HUNG HING

# HUNG HING PRINTING GROUP LIMITED
# 鴻 興 印 刷 集 團 有 限 公 司

Stock Code: 450

ANNUAL REPORT 年報

2006

# Contents

# 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 recently resumed in Hong Kong. Total production floor space reaches 5.7 million square feet, with a workforce of over 15,000 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 Biu

## 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

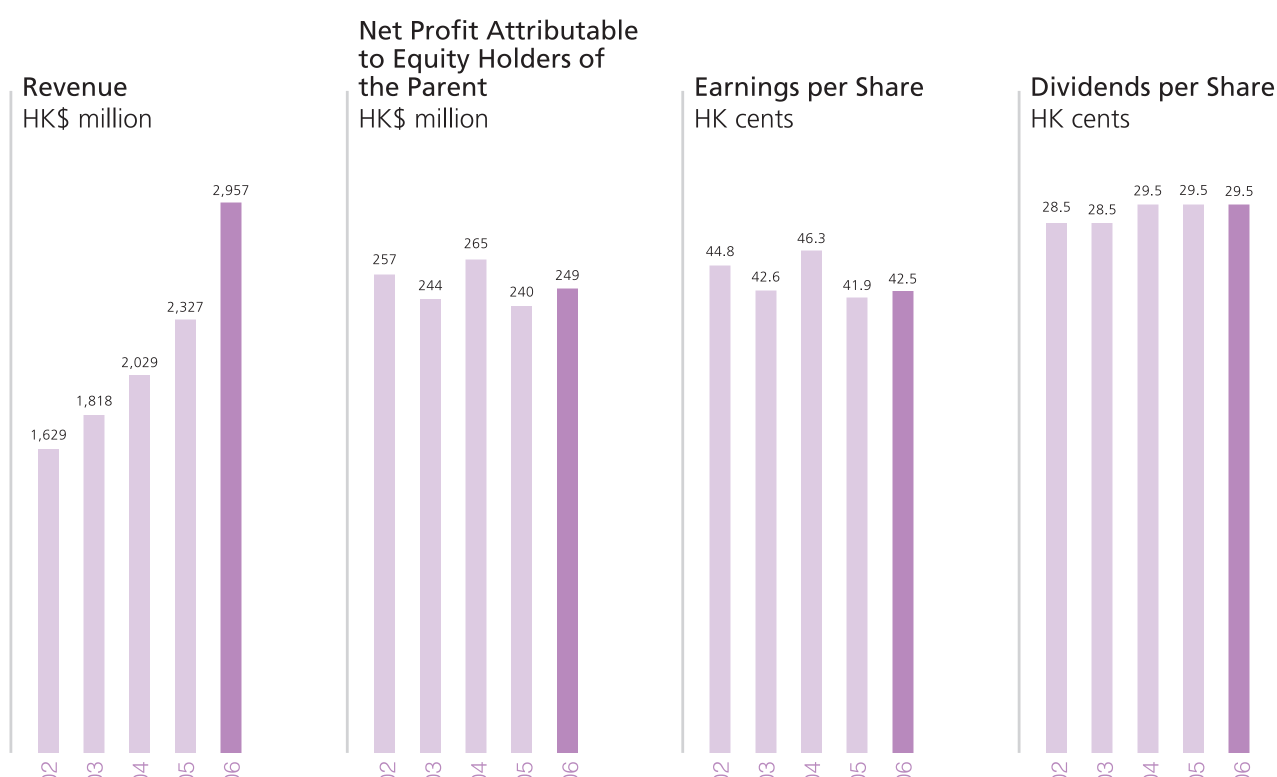
Ernst & Young
Nexia Charles Mar Fan & Co.

## Share Registrar

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

# Financial Highlights

| Year ended 31 March | **2006** HK$'000 | 2005 HK$'000 | Percentage change |
|---|---|---|---|
| Revenue | **2,956,885** | 2,327,393 | +27 |
| Profit from Operating Activities | **349,878** | 314,595 | +11 |
| Net Profit Attributable to Equity Holders of the Parent | **248,891** | 240,281 | +4 |
| Property, Plant and Equipment | **1,373,577** | 1,289,684 | +7 |
| Equity Attributable to Equity Holders of the Parent | **2,037,213** | 1,842,660 | +11 |
| Earnings per Share (cents) | **42.5** | 41.9 | +1 |
| Dividends per Share (cents) | **29.5** | 29.5 | 0 |



# Chairman's Statement


"Despite various marco-economic factors, Hung Hing's focus on quality and reliability allowed the Group to outperform competition to achieve an increase of 4% in profit." — Yam Cheong Hung, Chairman

**TO OUR SHAREHOLDERS:**

The financial year 2005/06 experienced continuing improvement in consumer confidence levels across the globe. This phenomenon drove demand for quality paper products, and corporations around the world continued to look to companies such as Hung Hing for quality outsourcing partners.

The year also saw adjustments in oil prices, which in turn affected transportation, paper and raw material costs. Labour costs continued to increase, especially driven by government regulations in southern China. Despite these macro-economic factors, Hung Hing's focus on quality and reliability allowed the Group to outperform competition to achieve an increase of 4% in profit.

During the year, the Group achieved an overall revenue growth of 27%. A key factor driving the increase was the inclusion of the full-year consolidated sales of the two Zhongshan paper manufacturing companies following the increase in the Group's stake in them. Apart from the impact of this inclusion, the Group's growth was driven by an increase in demand for quality paper products as the macro economic environment continued to improve.

The first and second quarters of the year saw steady growth due to robust economic performance across the globe. The third quarter saw a slight decline in customer confidence, leading to a short-term impact on orders. Customer confidence once again improved during the later part of the fourth quarter, reflected in an increase in order levels.

The year under review saw the Group increase revenue in all its major markets. The robust economy in China resulted in the Group improving both revenue and profit from mainland Chinese customers. The Group's business from Hong Kong-based exporters also grew by nearly 24%. Following aggressive marketing efforts and a broadening of the products and services offered, particularly in countries such as the UK and Germany, the Group increased its revenue in Europe by 25%. The Group also consolidated its business in the US with a revenue increase of 2%.

## Highlights of 2005/06

*Issue of convertible bonds:* In March 2006, the Group issued HK$750 million five-year zero coupon convertible bonds (CB). The capital raised through the CB issue will give the Group the flexibility to expand and manage its financial strategy in order to take best advantage of market conditions.

*Completion of Phase 1 of Heshan plant:* Construction was completed on Phase 1 of the Group's Heshan plant and machinery is being installed. Production is expected to commence in July 2006.

*Steady progress in paper manufacturing division:* During the year, the Group made further progress with the operations of the two paper manufacturing companies following the acquisition. Key management personnel were put into place, and improvements in consistency of product quality were achieved, resulting in increases in both business volume and profitability.

*Resumption of production in Hong Kong:* The Group installed an eight-colour printing press at its Hong Kong headquarters and production was resumed on a small scale in May 2006. The Hong Kong facility is expected to offer us further flexibility to better serve customer needs and enable us to upscale capacity as needed.

*Growth in printing of conventional books:* The trend to outsource the printing of conventional books became more marked during the year, and the Group grew its revenues from the conventional book printing business. The Hong Kong printing facility is expected to help cater to this side of the business.

*Diversification of our customer base:* During the year under review, the Group's paper trading and corrugated carton manufacturing divisions, as well as the Wuxi plant successfully expanded their customer bases, especially in mainland China. The paper trading division also expanded the range of paper it offers to meet growing internal and external demand. It sold more kraft liner and medium paper sourced from the paper manufacturing division to customers, and offered more art paper to the printing division as demand for conventional books increased.

The Board of Directors is proposing a final dividend of HK20.0 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 12 September 2006 to shareholders whose names appear on the Register of Members of the Company on 28 August 2006.

## Outlook

With the Chinese government encouraging domestic consumption and the global macro-economic environment continuing its strong performance, the Group believes that the potential for both domestic and international growth exists in 2006/07.

However, the year ahead will also see several challenges. The RMB remains strong, and at the same time, labour costs in China, particularly southern China, continue to rise. The Shenzhen government has announced an increase in minimum wage effective July 2006. Labour and power shortages, which have been a phenomenon in southern China for the past 12 months, might persist. Oil price adjustments might mean that paper and other raw material costs will be impacted. Hence continuous innovation will be needed to stay competitive from a price standpoint.

The trend for consolidation in the industry will likely continue with both challenges and opportunities for strong, well managed players. The Group's prudent management policies render it well placed to capitalize on the growth opportunities the market offers.

The Group will focus on higher-margin business and aggressive marketing in overseas markets. Through strategic capacity enhancements in Heshan and Hong Kong, the Group is well poised to meet increased demand.

We will continue with our efforts to remain the employer of choice through continuous improvement of the working environment, competitive salaries, bonuses and skill enhancement. During the year, the Group continued to provide training to its workers in the Shenzhen factory on health and safety measures, and succeeded in further raising the awareness of its staff on safety and environmental factors.

In closing, I would like to thank our dedicated and talented workers whose hard work has made our achievements possible.

**Yam Cheong Hung**
*Chairman*

Hong Kong, 7 July 2006

# Management Discussion and Analysis

"The Group continued to invest strategically to meet future growth requirements. Construction of Phase 1 of the Heshan facility was completed. The Hong Kong headquarters also resumed production allowing the Group to capture opportunities in Hong Kong and spread its production base." — Yum Chak Ming, Matthew, Managing Director

During the period under review, Hung Hing took advantage of the continuing trend of outsourcing the production of quality paper products to China to achieve revenue of HK$2,957 million, an increase of 27% over the previous year. This marked the first time that the full year results of the two paper manufacturing companies in Zhongshan were consolidated with the Group's results, following the increase of the Group's stake in them. This factor also contributed significantly to the increase in revenue.

In tandem with the strong macro economic environment, the Group achieved revenue and profit growth in most of its businesses. The paper and carton box printing and manufacturing division continued its strong performance and contribution to the Group's overall business and achieved an increase of 9% in revenue. The paper trading and paper manufacturing divisions also recorded increases in revenue of 18% and 310% respectively.

Driven by government directives as well as the robust economy, labour costs in southern China increased significantly during the year under review. Worldwide adjustments in oil prices continued, resulting in higher transportation and raw materials costs. Consolidation of the full year results of the paper manufacturing companies resulted in further increases in the Group's cost of sales and administrative expenses. As a result, the Group's overall cost of sales increased by 30%.

During the year under review, power shortages in southern China affected the business efficiency of our mainland Chinese customers, which inevitably impacted orders. Intense competition continued to exert pressure on margins through the year and this trend is expected to persist.

