through its holding of derivative financial instruments and other investments.

The Group has investment guidelines that set out its overall business strategies, its tolerance for risk and its general risk management philosophy and has established processes to monitor and control various trading transactions in a timely and accurate manner.

Liquidity risk

The Group's objective is to maintain sufficient cash and to ensure the availability of funding through an adequate amount of committed banking facilities. The Group aims to maintain flexibility in funding by keeping committed banking facilities available.

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 9 July 2007.