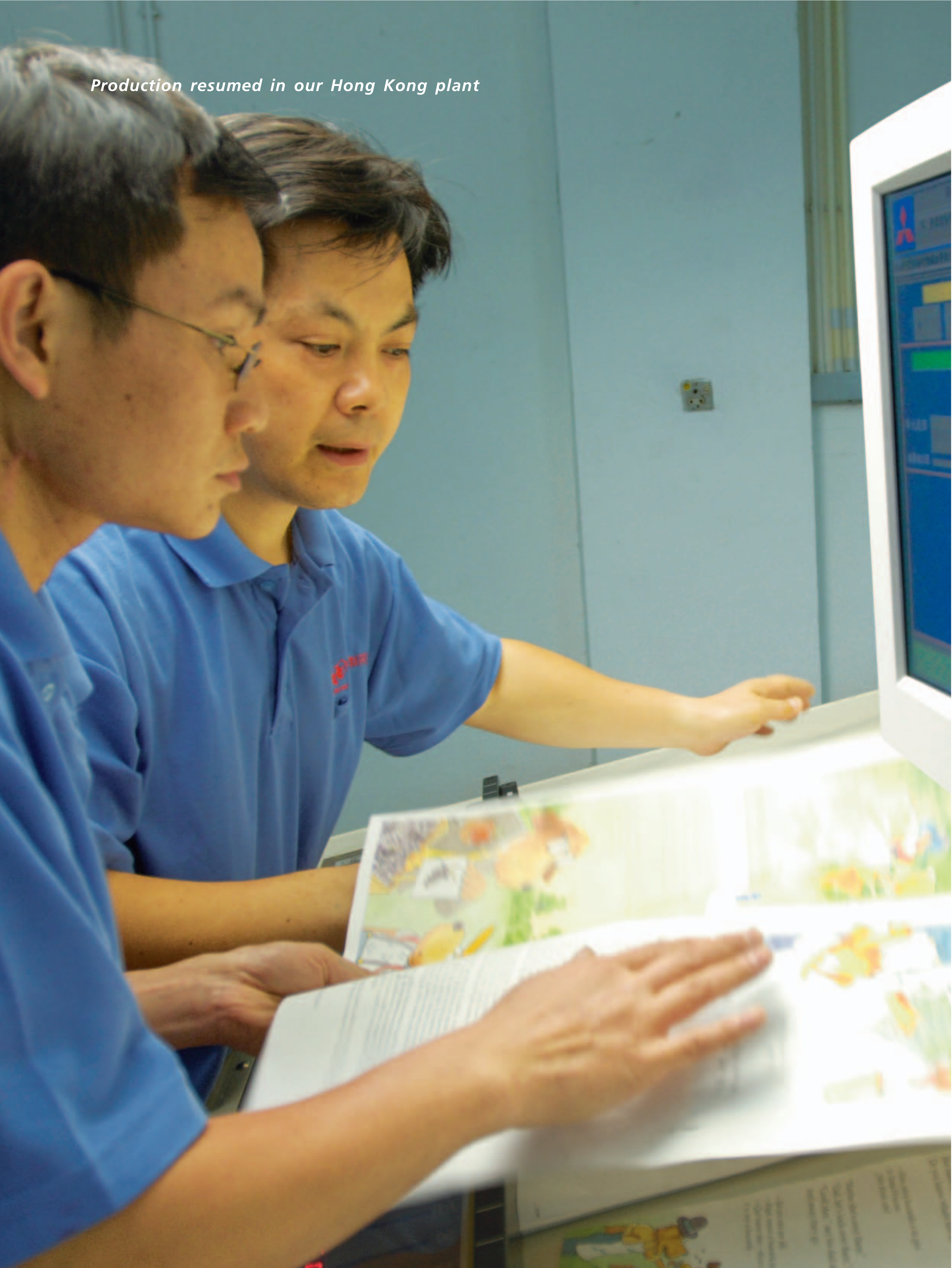
The Group's profit was further impacted by the inclusion of HK$4.7 million associated with the issue of the HK$750 million five-year zero coupon convertible bond (CB) into other expenses, in accordance with the new accounting rules stipulated in the Hong Kong Financial Reporting Standards (HKFRS). This amount comprised HK$2.9 million as part of the CB issue charge, and HK$1.8 million as an adjustment in the fair value of the derivative component of the CB.

Despite these factors, the Group successfully diversified its customer base and product range to achieve revenue growth. The ongoing emphasis on quality, value-added services and efficiency, as well as a focus on higher margin business, led to an increase of 11% in profit from operating activities. Net profit attributable to equity holders of the parent increased to HK$249 million. Earnings per share were HK42.5 cents.

An analysis by business division is as follows:

| | **Revenue** | | | **Contribution to operating profit** | | |
|---|---|---|---|---|---|---|
| | **2006 HK$'000** | % | % change from 2005 | **2006 HK$'000** | % | % change from 2005 |
| Paper and carton box printing and manufacturing | **1,556,040** | 53 | +9 | **255,247** | 73 | +5 |
| Paper trading | **269,544** | 9 | +18 | **27,266** | 8 | +11 |
| Corrugated carton manufacturing | **493,269** | 17 | -3 | **25,721** | 7 | -18 |
| Paper manufacturing | **638,032** | 21 | +310 | **55,839** | 16 | +392 |
| Eliminations | **—** | — | — | **208** | — | N/A |
| | **2,956,885** | 100 | +27 | **364,281** | 104 | +17 |
| Interest, dividend income and other gains | | | | **11,492** | 3 | -49 |
| Corporate and unallocated expenses | | | | **(25,895)** | -7 | +33 |
| | | | | **349,878** | 100 | +11 |

*Production resumed in our Hong Kong plant*






## PAPER AND CARTON BOX PRINTING AND MANUFACTURING

During the period under review, the Group's largest division continued to secure new customers and more business from existing customers to achieve an increase of 9% in external sales. The increase was driven primarily by growth in markets like Australia, Canada, Germany and the UK.

The division expanded its breadth of products by printing more conventional books, as well as greeting cards. Despite intense competition, paper price adjustments and labour cost increases, which put pressure on margins, the division achieved 9% growth in revenue and 5% in operating profit.

The Group's Wuxi plant is now in its third year of operations. The plant successfully increased revenue by 47% and expanded the variety of products it offered, including packaging and greeting cards. Machinery is being installed at the Heshan facility and Phase 1 is scheduled to become operational during July 2006. Resumption of production at the Hong Kong plant and installation of another press in 2006/07 will allow the Group to capture opportunities in Hong Kong and spread its production base on a limited scale.

## PAPER TRADING

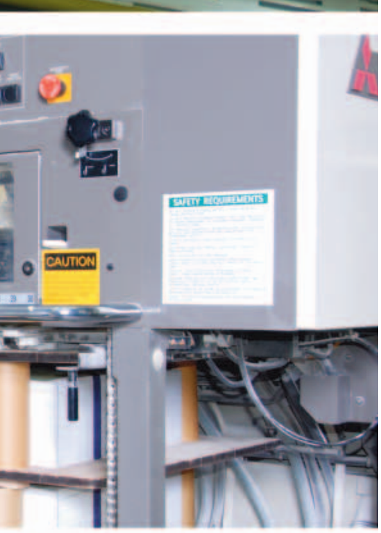
The paper trading division succeeded in expanding its customer base in mainland China to increase external sales volume by 31% and revenue by 18%.

The growth was driven by an expansion in the varieties of paper it offered customers. Specifically, the division began to offer kraft liner and medium paper from the paper manufacturing division, as well as high-end types of paper. It also sourced more types of paper such as ivory board and wood-free art paper from mills in mainland China.

The Group's Shenzhen distribution and logistic warehouse began to provide customers with value-added services such as paper cutting and slitting to customer requirements in addition to storage. The Group's strategy of offering limited credit facilities to reliable customers also helped achieve the increase in revenue.

The market environment continued to be competitive for this division, putting pressure on margins. Adjustments in raw material prices affected paper prices throughout the year and this trend is expected to continue.

*Conventional book printing in our Hong Kong and Shenzhen plants*




## CORRUGATED CARTON MANUFACTURING

The corrugated carton manufacturing division faced intense competition and pricing pressure during the financial year. Despite maintaining volumes, the competitive environment caused a decline of 3% in revenue through external sales and 18% in operating profit.

The division has begun to implement a strategy of focusing further on higher-margin businesses. It continues to underpin the Group's vertically integrated approach by acting as a key supplier of corrugated board and cartons to the Group's paper and carton box printing and manufacturing division.

The new corrugator installed in the Zhongshan facility has begun operation and will help increase volumes. The division is also putting into place cross-selling strategies that will enable it to better capitalize on the steady revenue growth achieved by the printing division.

## PAPER MANUFACTURING

The paper manufacturing division contributed 21% of the Group's total revenue during the period under review, making it the Group's second largest division. Internal sales, where the division supplied paper to the Group's other businesses, accounted for 23% of its revenue.

The division has made steady progress since the Group acquired a majority stake in the two paper manufacturing companies in Zhongshan. Key management personnel were put into place and a number of measures were implemented to improve operational efficiency, such as continuous upgrades in the paper making machinery. The division also achieved a sustained further improvement in paper quality and enhanced the features of the paper manufactured by the two companies.

Despite intense competition and pricing pressure, the division performed soundly which validates the Group's strategy in acquiring a majority stake in the two companies.

## LIQUIDITY AND CAPITAL RESOURCES

The Group continued to invest strategically to meet future growth requirements.

Capital expenditure for the year amounted to HK$171 million. The expenditure was incurred as follows:

| | HK$ million |
|---|---|
| Buildings and machinery installation in the corrugating and printing facility at the Zhongshan plant | 50 |
| Construction of buildings at the Heshan plant | 33 |
| Buildings and machinery upgrade at the paper manufacturing facilities in Zhongshan | 25 |
| Buildings and machinery at the Wuxi plant | 21 |
| Machinery and equipment at the Tai Po facility | 19 |
| Machinery and equipment at the Shenzhen plant | 17 |
| Buildings and machinery at the Shenzhen logistic warehouse | 6 |
| Total | 171 |

The Group's total bank borrowings at 31 March 2006 amounted to HK$596 million, a reduction of HK$57 million from last year. The bank borrowings were predominantly arranged in Hong Kong dollars, except those of the two Zhongshan paper manufacturing companies which were arranged in Renminbi. Of the Group's total bank borrowings, 75% was in Hong Kong dollars and 25% was in Renminbi.

The Group's short term bank borrowings amounted to HK$427 million and long term bank borrowings amounted to HK$169 million. Interest expenses increased to HK$28 million as a result of increased interest rates in Hong Kong and the inclusion of full-year loan interest of HK$8 million upon consolidation of the two Zhongshan paper manufacturing companies. The Group's bank borrowings as a ratio to shareholders' equity improved from 36% to 29% as a result of net repayment of bank loans of HK$57 million.

The Group issued a 5-year zero coupon convertible bonds (CB) in March 2006, raising HK$725 million net of expenses, providing the Group with additional liquidity and financial resources. The proceeds of the CB will be used for capacity expansion and to refinance some of the Group's short term borrowings. Some of the proceeds have been placed in short term deposits.

The year saw an improvement in cash flow generated from operations primarily from the reduction in account receivable and inventory. During the year the Company's shareholders elected to receive 23 million new shares in lieu of dividend. This enabled the Group to retain cash of HK$106 million, further enhancing its cash flow situation.

As at 31 March 2006, the Group had cash on hand of HK$1,311 million of which HK$1,115 million was placed in time deposits. Of the total cash on hand, 65% was in Hong Kong dollars, 22% was in Renminbi, 8% in US dollars and 5% in Euro. Cash on hand net of bank borrowings and the liability component of the CB amounted to HK$73 million.

## EMPLOYEES

As at 31 March 2006, the Group had 15,349 employees in Hong Kong and China.

The Group further strengthened its employee program during the year under review to enhance employee skills and provide workers with a sound career path. Salaries provided are competitive and bonuses are offered according to employee performance and the performance of the companies within the Group.

Hung Hing, as the leading printing and packaging company in China and Asia, not only adheres closely to local government regulations as well as our customers' standards, we also aim to continuously surpass them with the goal to become a role model for others in the industry in terms of good labour practices.

The Group is confident that its long-term management strategies, emphasis on quality, and vertically integrated operations will enable it to achieve growth and combat competition in coming years.

The management thanks its staff whose skill, commitment to professionalism and untiring efforts are the main reason for the Group's business success.

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

Hong Kong, 7 July 2006

# 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 2006.

## 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 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 2006 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 32 to 100.

An interim dividend of HK9.5 cents per share was paid on 15 February 2006. The directors recommend the payment of a final dividend of HK20.0 cents per ordinary share in respect of the year, to shareholders on the register of members on 28 August 2006. 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 | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | (Restated) | (Restated) |
| **REVENUE** | **2,956,885** | 2,327,393 | 2,028,920 | 1,818,333 | 1,628,556 |
| **PROFIT FROM OPERATING ACTIVITIES** | **349,878** | 314,595 | 336,617 | 305,419 | 303,309 |
| Finance costs | **(28,247)** | (12,203) | (5,551) | (6,119) | (7,083) |
| Share of profits and losses of associates | **—** | 4,756 | 8,571 | 8,444 | 6,339 |
| **PROFIT BEFORE TAX** | **321,631** | 307,148 | 339,637 | 307,744 | 302,565 |
| Tax | **(45,540)** | (44,096) | (54,653) | (43,502) | (25,255) |
| **PROFIT FOR THE YEAR** | **276,091** | 263,052 | 284,984 | 264,242 | 277,310 |
| Attributable to: | | | | | |
| Equity holders of the parent | **248,891** | 240,281 | 264,742 | 243,531 | 256,507 |
| Minority interests | **27,200** | 22,771 | 20,242 | 20,711 | 20,803 |
| | **276,091** | 263,052 | 284,984 | 264,242 | 277,310 |
| **EARNINGS PER SHARE** | | | | | |
| Basic | **42.5 cents** | 41.9 cents | 46.3 cents | 42.6 cents | 44.8 cents |

## SUMMARY FINANCIAL INFORMATION (continued)

**Assets, Liabilities and Minority Interests**

| | At 31 March | | | | |
|---|---|---|---|---|---|
| | **2006** | 2005 | 2004 | 2003 | 2002 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) | (Restated) | (Restated) |
| **PROPERTY, PLANT AND EQUIPMENT** | **1,373,577** | 1,289,684 | 859,151 | 750,180 | 722,182 |
| **PREPAID LAND LEASE PAYMENTS** | **145,531** | 149,682 | 98,178 | 80,686 | 82,415 |
| **GOODWILL** | **3,041** | 3,041 | — | — | — |
| **AVAILABLE-FOR-SALE INVESTMENTS/ LONG TERM INVESTMENTS** | **10,766** | 10,438 | 6,825 | 5,666 | 5,673 |
| **PROPERTIES UNDER CONSTRUCTION** | **46,058** | 57,382 | 41,291 | 46,399 | 15,204 |
| **INTERESTS IN ASSOCIATES** | **—** | — | 137,557 | 137,022 | 136,586 |
| **DEFERRED TAX ASSETS** | **5,869** | 6,060 | 2,387 | 2,384 | 1,837 |
| **CURRENT ASSETS** | **2,400,552** | 1,604,097 | 1,331,498 | 1,137,369 | 1,038,848 |
| **TOTAL ASSETS** | **3,985,394** | 3,120,384 | 2,476,887 | 2,159,706 | 2,002,745 |
| **CURRENT LIABILITIES** | **797,458** | 634,545 | 338,922 | 269,357 | 213,249 |
| **CONVERTIBLE BONDS** | **641,185** | — | — | — | — |
| **INTEREST-BEARING BANK AND OTHER BORROWINGS** | **169,167** | 325,000 | 230,000 | 90,000 | 85,000 |
| **DEFERRED TAX LIABILITIES** | **23,354** | 19,325 | 16,628 | 14,179 | 11,998 |
| **TOTAL LIABILITIES** | **1,631,164** | 978,870 | 585,550 | 373,536 | 310,247 |
| **MINORITY INTERESTS** | **317,017** | 298,854 | 151,478 | 148,031 | 134,868 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | **2,037,213** | 1,842,660 | 1,739,859 | 1,638,139 | 1,557,630 |

## 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 28 and 26 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 29(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 March 2006, the Company's reserves available for distribution, calculated in accordance with the provisions of Section 79B of the Companies Ordinance, amounted to HK$191,425,000, 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$68,000.

## 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 less than 30% of the total purchases for the year.

## 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

## DIRECTORS (continued)

**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 Hon Ming, Tommy
Yip Yu Bun
Wong Siu Ping

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 77, 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 48, 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 47, 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.

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

### Executive directors (continued)

**Mr. Yam Hon Ming, Tommy**, aged 42, 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 Art 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.

### Non-executive directors

**Dr. Chu Shu Ho, David**, JP, aged 56, 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 and a member of the National Committee of the Chinese People's Political Consultative Conference. He is well known in the Chinese sports society. Dr. Chu is the Chairman of the Mission Hills Group and Mission Hills Golf Club.

**Ms. Yum Pui Ming, Anna**, aged 45, 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.

### Independent non-executive directors

**Mr. Yip Yu Bun**, MH, aged 79, 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 57, 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 67, 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, Wong's International (Holdings) Limited and RBI Holdings Limited, which are listed on the Stock Exchange of Hong Kong Limited. He became a director of the Company in March 2005.

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

### Senior management

**Mr. Man Lim Huen**, aged 72, 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 48, 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 47, is the Operation Officer of the Zhongshan Region, 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.

**Mr. Chan Lai Him, Raymond**, aged 49, 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 Art 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 57, 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 45, 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 36, 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.

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

**Senior management** (continued)

**Mr. Tung Yu Biu**, aged 57, 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. Lau Chin Hung, Edwin**, aged 52, is the Deputy General Manager of the Company and the Personal Assistant to Managing Director. He is responsible for assisting the Managing Director in the planning and operations of the Group. He obtained a higher diploma with distinction in design from Hong Kong Polytechnic University in 1976. He has over 16 years experience in senior management in the printing industry. He has been with the Group since January 2004.

**Mr. Lee Kwok Wai, Raymond**, aged 46, 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 the 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 China. He has worked in the paper manufacturing industry over 10 years. He has been with the Group since 2005.

**Mr. Wong Fu Cheung, Dennis**, aged 46, 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 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 31 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 2006, 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:*

| | Number of shares held, capacity and nature of interest | | | | |
|---|---|---|---|---|---|
| **Name of director** | **Directly beneficially owned** | **Through spouse or minor children** | **Through controlled corporation** | **Total** | **Percentage of the Company's issued share capital** |
| | | | *(Note)* | | |
| Yam Cheong Hung | — | 1,650,207 | 282,676,379 | 284,326,586 | 47.33 |
| Yum Chak Ming, Matthew | 9,104,537 | — | 282,676,379 | 291,780,916 | 48.57 |
| Yam Ho Ming, Michael | — | — | 282,676,379 | 282,676,379 | 47.05 |
| Yam Hon Ming, Tommy | — | — | 282,676,379 | 282,676,379 | 47.05 |
| Yum Pui Ming, Anna | 1,246,135 | 951,134 | 282,676,379 | 284,873,648 | 47.42 |
| Yap, Alfred Donald | 27,504 | — | — | 27,504 | — |

*Note:* Yam Cheong Hung, Yum Chak Ming, Matthew, Yam Ho Ming, Michael, Yam Hon Ming, Tommy and Yum Pui Ming, Anna are beneficial shareholders of approximately 9.15%, 14.08%, 14.08%, 14.08% and 9.86%, respectively, of the issued share capital of 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 2006, 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.

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

At 31 March 2006, 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)* | Through a controlled corporation and his spouse | 284,326,586 | 47.33 |
| C.H. Yam International Limited | *(a)* | Directly beneficially owned and through a controlled corporation | 282,676,379 | 47.05 |
| C.H. Yam Holding Limited | *(a)* | Through a controlled corporation | 193,789,190 | 32.26 |
| Hung Tai Industrial Company Limited | | Directly beneficially owned | 193,789,190 | 32.26 |
| Capital Research and Management Company | | Directly beneficially owned | 45,749,000 | 7.61 |

*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 Securities and Futures Ordinance, Yam Cheong Hung is deemed to be interested in the 1,650,207 shares (0.27%) 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 2006, 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, 7 July 2006

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 adopted and complied with the Code on Corporate Governance Practices (the "CG Code") of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the adoption of relevant practices and procedures during the year ended 31 March 2006 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 20 to 23 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 Directors 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.

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 2005/06

| | **Attendance** |
|---|---|
| **Executive Directors** | |
| Yam Cheong Hung *(Chairman)* | 2/4 |
| Yum Chak Ming, Matthew *(Managing Director)* | 4/4 |
| Yam Ho Ming, Michael | 4/4 |
| Yam Hon Ming, Tommy | 3/4 |
| **Non-executive Directors** | |
| Chu Shu Ho, David | 1/4 |
| Yum Pui Ming, Anna | 4/4 |
| **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 shall have full access to information on the Group and are able to obtain independent professional advice whenever necessary.

## 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 2006.

## 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 Report of the Auditors on page 31.

## AUDITORS' REMUNERATION

For the year ended 31 March 2006, the Auditors of the Company will receive approximately HK$2,137,000 for their audit service. Non-audit service which covered taxation service provided to the Group and professional fee in associated with the Group's issue of the HK$750 million five-year zero coupon convertible bonds were HK$316,000 and HK$840,000 respectively in 2005/06.

## 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 2005/06 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 2005/06 with a 100% attendance by all of the Audit Committee members. The Company has an internal audit department and the principal duties of the Audit Committee include the review of the Group's internal 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 2006/07 at the forthcoming annual general meeting.

ERNST & YOUNG
安永會計師事務所

NEXIA CHARLES MAR FAN & CO.
馬炎璋會計師行
NEXIA INTERNATIONAL

**To the members**
**Hung Hing Printing Group Limited**
*(Incorporated in Hong Kong with limited liability)*

We have audited the financial statements on pages 32 to 100 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

**Respective responsibilities of directors and auditors**

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the 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.

**Basis of opinion**

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our 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 2006 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

**Ernst & Young**
Certified Public Accountants

**Nexia Charles Mar Fan & Co.**
Certified Public Accountants

Hong Kong, 7 July 2006

# Consolidated Income Statement

Year ended 31 March 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|---|
| **REVENUE** | 5 | **2,956,885** | 2,327,393 |
| Cost of sales | | **(2,337,515)** | (1,793,882) |
| Gross profit | | **619,370** | 533,511 |
| Other income and gains | 5 | **36,309** | 42,337 |
| Distribution costs | | **(70,942)** | (65,859) |
| Administrative and selling expenses | | **(225,979)** | (193,514) |
| Other expenses | | **(8,880)** | (1,880) |
| | | **349,878** | 314,595 |
| Finance costs | 7 | **(28,247)** | (12,203) |
| Share of profits and losses of associates | | **—** | 4,756 |
| **PROFIT BEFORE TAX** | 6 | **321,631** | 307,148 |
| Tax | 10 | **(45,540)** | (44,096) |
| **PROFIT FOR THE YEAR** | | **276,091** | 263,052 |
| Attributable to: | | | |
| Equity holders of the parent | 11 | **248,891** | 240,281 |
| Minority interests | | **27,200** | 22,771 |
| | | **276,091** | 263,052 |
| **DIVIDENDS** | 12 | | |
| Interim | | **56,265** | 54,341 |
| Proposed final | | **120,156** | 115,559 |
| | | **176,421** | 169,900 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | 13 | | |
| Basic | | **42.5 cents** | 41.9 cents |

# Consolidated Balance Sheet

31 March 2006

| | Notes | 2006<br>HK$'000 | 2005<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *14* | **1,373,577** | 1,289,684 |
| Prepaid land lease payments | *15* | **145,531** | 149,682 |
| Goodwill | *16* | **3,041** | 3,041 |
| Available-for-sale investments/long term investments | *17* | **10,766** | 10,438 |
| Properties under construction | *18* | **46,058** | 57,382 |
| Deferred tax assets | *27* | **5,869** | 6,060 |
| Total non-current assets | | **1,584,842** | 1,516,287 |
| **CURRENT ASSETS** | | | |
| Inventories | *20* | **500,714** | 553,611 |
| Accounts and bills receivable | *21* | **542,132** | 644,509 |
| Prepayments, deposits and other receivables | | **45,444** | 71,561 |
| Derivative financial instruments | *22* | **1,231** | — |
| Cash and cash equivalents | *23* | **1,311,031** | 334,416 |
| Total current assets | | **2,400,552** | 1,604,097 |
| **CURRENT LIABILITIES** | | | |
| Accounts payable | *24* | **113,838** | 124,016 |
| Tax payable | | **25,574** | 28,947 |
| Other payables and accrued liabilities | | **142,750** | 153,069 |
| Derivative component of convertible bonds | *26* | **88,050** | — |
| Interest-bearing bank and other borrowings | *25* | **427,246** | 328,513 |
| Total current liabilities | | **797,458** | 634,545 |
| **NET CURRENT ASSETS** | | **1,603,094** | 969,552 |

# Consolidated Balance Sheet

31 March 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|---|
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,187,936** | 2,485,839 |
| **NON-CURRENT LIABILITIES** | | | |
| Convertible bonds | *26* | **641,185** | — |
| Interest-bearing bank and other borrowings | *25* | **169,167** | 325,000 |
| Deferred tax liabilities | *27* | **23,354** | 19,325 |
| Total non-current liabilities | | **833,706** | 344,325 |
| Net assets | | **2,354,230** | 2,141,514 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent | | | |
| Issued capital | *28* | **60,078** | 57,779 |
| Reserves | | **1,856,979** | 1,669,322 |
| Proposed final dividend | *12* | **120,156** | 115,559 |
| | | **2,037,213** | 1,842,660 |
| Minority interests | | **317,017** | 298,854 |
| Total equity | | **2,354,230** | 2,141,514 |

**Yam Cheong Hung**
*Director*

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

# Consolidated Statement of Changes in Equity

Year ended 31 March 2006

| | Notes | Attributable to equity holders of the parent | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Issued share capital HK$'000 | Share premium account HK$'000 | Capital redemption reserve HK$'000 | Capital reserve *(note 16)* HK$'000 | Hedging reserve HK$'000 | Available-for-sale investment revaluation reserve HK$'000 | Legal reserves *(note 29(a)(ii))* HK$'000 | Exchange fluctuation reserve HK$'000 | Retained profits HK$'000 | Proposed final dividend HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 April 2004 | | 57,200 | 590,690 | 966 | 104,289 | — | — | 58,752 | — | 813,561 | 114,401 | 1,739,859 | 151,478 | 1,891,337 |
| Net profit for the year | | — | — | — | — | — | — | — | — | 240,281 | — | 240,281 | 22,771 | 263,052 |
| Final 2004 dividend declared | | — | — | — | — | — | — | — | — | — | (114,401) | (114,401) | — | (114,401) |
| Issue of shares pursuant to a scrip dividend scheme | *28* | 579 | 30,683 | — | — | — | — | — | — | — | — | 31,262 | — | 31,262 |
| Transfer from retained profits | | — | — | — | — | — | — | 1,135 | — | (1,135) | — | — | — | — |
| Interim 2005 dividend | *12* | — | — | — | — | — | — | — | — | (54,341) | — | (54,341) | — | (54,341) |
| Proposed final 2005 dividend | *12* | — | — | — | — | — | — | — | — | (115,559) | 115,559 | — | — | — |
| Acquisition of subsidiaries | *30(b)* | — | — | — | — | — | — | — | — | — | — | — | 134,796 | 134,796 |
| Dividends paid to minority shareholders | | — | — | — | — | — | — | — | — | — | — | — | (14,943) | (14,943) |
| Contributions from a minority shareholder of a subsidiary | | — | — | — | — | — | — | — | — | — | — | — | 4,752 | 4,752 |
| At 31 March 2005 | | 57,779 | 621,373* | 966* | 104,289* | — | — | 59,887* | — | 882,807* | 115,559 | 1,842,660 | 298,854 | 2,141,514 |
| At 1 April 2005 | | | | | | | | | | | | | | |
| As previously reported | | 57,779 | 621,373 | 966 | 104,289 | — | — | 59,887 | — | 882,807 | 115,559 | 1,842,660 | 298,854 | 2,141,514 |
| Opening adjustments: | *2.4* | | | | | | | | | | | | | |
| Derivative financial instruments | | — | — | — | — | — | — | — | — | 655 | — | 655 | — | 655 |
| Negative goodwill | | — | — | — | (105,103) | — | — | — | — | 105,103 | — | — | — | — |
| As restated | | 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 | *23* | — | — | — | — | (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 |
| Net 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 | *28* | 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 |

* These reserve accounts comprise the consolidated reserves of HK$1,856,979,000 (2005: HK$1,669,322,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 March 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **321,631** | 307,148 |
| Adjustments for: | | | |
| Interest income | *5* | **(8,405)** | (9,344) |
| Finance costs | *7* | **28,247** | 12,203 |
| Share of profits and losses of associates | | **—** | (4,756) |
| Depreciation | *6* | **111,267** | 84,567 |
| Recognition of prepaid land lease payments | *15* | **4,393** | 2,284 |
| Loss on disposal of items of property, plant and equipment | *6* | **974** | 772 |
| Unrealised gains on listed investments | *5* | **—** | (3,639) |
| Unrealised loss on unlisted investment | | **—** | 26 |
| Dividend income from available-for-sale investments/long term investments | *5* | **(361)** | (258) |
| Fair value loss on derivative component of convertible bonds | *6* | **1,800** | — |
| Transaction cost related to derivative component of convertible bonds | *6* | **2,932** | — |
| Operating profit before working capital changes | | **462,478** | 389,003 |
| Increase in amounts due from associates | | **—** | (50,233) |
| Decrease/(increase) in inventories | | **52,897** | (26,154) |
| Decrease/(increase) in accounts and bills receivable | | **102,377** | (64,304) |
| Decrease/(increase) in prepayments, deposits and other receivables | | **26,117** | (22,417) |
| Increase in derivative financial instruments | | **(437)** | — |
| Increase/(decrease) in accounts payable | | **(10,178)** | 16,349 |
| Increase/(decrease) in other payables and accrued liabilities | | **(10,319)** | 18,312 |
| Cash generated from operations | | **622,935** | 260,556 |
| Hong Kong profits tax paid | | **(15,274)** | (24,668) |
| Mainland China tax paid | | **(29,579)** | (31,290) |
| Net cash inflow from operating activities | | **578,082** | 204,598 |

| | Notes | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **8,405** | 9,344 |
| Dividend received from available-for-sale investments/long term investments | | **361** | 258 |
| Dividend received from associates | | **—** | 7,516 |
| Purchases of items of property, plant and equipment | *14* | **(120,738)** | (195,156) |
| Additions to prepaid land lease payments | *15* | **(242)** | (23,285) |
| Additions to properties under construction | *18* | **(50,037)** | (50,012) |
| Acquisition of subsidiaries | *30(b)* | **—** | (70,026) |
| Proceeds from disposal of items of property, plant and equipment | | **3,228** | 675 |
| Increase in time deposits with original maturity of over three months | | **(38,385)** | — |
| Fair value adjustment on time deposits designated as hedging instrument | | **(1,051)** | — |
| Net cash outflow from investing activities | | **(198,459)** | (320,686) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| Proceeds from issue of convertible bonds | *26* | **750,000** | — |
| Issue cost of convertible bonds | | **(25,497)** | — |
| Dividends paid | *30(a)* | **(66,053)** | (137,480) |
| Dividends paid to minority shareholders | | **(28,049)** | (14,943) |
| New bank loans | | **131,050** | 232,236 |
| Repayment of bank loans | | **(177,397)** | (56,123) |
| Repayment of trust receipt loans | | **(10,999)** | (3,110) |
| Contributions from minority shareholders | | **13,200** | 4,752 |
| Interest paid | | **(28,247)** | (12,203) |
| Net cash inflow from financing activities | | **558,008** | 13,129 |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **937,631** | (102,959) |
| Cash and cash equivalents at beginning of year | | **334,416** | 437,375 |
| Effect of foreign exchange rate changes, net | | **353** | — |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **1,272,400** | 334,416 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | *23* | **196,285** | 170,962 |
| Time deposits with original maturity of less than three months when acquired | | **1,076,361** | 163,454 |
| Bank overdraft | *25* | **(246)** | — |
| | | **1,272,400** | 334,416 |

# Balance Sheet

31 March 2006

| | Notes | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *14* | **388** | 464 |
| Prepaid land lease payments | *15* | **11,555** | 12,115 |
| Available-for-sale investments/long term investments | *17* | **378** | 802 |
| Interests in subsidiaries | *19* | **800,910** | 767,992 |
| Deferred tax assets | *27* | **5** | 168 |
| Total non-current assets | | **813,236** | 781,541 |
| **CURRENT ASSETS** | | | |
| Prepayments, deposits and other receivables | | **2,256** | 199 |
| Derivative financial instruments | *22* | **1,231** | — |
| Cash and cash equivalents | *23* | **981,355** | 73,447 |
| Total current assets | | **984,842** | 73,646 |
| **CURRENT LIABILITIES** | | | |
| Other payables and accrued liabilities | | **4,153** | 7,297 |
| Tax payable | | **—** | 1,745 |
| Total current liabilities | | **4,153** | 9,042 |
| **NET CURRENT ASSETS** | | **980,689** | 64,604 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,793,925** | 846,145 |
| **NON-CURRENT LIABILITIES** | | | |
| Due to subsidiaries | *19* | **818,086** | — |
| Net assets | | **975,839** | 846,145 |
| **EQUITY** | | | |
| Issued capital | *28* | **60,078** | 57,779 |
| Reserves | *29(b)* | **795,605** | 672,807 |
| Proposed final dividend | *12* | **120,156** | 115,559 |
| Total equity | | **975,839** | 846,145 |

**Yam Cheong Hung**
*Director*

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

## 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 includes Hong Kong Accounting Standards ("HKASs") and Interpretations ("Int")) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments and available-for-sale investments, which have been measured at fair value, as further explained in note 2.5. 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 2006. 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 in the results and net assets of the Company's subsidiaries.

## 2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

| | |
|---|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 12 | Income Taxes |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 18 | Revenue |
| HKAS 19 | Employee Benefits |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separate Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Interests in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 Amendment | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKFRS 3 | Business Combinations |
| HK-Int 4 | Leases — Determination of the Length of Lease Term in respect of Hong Kong Land Leases |

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 23, 27, 28, 31, 33, 37, 38 and HK-Int 4 has had no material impact on the accounting policies of the Group and the Company and the methods of computation in the Group's and the Company's financial statements.

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

The impact of adopting the other HKASs and HKFRS is summarised as follows:

**(a)** HKAS 1 has affected the presentation of minority interests on the face of the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity and other disclosures. In addition, in prior years, the Group's share of tax attributable to associates was presented as a component of the Group's total tax charge/(credit) in the consolidated income statement. Upon the adoption of HKAS 1, the Group's share of the post-acquisition results of associates is presented net of the Group's share of tax attributable to associates.

**(b)** HKAS 17 — Leases

In prior years, leasehold land and buildings held for own use were stated at cost less accumulated depreciation and any impairment losses.

Upon the adoption of HKAS 17, the Group's leasehold interest in land and buildings is separated into leasehold land and buildings. The Group's leasehold land is classified as an operating lease because the title of the land is not expected to pass to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid land lease payments, while buildings continue to be classified as part of property, plant and equipment. Prepaid land lease payments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term.

This change in accounting policy has had no effect on the consolidated income statement and retained profits. The comparative amounts of HK$149,682,000 in respect of the land portion at 31 March 2005 in the consolidated balance sheet have been restated to reflect the reclassification of the leasehold land.

**(c)** HKAS 21 had no material impact on the Group. As permitted by the transitional provisions of HKAS 21, goodwill arising in a business combination prior to 1 April 2005 and fair value adjustments arising on that acquisition are deemed to be in the currency of the Company. In respect of acquisitions subsequent to 1 April 2005, any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of the assets and liabilities are treated as assets and liabilities of the foreign operation and are translated at the closing rate in accordance with HKAS 21.

**(d)** HKAS 24 has expanded the definition of related parties and affected the Group's related party disclosures.

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

**(e)** HKAS 32 and HKAS 39 — Financial Instruments

(i) *Equity/debt securities*

In prior years, the Group classified its investments in equity and debt securities as long term investments which were stated at their fair values on an individual basis with gains and losses recognised in the income statement. Upon the adoption of HKAS 39, these securities held by the Group at 1 April 2005 in the amount of HK$10,438,000 are designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

The adoption of HKAS 39 has not resulted in any change in the measurement of these equity/debt securities. Comparative amounts have been reclassified for presentation purposes.

(ii) *Convertible bonds*

Upon the adoption of HKASs 32 and 39, convertible bonds are split into liability and derivative components. The effects of the above changes are summarised in note 2.4 to the financial statements. 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 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.

(iii) *Derivative financial instruments — Forward currency contracts*

Forward currency contracts held to hedge firm future commitments and recognised financial assets are designated as cash flow hedges and fair value hedges from 1 April 2005 and are recorded at fair value. The portion of the gain or loss on the hedging instrument that is determined to be an effective cash flow hedge is recognised directly in equity, until the transaction which is being hedged is itself recognised in the financial statements. The ineffective portion of the cash flow hedge (if any) is recognised immediately in the income statement. Previously, forward currency contracts held to hedge firm future commitments were deferred on the balance sheet until the item being hedged was itself recognised.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKAS 39, comparative amounts have not been restated.

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

**(f)** HKFRS 3 — Business Combinations and HKAS 36 — Impairment of Assets

In prior years, goodwill and negative goodwill arising on acquisitions prior to 1 April 2001 were eliminated against and credited to the consolidated capital reserve in the year of acquisition and were not recognised in the income statement until disposal or impairment of the acquired businesses.

Goodwill arising on acquisitions on or after 1 April 2001 was capitalised and amortised on the straight-line basis over its estimated useful life and was subject to impairment testing when there was any indication of impairment.

The adoption of HKFRS 3 and HKAS 36 has resulted in the Group ceasing annual goodwill amortisation and commencing testing for impairment at the cash-generating unit level annually (or more frequently if events or changes in circumstances indicate that the carrying value may be impaired).

The transitional provisions of HKFRS 3 have required the Group to eliminate at 1 April 2005 the carrying amounts of accumulated amortisation with a corresponding adjustment to the cost of goodwill and to derecognise at 1 April 2005 the carrying amounts of negative goodwill (including that remaining in the consolidated capital reserve) against retained profits. Goodwill previously eliminated against consolidated capital reserve remains eliminated against consolidated capital reserve 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.

The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with the transitional provisions of HKFRS 3, comparative amounts have not been restated.

## 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. Unless otherwise stated, these HKFRSs are effective for annual periods beginning on or after 1 January 2006:

| | |
|---|---|
| HKAS 1 Amendment | Capital Disclosures |
| HKAS 19 Amendment | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 21 Amendment | Net Investment in a Foreign Operation |
| HKAS 39 Amendment | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 Amendment | The Fair Value Option |
| HKAS 39 & HKFRS 4 Amendments | Financial Guarantee Contracts |
| HKFRSs 1 & 6 Amendments | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC)-Int 4 | Determining whether an Arrangement contains a Lease |
| HK(IFRIC)-Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment |
| HK(IFRIC)-Int 7 | Applying the Restatement Approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies" |
| HK(IFRIC)-Int 8 | Scope of HKFRS 2 |
| HK(IFRIC)-Int 9 | Reassessment of Embedded Derivatives |

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 objective, 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 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments and has some additional disclosures. This HKFRS shall be applied for annual periods beginning on or after 1 January 2007.

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

The HKAS 21 Amendment requires exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation to be recognised initially in a separate component of equity in the consolidated financial statements, irrespective of the currency of the monetary item and of whether the monetary item results from a transaction with the reporting entity or any of its subsidiaries.

The adoption of the amendments to HKAS 39 regarding financial guarantee contracts is expected to result in the recognition of a financial liability in the Company's balance sheet in respect of corporate guarantees given by the Company in connection with banking facilities granted to its subsidiaries and the issue of convertible bonds of a subsidiary in the year of initial application.

In accordance with the amendments to HKAS 39 regarding financial guarantee contracts, financial guarantee contracts are initially recognised at fair value and are subsequently measured at the higher of (i) the amount determined in accordance with HKAS 37 and (ii) the amount initially recognised, less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18.

HK(IFRIC)-Int 9 applies to embedded derivatives under the scope of HKAS 39. HK(IFRIC)-Int 9 requires that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. This interpretation shall be applied for annual periods beginning on or after 1 June 2006.

The HKAS 19 Amendment, HKAS 39 Amendment regarding cash flow hedge accounting of forecast intragroup transactions, HKFRSs 1 and 6 Amendments, HKFRS 6, HK(IFRIC)-Int 5, HK(IFRIC)-Int 6, HK(IFRIC)-Int 7 and HK(IFRIC)-Int 8 do not apply to the activities of the Group. HK(IFRIC)-Int 6 and HK(IFRIC)-Int 7 shall be applied for annual periods beginning on or after 1 December 2005 and 1 March 2006, respectively.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

### (a) Effect on the consolidated balance sheet

**At 1 April 2005**

| | Effect of adopting | | | | |
|---|---|---|---|---|---|
| | **HKAS 17#** | **HKAS 32#** | **HKAS 39*** | **HKFRS 3*** | |
| **Effect of new policies (Increase/ (decrease))** | **Prepaid land lease payments** | **Change in classification of investments** | **Recognition of derivative financial instruments** | **Derecognition of negative goodwill** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | | |
| Property, plant and equipment | (149,682) | — | — | — | (149,682) |
| Prepaid land lease payments | 149,682 | — | — | — | 149,682 |
| Available-for-sale investments | — | 10,438 | — | — | 10,438 |
| Long term investments | — | (10,438) | — | — | (10,438) |
| Derivative financial instruments | — | — | 794 | — | 794 |
| | | | | | 794 |
| **Liabilities/equity** | | | | | |
| Deferred tax liabilities | — | — | 139 | — | 139 |
| Capital reserve | — | — | — | (105,103) | (105,103) |
| Retained profits | — | — | 655 | 105,103 | 105,758 |
| | | | | | 794 |

* Adjustments taken effect prospectively from 1 April 2005

\# Adjustments/presentation taken effect retrospectively

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

### (a) Effect on the consolidated balance sheet (continued)

### At 31 March 2006

| | Effect of adopting | | | | | | |
|---|---|---|---|---|---|---|---|
| | HKAS 17 | HKASs 32 and 39 | HKASs 32 and 39 | HKAS 39 | HKAS 39 | HKFRS 3 | |
| **Effect of new policies (Increase/ (decrease))** | **Prepaid land lease payments** | **Change in classification of investments** | **Convertible bonds** | **Cash flow hedges** | **Derivative financial instruments not qualified as hedges** | **Derecognition of negative goodwill** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets** | | | | | | | |
| Property, plant and equipment | (145,531) | — | — | — | — | — | (145,531) |
| Prepaid land lease payments | 145,531 | — | — | — | — | — | 145,531 |
| Available-for-sale investments | — | 10,766 | — | — | — | — | 10,766 |
| Long term investments | — | (10,766) | — | — | — | — | (10,766) |
| Derivative financial instruments | — | — | — | — | 1,231 | — | 1,231 |
| | | | | | | | 1,231 |
| **Liabilities/equity** | | | | | | | |
| Derivative component of convertible bonds | — | — | 88,050 | — | — | — | 88,050 |
| Convertible bonds | — | — | (83,318) | — | — | — | (83,318) |
| Capital reserve | — | — | — | — | — | (105,103) | (105,103) |
| Hedging reserve | — | — | — | (1,051) | — | — | (1,051) |
| Available-for-sale investment revaluation reserve | — | 328 | — | — | — | — | 328 |
| Retained profits | — | (328) | (4,732) | 1,051 | 1,231 | 105,103 | 102,325 |
| | | | | | | | 1,231 |

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

### (b) Effect on the balances of equity at 1 April 2005

| | Effect of adopting | | |
|---|---|---|---|
| | HKFRS 3 and HKAS 38 | HKAS 39 | |
| Effect of new policies (Increase/(decrease)) | Negative goodwill | Derivative financial instruments not qualified as hedges | Total |
| | HK$'000 | HK$'000 | HK$'000 |
| Capital reserve | (105,103) | — | (105,103) |
| Retained profits | 105,103 | 655 | 105,758 |
| | | | 655 |

### (c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005

| | Effect of adopting | | | |
|---|---|---|---|---|
| | HKAS 39 | HKASs 32 and 39 | HKFRS 3 | |
| Effect of new policies | Recognition of derivative financial instruments not qualified as hedges | Convertible bonds | Discontinuation of amortisation of goodwill | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Year ended 31 March 2006** | | | | |
| Increase in other income and gains | 1,231 | — | — | 1,231 |
| Decrease/(increase) in other expenses* | — | (4,732) | 156 | (4,576) |
| Total increase/(decrease) in profit | 1,231 | (4,732) | 156 | (3,345) |
| Increase/(decrease) in basic earnings per share | HK0.21 cents | (HK0.81 cents) | HK0.03 cents | (HK0.57 cents) |

* Including fair value loss on derivative component of convertible bonds and transaction cost related to derivative component of convertible bonds of HK$1,800,000 and HK$2,932,000, respectively (note 6).

## 2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

### (c) Effect on the consolidated income statement for the years ended 31 March 2006 and 2005 (continued)

| Effect of new policies | Effect of adopting HKAS 1 Share of post-tax profits and losses of associates HK$'000 |
|---|---|
| **Year ended 31 March 2005** | |
| Increase in share of profits and losses of associates | 874 |
| Increase in tax | (874) |
| Total increase in profit | — |
| Increase in basic earnings per share | — |

## 2.5 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 operation and financial 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.

## 2.5 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.

### Associates

An associate is an entity, not being a subsidiary, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Goodwill** (continued)

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

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.

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 Statement of Standard Accounting Practice No. 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated capital reserve in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated capital reserve and is not recognised in profit or loss 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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of assets

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, unless the asset is carried at a revalued amount, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

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 is reversed only if there has been a change in the estimates used to determine the recoverable amount of that 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 such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

### 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 an associate;

(c) the party is a member of the key management personnel of the Group or its parent;

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Related parties** (continued)

(d) the party is a close member of the family of any individual referred to in (a) or (c); or

(e) 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 (c) or (d).

**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. 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.

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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. 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

*Applicable to the year ended 31 March 2005:*

The Group classified its equity/debt investments, other than subsidiaries and associates, as long term investments.

Long term investments in listed and unlisted equity/debt securities intended to be held on a long term basis are stated at their fair values at the balance sheet date, on an individual investment basis. The fair values of listed securities are their quoted market prices at the balance sheet date. The fair values of unlisted securities are estimated by the directors having regard to, inter alia, the prices of most recent reported sales or purchases of the securities.

The gains and losses arising from changes in fair value of such security are credited or charged to the income statement for the period in which they arise.

*Applicable to the year ended 31 March 2006:*

Financial assets in the scope of HKAS 39 are classified as either loans and receivables, financial assets at fair value through profit or loss and available-for-sale investments, 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 determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets** (continued)

*Applicable to the year ended 31 March 2006* (continued):

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase 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.

*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 carried at amortised cost using the effective interest method. 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.

*Financial assets at fair value through profit or loss*

Derivatives are classified as held for trading unless they are designated as effective hedging instruments, details of which are explained below under the heading "Derivative financial instruments and hedging". Gains or losses on financial assets held for trading are recognised in the income statement.

*Available-for-sale investments*

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity/debt securities that are designated as available for sale or are not classified in the above category. 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.

*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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets (applicable to the year ended 31 March 2006)

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 profit or loss.

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.

*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 profit or loss, is transferred from equity to the income statement. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss.

Impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event, occurring after the impairment loss was recognised in profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial assets (applicable to the year ended 31 March 2006)**

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 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.

**Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in net profit or loss when the liabilities are derecognised as well as through the amortisation process.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 (applicable to the year ended 31 March 2006)

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 profit or loss.

### Derivative financial instruments and hedging (applicable to the year ended 31 March 2006)

The Group uses derivative financial instruments such as 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 net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedging (applicable to the year ended 31 March 2006)** (continued)

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

- 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 forecast transaction.

A hedge of the foreign currency risk of a firm commitment is accounted for as cash flow hedge.

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*

Fair value hedges are hedges of the Group's exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect profit or loss. For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged, the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss 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 profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedging (applicable to the year ended 31 March 2006)** (continued)

*Fair value hedges* (continued)

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.

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 profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

The Group discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised; the hedge no longer meets the criteria for hedge accounting; or the Group revokes the designation. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to profit or loss. 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.

*Cash flow hedges*

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, 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 liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, the amounts previously recognised in equity are transferred to profit or loss. 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 occurs. If the related transaction is not expected to occur, the amount is taken to profit or loss.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 sheet, 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.

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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax** (continued)

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.

**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.

## 2.5 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Employee benefits** (continued)

*Employment Ordinance long service payments*

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the balance sheet date.

*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.

## 2.5 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 profit or loss. 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 2006 was HK$88,050,000 and HK$641,185,000, respectively (2005: Nil) (note 26).

## 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.

## 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 2006 and 2005.

| | Paper and carton box printing and manufacturing | | Paper trading | | Corrugated carton manufacturing | | Paper manufacturing | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | | | | | | | | | | | (Restated) |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | **1,556,040** | 1,433,719 | **269,544** | 228,155 | **493,269** | 509,769 | **638,032** | 155,750 | **—** | — | **2,956,885** | 2,327,393 |
| Intersegment sales | **32,916** | 3,593 | **322,682** | 368,012 | **103,866** | 107,451 | **189,645** | 28,431 | **(649,109)** | (507,487) | **—** | — |
| Total | **1,588,956** | 1,437,312 | **592,226** | 596,167 | **597,135** | 617,220 | **827,677** | 184,181 | **(649,109)** | (507,487) | **2,956,885** | 2,327,393 |
| Segment results | **255,247** | 242,842 | **27,266** | 24,506 | **25,721** | 31,330 | **55,839** | 11,342 | **208** | 1,560 | **364,281** | 311,580 |
| Interest, dividend income and other gains | | | | | | | | | | | **11,492** | 22,522 |
| Corporate and unallocated expenses | | | | | | | | | | | **(25,895)** | (19,507) |
| | | | | | | | | | | | **349,878** | 314,595 |
| Finance costs | | | | | | | | | | | **(28,247)** | (12,203) |
| Share of profits and losses of associates | **—** | — | **—** | — | **—** | — | **—** | 4,756 | **—** | — | **—** | 4,756 |
| Profit before tax | | | | | | | | | | | **321,631** | 307,148 |
| Tax | | | | | | | | | | | **(45,540)** | (44,096) |
| Profit for the year | | | | | | | | | | | **276,091** | 263,052 |

## 4. SEGMENT INFORMATION (continued)

### (a) Business segments (continued)

| | Paper and carton box printing and manufacturing | | Paper trading | | Corrugated carton manufacturing | | Paper manufacturing | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| | | (Restated) | | (Restated) | | (Restated) | | (Restated) | | | | (Restated) |
| Segment assets | 1,273,659 | 1,289,216 | 300,350 | 422,072 | 703,792 | 680,064 | 625,856 | 707,171 | (75,018) | (185,281) | 2,828,639 | 2,913,242 |
| Unallocated assets | — | — | — | — | — | — | — | — | — | — | 1,156,755 | 207,142 |
| Total assets | 1,273,659 | 1,289,216 | 300,350 | 422,072 | 703,792 | 680,064 | 625,856 | 707,171 | (75,018) | (185,281) | 3,985,394 | 3,120,384 |
| Segment liabilities | 156,766 | 148,374 | 28,345 | 55,369 | 62,547 | 62,990 | 71,947 | 182,406 | (75,018) | (185,281) | 244,587 | 263,858 |
| Unallocated liabilities | — | — | — | — | — | — | — | — | — | — | 1,386,577 | 715,012 |
| Total liabilities | 156,766 | 148,374 | 28,345 | 55,369 | 62,547 | 62,990 | 71,947 | 182,406 | (75,018) | (185,281) | 1,631,164 | 978,870 |
| Other segment information: | | | | | | | | | | | | |
| Depreciation | 51,490 | 52,225 | 3,210 | 2,353 | 30,059 | 23,331 | 26,362 | 6,464 | — | — | 111,121 | 84,373 |
| Unallocated depreciation | — | — | — | — | — | — | — | — | — | — | 146 | 194 |
| | 51,490 | 52,225 | 3,210 | 2,353 | 30,059 | 23,331 | 26,362 | 6,464 | — | — | 111,267 | 84,567 |
| Capital expenditure | 108,507 | 125,410 | 5,460 | 13,601 | 31,217 | 106,117 | 25,512 | 40 | — | — | 170,696 | 245,168 |
| Unallocated capital expenditure | — | — | — | — | — | — | — | — | — | — | 79 | — |
| | 108,507 | 125,410 | 5,460 | 13,601 | 31,217 | 106,117 | 25,512 | 40 | — | — | 170,775 | 245,168 |
| Impairment/(write-back of impairment) on accounts receivable | 3,296 | 827 | (1,910) | — | 235 | 255 | 1,553 | — | — | — | 3,174 | 1,082 |

## 4. SEGMENT INFORMATION (continued)

### (b) Geographical segments

The following tables present revenue and certain asset and expenditure information for the Group's geographical segments.

| | Hong Kong | | Mainland China | | United States of America | | Europe | | Others | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| | | | | (Restated) | | | | (Restated) | | (Restated) | | (Restated) |
| Segment revenue: | | | | | | | | | | | | |
| Sales to external customers | **1,322,743** | 1,064,529 | **959,084** | 676,188 | **282,804** | 278,269 | **290,314** | 233,251 | **101,940** | 75,156 | **2,956,885** | 2,327,393 |
| Other segment information: | | | | | | | | | | | | |
| Segment assets | **1,343,513** | 493,656 | **2,471,237** | 2,498,359 | **53,423** | 61,123 | **67,573** | 57,242 | **49,648** | 10,004 | **3,985,394** | 3,120,384 |
| Capital expenditure | **18,676** | 3,992 | **152,099** | 241,176 | **—** | — | **—** | — | **—** | — | **170,775** | 245,168 |

## 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:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Revenue — Sale of goods | **2,956,885** | 2,327,393 |
| Other income and gains: | | |
| Dividend income from available-for-sale investments/long term investments | **361** | 258 |
| Bank interest income | **8,405** | 9,344 |
| Unrealised gains on listed investments | **—** | 3,639 |
| Gain on foreign exchange forward contracts | **—** | 9,281 |
| Fair value gains on derivative instruments, not qualified as hedges *(note 22)* | **2,726** | — |
| Sundry income | **24,817** | 19,815 |
| | **36,309** | 42,337 |
| | **2,993,194** | 2,369,730 |

## 6. PROFIT BEFORE TAX

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Depreciation *(note 14)* | **111,267** | 84,567 |
| Auditors' remuneration | **2,137** | 1,788 |
| Employee benefits expense (including directors' remuneration — note 8): | | |
| Wages, salaries and other allowances | **402,879** | 329,269 |
| Retirement scheme contributions | **15,347** | 2,968 |
| Less: Forfeited contributions* | **(58)** | (16) |
| Net retirement scheme contributions | **15,289** | 2,952 |
| Total employee benefits expense | **418,168** | 332,221 |
| Minimum lease payments under operating leases in respect of land and buildings | **7,251** | 5,727 |
| Impairment on accounts receivable | **3,174** | 1,082 |
| Loss on disposal of items of property, plant and equipment | **974** | 772 |
| Foreign exchange differences, net | **(4,787)** | (1,687) |
| Fair value loss on derivative component of convertible bonds *(note 26)* | **1,800** | — |
| Transaction cost related to derivative component of convertible bonds | **2,932** | — |

* At 31 March 2006, the Group had no forfeited contributions available to reduce its contributions to the retirement scheme in future years (2005: Nil).

## 7. FINANCE COSTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest on bank loans | **28,247** | 12,203 |

## 8. DIRECTORS' REMUNERATION

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Fees: | | |
| Executive directors | **—** | — |
| Non-executive directors | **420** | 322 |
| Other emoluments: | | |
| Executive directors: | | |
| Salaries, allowances and benefits in kind | **14,101** | 13,471 |
| Retirement scheme contributions | **395** | 395 |
| Discretionary bonuses paid and payable | **12,285** | 12,766 |
| | **27,201** | 26,954 |

### (a) Independent non-executive directors

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

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Wu Shu Chih, Alex | **—** | 101 |
| Yip Yu Bun | **100** | 80 |
| Wong Siu Ping | **100** | 58 |
| Yap, Alfred Donald | **120** | 3 |
| | **320** | 242 |

There were no other emoluments payable to the independent non-executive directors during the year (2005: 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 |
|---|---|---|---|---|---|
| **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** |
| 2005 | | | | | |
| Executive directors: | | | | | |
| Yam Cheong Hung | — | 6,258 | 215 | 5,122 | 11,595 |
| Yum Chak Ming, Matthew | — | 3,632 | 121 | 5,129 | 8,882 |
| Yam Ho Ming, Michael | — | 1,327 | — | 1,316 | 2,643 |
| Yam Hon Ming, Tommy | — | 2,254 | 59 | 1,199 | 3,512 |
| | — | 13,471 | 395 | 12,766 | 26,632 |
| Non-executive directors: | | | | | |
| Chu Shu Ho, David | 40 | — | — | — | 40 |
| Yum Pui Ming, Anna | 40 | — | — | — | 40 |
| | 80 | — | — | — | 80 |
| | 80 | 13,471 | 395 | 12,766 | 26,712 |

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

## 9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2005: four) directors, details of whose remuneration are set out in note 8 above. The details of the remuneration of the remaining one (2005: one) non-director, highest paid employee for the year are as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **1,284** | 1,211 |
| Retirement scheme contributions | **46** | 46 |
| Discretionary bonuses paid and payable | **2,242** | 2,602 |
| | **3,572** | 3,859 |

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

| | Number of employees | |
|---|---|---|
| | **2006** | 2005 |
| HK$3,500,001–HK$4,000,000 | **1** | 1 |

## 10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

| | 2006 HK$'000 | 2005 HK$'000 (Restated) |
|---|---|---|
| Group: | | |
| Current — Hong Kong | | |
| — Charge for the year | **13,396** | 16,122 |
| — Overprovision in prior years | **(1,798)** | (809) |
| Current — Mainland China | | |
| — Charge for the year | **36,528** | 31,264 |
| — Tax refund# | **(6,646)** | (6,478) |
| Deferred tax *(note 27)* | **4,060** | 3,997 |
| Total tax charge for the year | **45,540** | 44,096 |

# 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.

**10. TAX** (continued)

A reconciliation of the tax expense applicable to profit before tax using the statutory rates for the countries 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**

| | 2006 | | | | | |
|---|---|---|---|---|---|---|
| | Hong Kong | | 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 period | (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 |

**10. TAX** (continued)

**Group** (continued)

| | 2005 | | | | | |
|---|---|---|---|---|---|---|
| | Hong Kong | | Mainland China | | Total | |
| | HK$'000 | % | HK$'000 | % | HK$'000 | % |
| | | | (Restated) | | (Restated) | |
| Profit before tax | 109,310 | | 197,838 | | 307,148 | |
| Tax at the statutory tax rate | 19,129 | 17.5 | 65,286 | 33.0 | 84,415 | 27.5 |
| Lower tax rate for local authority* | — | — | (31,012) | (15.7) | (31,012) | (10.1) |
| Profits not subject to tax, due to concessions** | — | — | (99) | (0.1) | (99) | — |
| Profits and losses attributable to associates | — | — | (1,569) | (0.8) | (1,569) | (0.2) |
| Adjustment in respect of current tax of previous period | (809) | (0.7) | — | — | (809) | (0.5) |
| Tax refund | — | — | (6,478) | (3.2) | (6,478) | (2.1) |
| Income not subject to tax | (2,921) | (2.7) | (979) | (0.5) | (3,900) | (1.3) |
| Expenses not deductible for tax | 1,817 | 1.6 | 400 | 0.2 | 2,217 | 0.7 |
| Tax losses not recognised | — | — | 1,445 | 0.7 | 1,445 | 0.4 |
| Tax losses utilised | (114) | (0.1) | — | — | (114) | — |
| Tax charge at the Group's effective rate | 17,102 | 15.6 | 26,994 | 13.6 | 44,096 | 14.4 |

* 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.

The share of tax credit attributable to associates amounting to HK$874,000 in 2005 is included in "Share of profits and losses of associates" on the face of the consolidated income statement.

## 11. NET PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The net profit attributable to equity holders of the parent for the year ended 31 March 2006 dealt with in the financial statements of the Company was HK$196,567,000 (2005: HK$184,085,000) (note 29(b)).

## 12. DIVIDENDS

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Interim dividend of HK9.5 cents (2005: HK9.5 cents) per ordinary share | **56,265** | 54,341 |
| Proposed final dividend of HK20.0 cents (2005: HK20.0 cents) per ordinary share | **120,156** | 115,559 |
| | **176,421** | 169,900 |

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 ORDINARY EQUITY HOLDERS OF THE PARENT

### (a) Basic earnings per share

The calculation of basic earnings per share amount is based on the net profit for the year attributable to equity holders of the parent of HK$248,891,000 (2005: HK$240,281,000) and the weighted average of 586,141,600 (2005: 572,942,598) shares in issue during the year.

### (b) Diluted earnings per share

Diluted earnings per share amount for the year ended 31 March 2006 has not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for the year. Diluted earnings per share amount for the year ended 31 March 2005 has not been presented as there were no dilutive potential ordinary shares in existence during that year.

## 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 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 |

Certain buildings and plant and machinery of the Group with a total net book value of HK$283,637,000 (2005 (restated): HK$286,612,000) have been pledged to secure banking facilities granted to the Group (note 25).

## 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 (Restated) |
|---|---|---|---|---|---|
| 31 March 2005 | | | | | |
| At 1 April 2004: | | | | | |
| Cost | 356,438 | 911,042 | 27,782 | 59,835 | 1,355,097 |
| Accumulated depreciation | (59,332) | (381,338) | (19,654) | (35,622) | (495,946) |
| Net carrying amount | 297,106 | 529,704 | 8,128 | 24,213 | 859,151 |
| At 1 April 2004, net of accumulated depreciation | 297,106 | 529,704 | 8,128 | 24,213 | 859,151 |
| Additions | 7,513 | 180,423 | 3,352 | 3,868 | 195,156 |
| Acquisition of subsidiaries *(note 30(b))* | 74,379 | 209,700 | 2,926 | 465 | 287,470 |
| Transfer from properties under construction *(note 18)* | 33,921 | — | — | — | 33,921 |
| Disposals | — | (1,086) | (298) | (63) | (1,447) |
| Depreciation provided during the year | (11,945) | (63,908) | (3,073) | (5,641) | (84,567) |
| At 31 March 2005, net of accumulated depreciation | 400,974 | 854,833 | 11,035 | 22,842 | 1,289,684 |
| At 31 March 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 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

**Company**

| | Motor vehicles HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| **31 March 2006** | | | |
| At 1 April 2005: | | | |
| Cost | 4,080 | 748 | 4,828 |
| Accumulated depreciation | (3,701) | (663) | (4,364) |
| Net carrying amount | 379 | 85 | 464 |
| 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) |
| At 31 March 2006, net of accumulated depreciation | 258 | 130 | 388 |
| At 31 March 2006: | | | |
| Cost | 3,321 | 827 | 4,148 |
| Accumulated depreciation | (3,063) | (697) | (3,760) |
| Net carrying amount | 258 | 130 | 388 |

**14. PROPERTY, PLANT AND EQUIPMENT** (continued)

**Company** (continued)

| | Motor vehicles HK$'000 | Furniture, fixtures and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|
| | | | (Restated) |
| 31 March 2005 | | | |
| At 1 April 2004: | | | |
| Cost | 4,704 | 748 | 5,452 |
| Accumulated depreciation | (4,126) | (638) | (4,764) |
| Net carrying amount | 578 | 110 | 688 |
| At 1 April 2004, net of accumulated depreciation | 578 | 110 | 688 |
| Disposals | (30) | — | (30) |
| Depreciation provided during the year | (169) | (25) | (194) |
| At 31 March 2005, net of accumulated depreciation | 379 | 85 | 464 |
| At 31 March 2005: | | | |
| Cost | 4,080 | 748 | 4,828 |
| Accumulated depreciation | (3,701) | (663) | (4,364) |
| Net carrying amount | 379 | 85 | 464 |

## 15. PREPAID LAND LEASE PAYMENTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Carrying amount at beginning of year | | |
| As previously reported | **—** | — |
| Effect of adopting HKAS 17 *(note 2.2(b))* | **149,682** | 98,178 |
| As restated | **149,682** | 98,178 |
| Additions | **242** | 23,285 |
| Acquisition of subsidiaries *(note 30(b))* | **—** | 30,503 |
| Recognised during the year | **(4,393)** | (2,284) |
| Carrying amount at 31 March | **145,531** | 149,682 |

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Carrying amount at beginning of year | | |
| As previously reported | **—** | — |
| Effect of adopting HKAS 17 *(note 2.2(b))* | **12,115** | 12,674 |
| As restated | **12,115** | 12,674 |
| Recognised during the year | **(560)** | (559) |
| Carrying amount at 31 March | **11,555** | 12,115 |

## 15. PREPAID LAND LEASE PAYMENTS (continued)

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| Hong Kong: | | |
| Medium term leases | **21,587** | 22,126 |
| Mainland China: | | |
| Medium term land use rights | **123,944** | 127,556 |
| | **145,531** | 149,682 |

The Company's leasehold land is situated in Mainland China under a medium term land use right.

Certain leasehold land of the Group with total net book value of HK$46,584,000 (2005 (restated): HK$49,173,000) have been pledged to banks to secure banking facilities granted to the Group (note 25).

## 16. GOODWILL

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At beginning of year: | | |
| Cost and carrying amount | **3,041** | — |
| Carrying amount at beginning of year | **3,041** | — |
| Acquisition of subsidiaries *(note 30(b))* | **—** | 3,041 |
| Carrying amount at 31 March | **3,041** | 3,041 |
| At 31 March: | | |
| Cost | **3,041** | 3,041 |
| Accumulated impairment | **—** | — |
| Net carrying amount | **3,041** | 3,041 |

As further detailed in note 2.2 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 reserves.

## 16. GOODWILL (continued)

The amounts of the goodwill and negative goodwill remaining in the consolidated reserves as at 1 April 2005, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, are as follows:

| | Group | |
|---|---|---|
| | **Goodwill eliminated against capital reserve** | **Negative goodwill credited to capital reserve** |
| | HK$'000 | HK$'000 |
| **31 March 2006** | | |
| At 1 April 2005 | | |
| Cost as previously reported | **814** | **(105,103)** |
| Effect of adopting HKFRS 3 *(note 2.2(f))* | **—** | **105,103** |
| Net carrying amount at 1 April 2005 and 31 March 2006 | **814** | **—** |
| 31 March 2005 | | |
| Cost and net carrying amount as at 1 April 2004 and 31 March 2005 | 814 | (105,103) |

## 17. AVAILABLE-FOR-SALE INVESTMENTS/LONG TERM INVESTMENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Unlisted equity investments, at fair value | **60** | 60 | **—** | — |
| Club debentures, at fair value | **1,948** | 1,362 | **378** | 802 |
| | **2,008** | 1,422 | **378** | 802 |
| Hong Kong listed equity investments, at market value | **8,758** | 9,016 | **—** | — |
| | **10,766** | 10,438 | **378** | 802 |

During the year, the net gains on fair values of the Group's available-for-sale investments of 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.

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 reserve, are reasonable, and that they are the most appropriate values at the balance sheet date.

## 18. PROPERTIES UNDER CONSTRUCTION

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| At beginning of year | **57,382** | 41,291 |
| Additions | **50,037** | 50,012 |
| Transfer to property, plant and equipment *(note 14)* | **(62,627)** | (33,921) |
| Exchange realignment | **1,266** | — |
| At 31 March | **46,058** | 57,382 |

The properties under construction are located in Mainland China.

## 19. INTERESTS IN SUBSIDIARIES

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **407,744** | 401,861 |
| Due from subsidiaries | **394,519** | 367,484 |
| | **802,263** | 769,345 |
| Impairment | **(1,353)** | (1,353) |
| | **800,910** | 767,992 |
| Due to subsidiaries | **(818,086)** | — |

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts of these amounts due from/to subsidiaries approximate to their fair values.

## 19. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and operation | Nominal value of issued ordinary share/registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Hung Hing Off-Set Printing Company, Limited | Hong Kong | HK$100 | 100 | — | Paper products and carton box trading |
| Sun Hing Paper Company, Limited | Hong Kong | HK$100 | 100 | — | Paper trading |
| Hung Hing Printing (China) Company Limited §§ | 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 § | the PRC/ Mainland China | US$15,000,000 | — | 56 | Printing and manufacturing of paper cartons |
| Zhongshan Hung Hing Off-Set Printing Company Limited § | 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 §§ | the PRC/ Mainland China | US$11,200,000 | — | 100 | Printing and manufacturing of paper cartons |
| South Gain Paper Products Company Limited §§ | the PRC/ Mainland China | US$15,000,000 | — | 56 | Printing and manufacturing of paper cartons |
| 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 | Not yet commenced operations |
| Greatest Joy Investments Limited @ | BVI/Hong Kong | US$1 | 100 | — | Issue of convertible bonds |

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.

@ Incorporated during the year

§ Sino-foreign equity joint venture

§§ Wholly foreign-owned enterprise

## 20. INVENTORIES

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Raw materials | **332,951** | 392,010 |
| Work in progress | **46,699** | 48,941 |
| Finished goods | **121,064** | 112,660 |
| | **500,714** | 553,611 |

## 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 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Accounts receivable | **506,900** | 594,600 |
| Bills receivable | **35,232** | 49,909 |
| | **542,132** | 644,509 |

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

| | Group 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Within 30 days | **204,676** | 256,816 |
| 31 to 60 days | **126,579** | 151,451 |
| 61 to 90 days | **88,783** | 97,577 |
| Over 90 days | **86,862** | 88,756 |
| | **506,900** | 594,600 |

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

## 22. DERIVATIVE FINANCIAL INSTRUMENTS

The derivative financial instruments of HK$1,231,000 at 31 March 2006 represented forward currency contracts. The Group has entered into these forward currency contracts to manage its exchange rate exposures in the year ending 31 March 2007 which did not meet the criteria for hedge accounting. Changes in the fair value of non-hedging currency derivatives amounting to HK$2,726,000 were credited to the income statement during the year (2005: Nil) (note 5). The carrying amounts of forward currency contracts approximate to their fair values.

## 23. CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Cash and bank balances | **196,285** | 170,962 | **2,174** | 4,333 |
| Time deposits | **1,114,746** | 163,454 | **979,181** | 69,114 |
| Cash and cash equivalents | **1,311,031** | 334,416 | **981,355** | 73,447 |

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$285,875,000 (2005: HK$238,867,000). 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.

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 ten 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 in the year ending 31 March 2007 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 loss on cash flow hedges of HK$1,051,000 was included in the hedging reserve.

## 24. ACCOUNTS PAYABLE

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

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Within 30 days | **87,052** | 98,921 |
| 31 to 60 days | **24,980** | 17,207 |
| 61 to 90 days | **341** | 1,812 |
| Over 90 days | **1,465** | 6,076 |
| | **113,838** | 124,016 |

The accounts payables are non-interest-bearing and are normally settled on 30-day terms. The carrying amounts of the accounts payable approximate to their fair values.

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | Effective interest rate (%) | Maturity | Group | |
|---|---|---|---|---|
| | | | **2006** | 2005 |
| | | | **HK$'000** | HK$'000 |
| **Current** | | | | |
| Bank overdrafts — unsecured | 8 | On demand | **246** | — |
| Bank loans — unsecured | 5 | 2006 | **273,154** | 176,736 |
| Bank loans — secured | 6 | 2006 | **149,860** | 136,792 |
| Trust receipt loans | 5 | 2006 | **3,986** | 14,985 |
| | | | **427,246** | 328,513 |
| **Non-current** | | | | |
| Bank loans — unsecured | 3–5 | 2007–2009 | **169,167** | 325,000 |
| Convertible bonds *(note 26)* | 6 | 2011 | **641,185** | — |
| | | | **810,352** | 325,000 |
| | | | **1,237,598** | 653,513 |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **427,246** | 328,513 |
| In the second year | **81,667** | 135,417 |
| In the third to fifth years, inclusive | **87,500** | 189,583 |
| | **596,413** | 653,513 |
| Convertible bonds repayable: | | |
| In the third to fifth years, inclusive | **641,185** | — |
| | **1,237,598** | 653,513 |

*Notes:*

(a) The Group's banking facilities amounting to HK$169,082,000 (2005: HK$174,528,000), of which HK$149,860,000 (2005: HK$136,792,000) 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$330,221,000 (2005: HK$335,785,000) (notes 14 and 15).

(b) Except for the secured bank loans of HK$146,860,000 and unsecured bank loan of HK$4,831,000, which are denominated in Renminbi, all other borrowings are in Hong Kong dollars.

Other interest rate information:

| | Group | | | |
|---|---|---|---|---|
| | **2006** | | 2005 | |
| | **Fixed rate** | **Floating rate** | Fixed rate | Floating rate |
| | **HK$'000** | **HK$'000** | HK$'000 | HK$'000 |
| Bank overdrafts — unsecured | **—** | **246** | — | — |
| Bank loans — unsecured | **160,000** | **282,321** | 160,000 | 341,736 |
| Bank loans — secured | **130,435** | **19,425** | 136,792 | — |
| Trust receipt loans | **—** | **3,986** | — | 14,985 |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

The carrying amounts of the Group's current borrowings approximate to their fair values. The carrying amounts and fair values of the Group's non-current borrowings are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank loans — unsecured | **169,167** | 325,000 | **167,366** | 325,053 |
| Convertible bonds | **641,185** | — | **675,450** | — |
| | **810,352** | 325,000 | **842,816** | 325,053 |

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.

## 26. CONVERTIBLE BONDS

On 29 March 2006, Greatest Joy Investments Limited, a subsidiary of the Company, issued five-year 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. 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 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.

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 income statement. The residual amount is assigned as the liability component.

## 26. CONVERTIBLE BONDS (continued)

The net proceeds received from the issue of the convertible bonds have been split between the derivative and liability components, as follows:

| | HK$'000 |
|---|---|
| Nominal value of convertible bonds issued during the year | 750,000 |
| Transaction cost related to liability component | (22,565) |
| Derivative component | (86,250) |
| Liability component at the issuance date and 31 March 2006 *(note 25)* | 641,185 |
| Derivative component at the issuance date | 86,250 |
| Fair value loss recognised in current year *(note 6)* | 1,800 |
| Derivative component at 31 March 2006 | 88,050 |

## 27. DEFERRED TAX

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

**Deferred tax liabilities**

*Group*

| | **Accelerated tax depreciation** HK$'000 | **Provision for doubtful debts** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2004 | 19,611 | (2,248) | (735) | 16,628 |
| Deferred tax charged/(credited) to the income statement during the year *(note 10)* | 3,575 | (867) | (11) | 2,697 |
| At 31 March 2005 and 1 April 2005 | 23,186 | (3,115) | (746) | 19,325 |
| Deferred tax charged/(credited) to the income statement during the year *(note 10)* | 4,134 | (432) | 187 | 3,889 |
| Exchange realignment | 165 | (22) | (3) | 140 |
| At 31 March 2006 | 27,485 | (3,569) | (562) | 23,354 |

**27. DEFERRED TAX** (continued)

**Deferred tax assets**

*Group*

| | **Accelerated tax depreciation** HK$'000 | **Provision for doubtful debts** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|
| At 1 April 2004 | 158 | (2,028) | (517) | (2,387) |
| Acquisition of subsidiaries *(note 30(b))* | (2,113) | (2,860) | — | (4,973) |
| Deferred tax charged/(credited) to the income statement during the year *(note 10)* | 169 | 1,133 | (2) | 1,300 |
| At 31 March 2005 and 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 | (1,732) | (3,910) | (227) | (5,869) |

The Group has tax losses arising in Hong Kong of HK$12,709,000 (2005: HK$8,696,000) and in Mainland China of HK$43,613,000 (2005: HK$33,301,000) 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.

At 31 March 2006, there was no unrecognised deferred tax liability (2005: 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.

**27. DEFERRED TAX** (continued)

**Deferred tax liabilities/(assets)**

*Company*

| | **Accelerated tax depreciation** HK$'000 | **Others** HK$'000 | **Total** HK$'000 |
|---|---|---|---|
| At 1 April 2004 | 92 | (212) | (120) |
| Deferred tax credited to the income statement during the year | (27) | (21) | (48) |
| At 31 March 2005 and 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 | 53 | (58) | (5) |

**28. SHARE CAPITAL**

| | **2006 Number of shares** | 2005 Number of shares | **2006 HK$'000** | 2005 HK$'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** | 577,796,067 | **60,078** | 57,779 |

**28. SHARE CAPITAL** (continued)

Pursuant to two scrip dividend schemes as detailed in the Company's circulars dated 7 September 2005 and 13 January 2006, 14,473,517 and 8,510,945 ordinary shares of HK$0.10 each were issued on 29 September 2005 and 15 February 2006, respectively to shareholders who elected to receive shares for the Company's 2005 final dividends and 2006 interim dividends, at an issue price of HK$4.75 and HK$4.35 per share, respectively, during the year.

A summary of the transaction during the year with reference to the above movement in the Company's issued ordinary share capital is as follows:

| | Number of shares in issue | Issued share capital HK$'000 | Share premium account HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 April 2004 | 572,006,798 | 57,200 | 590,690 | 647,890 |
| Issue of shares pursuant to a scrip dividend scheme | 5,789,269 | 579 | 30,683 | 31,262 |
| At 31 March 2005 and 1 April 2005 | 577,796,067 | 57,779 | 621,373 | 679,152 |
| Issue of shares pursuant to scrip dividend schemes | 22,984,462 | 2,299 | 103,472 | 105,771 |
| At 31 March 2006 | 600,780,529 | 60,078 | 724,845 | 784,923 |

**29. 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 board of directors of the relevant subsidiaries and the use thereof is governed by the relevant laws and regulations of Mainland China.

## 29. RESERVES (continued)

### (b) Company

| | *Notes* | Share premium account HK$'000 | Capital redemption reserve HK$'000 | Hedging reserve HK$'000 | Available-for-sale investment revaluation reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 April 2004 | | 590,690 | 966 | — | — | 36,283 | 627,939 |
| Net profit for the year | *11* | — | — | — | — | 184,085 | 184,085 |
| Issue of shares pursuant to a scrip dividend scheme | *28* | 30,683 | — | — | — | — | 30,683 |
| Interim 2005 dividend | *12* | — | — | — | — | (54,341) | (54,341) |
| Proposed final 2005 dividend | *12* | — | — | — | — | (115,559) | (115,559) |
| At 31 March 2005 and 1 April 2005 | | 621,373 | 966 | — | — | 50,468 | 672,807 |
| Opening adjustments: | | | | | | | |
| Derivative financial Instruments | | — | — | — | — | 655 | 655 |
| Changes in fair values of available-for-sale investments | | — | — | — | (424) | — | (424) |
| Net losses on cash flow hedges | | — | — | (1,051) | — | — | (1,051) |
| Net profit for the year | *11* | — | — | — | — | 196,567 | 196,567 |
| Issue of shares pursuant to scrip dividend schemes | *28* | 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 | | 724,845 | 966 | (1,051) | (424) | 71,269 | 795,605 |

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

### (a) Major non-cash transaction

During the year, the Company settled its 2005 final dividend and 2006 interim dividend totaling of HK$105,771,000 (2005: HK$31,262,000) by the issue of 14,473,517 and 8,510,945 ordinary shares of HK$0.1 each at an issue price of HK$4.75 per share and HK$4.35 per share, respectively, pursuant to two scrip dividend schemes. Further details of which are set out in note 28 to the financial statements.

### (b) Acquisition of subsidiaries

| | *Notes* | 2005<br>HK$'000<br>(Restated) |
|---|---|---|
| Net assets acquired: | | |
| Property, plant and equipment | *14* | 287,470 |
| Prepaid land lease payments | *15* | 30,503 |
| Deferred tax assets | *27* | 4,973 |
| Cash and bank balances | | 48,555 |
| Accounts and bills receivable | | 173,061 |
| Inventories | | 126,459 |
| Prepayments, deposits and other receivables | | 21,302 |
| Due to fellow subsidiaries | | (108,372) |
| Accounts payable | | (20,493) |
| Tax payable | | (1,037) |
| Other payables and accrued liabilities | | (37,665) |
| Interest-bearing bank and other borrowings | | (139,623) |
| Minority interests | | (134,796) |
| | | 250,337 |
| Goodwill on acquisition | *16* | 3,041 |
| | | 253,378 |
| Satisfied by: | | |
| Cash | | 118,581 |
| Reclassification to interests in subsidiaries from interests in associates | | 134,797 |
| | | 253,378 |

## 30. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

### (b) Acquisition of subsidiaries (continued)

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

| | 2005<br>HK$'000 |
|---|---|
| Cash consideration | (118,581) |
| Cash and bank balances acquired | 48,555 |
| | (70,026) |

In prior year, the Group acquired additional 24% interests in Rengo and Ren Hing from their existing shareholders. Rengo and Ren Hing are engaged in the manufacturing of paper. The purchase consideration was in the form of cash, with HK$118,339,000 and HK$242,000 being paid on 16 December 2004 and 29 December 2004, respectively.

Since the acquisition, Rengo and Ren Hing contributed HK$155,750,000 to the Group's revenue and HK$7,614,000 to the consolidated profit for the year ended 31 March 2005.

## 31. 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:

| | *Notes* | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|---|
| Associates: | | | |
| Sales | *(i)* | — | 254,354 |
| Purchases | *(ii)* | — | 61,133 |
| Interest income | *(iii)* | — | 1,821 |
| Rentals paid to companies in which directors of the Company are controlling shareholders | *(iv)* | **1,200** | 1,320 |

*Notes:*

(i) The sales to associates were carried out in the ordinary course of business of the Group according to the prices and conditions offered to regular customers of the Group.

(ii) The purchases from associates were carried out in the ordinary course of business of the Group according to the prices and conditions similar to those offered to regular customers of the suppliers.

(iii) The interest income from the amounts due from associates, arising in the ordinary course of business of the Group, were unsecured, bore interest at prime rate for balances due over one month and had no fixed terms of repayment.

(iv) The rentals paid to two companies of which certain directors of the Company 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, respectively, and were based on estimated open market rentals. They have been included in the directors' remuneration.

## 31. RELATED PARTY TRANSACTIONS (continued)

### (b) Outstanding balances with related parties

There are no outstanding balances with related parties as at 31 March 2006 (31 March 2005: Nil).

### (c) Compensation of key management personnel of the Group

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Short term employment benefits | **45,285** | 44,290 |
| Post-employment benefits | **1,120** | 634 |
| | **46,405** | 44,924 |

## 32. CONTINGENT LIABILITIES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Guarantees given to banks for banking and trading facilities granted to subsidiaries | **—** | — | **922,184** | 912,520 |
| Amount of banking facilities with the Company's guarantees utilised by subsidiaries | **—** | — | **353,301** | 384,184 |
| Guarantee given to a subsidiary for the settlement of convertible bonds issued | **—** | — | **750,000** | — |

## 33. 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 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Within one year | **3,885** | 2,760 | **—** | 480 |
| In the second to fifth years, inclusive | **6,751** | 6,268 | **—** | 480 |
| After five years | **64,161** | 64,303 | **—** | — |
| | **74,797** | 73,331 | **—** | 960 |

## 34. CAPITAL COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following capital commitments at the balance sheet date:

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Contracted for: | | | | |
| Land and buildings | **38,486** | 21,416 | **—** | — |
| Plant and machinery | **99,762** | 13,853 | **—** | — |
| Investments in subsidiaries in Mainland China | **—** | — | **—** | 6,118 |
| | **138,248** | 35,269 | **—** | 6,118 |

## 35. 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 and 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, 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 2.5 to the financial statements.

### Interest rate risk

The Group's main interest risk exposure relate 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 rate. When considered appropriate, the Group uses interest rate swaps to hedge its long term borrowings which bear floating interest rates. At 31 March 2006, the Group had approximately 49% (2005: 45%) of bank borrowings which bear fixed interest rates.

## 35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

The Group is subject to foreign exchange 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 exchange contracts to hedge the foreign currency exposure. The 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 bad debts are made for irrecoverable amounts.

### 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.

## 36. COMPARATIVE AMOUNTS

As further explained in notes 2.2 and 2.4 to the financial statements, due to the adoption of new HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain opening balance adjustments have been made and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

## 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 7 July 2006.

**HUNG HING PRINTING GROUP LIMITED**

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
Website: http://www.hhop.com.hk