



**HUNG HING**

**HUNG HING PRINTING GROUP LIMITED**

**鴻興印刷集團有限公司**

**INTERIM REPORT 2006/2007 中期報告**

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## INTERIM RESULTS

The directors of Hung Hing Printing Group Limited (“the Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 September 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 September	
		2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
REVENUE		<b>1,705,338</b>	1,731,635
Cost of sales		<b>(1,349,616)</b>	(1,341,549)
Gross profit		<b>355,722</b>	390,086
Other income and gains		<b>45,173</b>	16,306
Distribution costs		<b>(42,476)</b>	(41,944)
Administrative and selling expenses		<b>(120,938)</b>	(118,245)
Other expenses		<b>(1,385)</b>	(5,846)
		<b>236,096</b>	240,357
Fair value gain on derivative component of convertible bonds	4	<b>64,050</b>	—
Finance costs	5	<b>(31,211)</b>	(15,185)
PROFIT BEFORE TAX	6	<b>268,935</b>	225,172
Tax	7	<b>(27,974)</b>	(38,777)
PROFIT FOR THE PERIOD		<b>240,961</b>	186,395
ATTRIBUTABLE TO:			
Equity holders of the parent		<b>226,649</b>	171,720
Minority interests		<b>14,312</b>	14,675
		<b>240,961</b>	186,395
INTERIM DIVIDEND	8	<b>57,074</b>	56,266
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Basic	9	<b>37.7 cents</b>	29.7 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		<b>30 September 2006 (Unaudited) HK\$'000</b>	<b>31 March 2006 (Audited) HK\$'000</b>
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	10	<b>1,454,340</b>	1,373,577
Prepaid land lease payments	11	<b>145,546</b>	145,531
Goodwill		<b>3,041</b>	3,041
Available-for-sale investments/long term investments	12	<b>9,669</b>	10,766
Time deposits with maturity over one year		<b>146,740</b>	—
Properties under construction	13	<b>74,862</b>	46,058
Deferred tax assets		<b>5,901</b>	5,869
Total non-current assets		<b>1,840,099</b>	1,584,842
<b>CURRENT ASSETS</b>			
Inventories		<b>459,805</b>	500,714
Accounts and bills receivable	14	<b>943,910</b>	542,132
Prepayments, deposits and other receivables		<b>43,829</b>	45,444
Derivative financial instruments	15	<b>5,726</b>	1,231
Cash and cash equivalents	16	<b>835,045</b>	1,311,031
Total current assets		<b>2,288,315</b>	2,400,552
<b>CURRENT LIABILITIES</b>			
Accounts payable	17	<b>175,985</b>	113,838
Tax payable		<b>19,350</b>	25,574
Other payables and accrued liabilities		<b>147,615</b>	142,750
Derivative financial instruments	15	<b>24,823</b>	88,050
Interest-bearing bank and other borrowings		<b>413,269</b>	427,246
Total current liabilities		<b>781,042</b>	797,458
<b>NET CURRENT ASSETS</b>		<b>1,507,273</b>	1,603,094
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>3,347,372</b>	3,187,936
<b>NON-CURRENT LIABILITIES</b>			
Convertible bonds		<b>660,108</b>	641,185
Interest-bearing bank and other borrowings		<b>168,388</b>	169,167
Deferred tax liabilities		<b>29,610</b>	23,354
Total non-current liabilities		<b>858,106</b>	833,706
<b>Net assets</b>		<b>2,489,266</b>	2,354,230
<b>EQUITY</b>			
Equity attributable to equity holders of the parent			
Issued capital		<b>60,078</b>	60,078
Reserves		<b>2,041,046</b>	1,856,979
Proposed dividend		<b>57,074</b>	120,156
		<b>2,158,198</b>	2,037,213
Minority interests		<b>331,068</b>	317,017
<b>Total equity</b>		<b>2,489,266</b>	2,354,230

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### For the six months ended 30 September 2006 (Unaudited)

	Attributable to equity holders of the parent												
	Issued share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Available- for-sale investment revaluation reserve HK\$'000	Legal reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2006	60,078	724,845	966	(814)	(1,051)	328	74,638	11,783	1,046,284	120,156	2,037,213	317,017	2,354,230
Exchange realignment	—	—	—	—	—	—	—	14,538	—	—	14,538	8,964	23,502
Change in fair value of available-for-sale investments	—	—	—	—	—	(1,097)	—	—	—	—	(1,097)	—	(1,097)
Total income and expense recognised directly in equity	—	—	—	—	—	(1,097)	—	14,538	—	—	13,441	8,964	22,405
Profit for the period	—	—	—	—	—	—	—	—	226,649	—	226,649	14,312	240,961
Total income and expense for the period	—	—	—	—	—	(1,097)	—	14,538	226,649	—	240,090	23,276	263,366
Final 2006 dividend declared	—	—	—	—	—	—	—	—	—	(120,156)	(120,156)	—	(120,156)
Interim 2007 dividend	—	—	—	—	—	—	—	—	(57,074)	57,074	—	—	—
Contribution from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	6,800	6,800
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(16,025)	(16,025)
Transfer to property, plant and equipment	—	—	—	—	1,051	—	—	—	—	—	1,051	—	1,051
At 30 September 2006	<u>60,078</u>	<u>724,845</u>	<u>966</u>	<u>(814)</u>	<u>—</u>	<u>(769)</u>	<u>74,638</u>	<u>26,321</u>	<u>1,215,859</u>	<u>57,074</u>	<u>2,158,198</u>	<u>331,068</u>	<u>2,489,266</u>

### For the six months ended 30 September 2005 (Unaudited)

	Attributable to equity holders of the parent												
	Issued share capital HK\$'000	Share premium account HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Hedging reserve HK\$'000	Available- for-sale investment revaluation reserve HK\$'000	Legal reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 April 2005	57,779	621,373	966	(814)	—	—	59,887	—	988,565	115,559	1,843,315	298,854	2,142,169
Exchange realignment	—	—	—	—	—	—	—	8,270	—	—	8,270	3,718	11,988
Change in fair value of available-for-sale investments	—	—	—	—	—	(837)	—	—	—	—	(837)	—	(837)
Net losses on cash flow hedge	—	—	—	—	(2,057)	—	—	—	—	—	(2,057)	—	(2,057)
Total income and expense recognised directly in equity	—	—	—	—	(2,057)	(837)	—	8,270	—	—	5,376	3,718	9,094
Profit for the period	—	—	—	—	—	—	—	—	171,720	—	171,720	14,675	186,395
Total income and expense for the period	—	—	—	—	(2,057)	(837)	—	8,270	171,720	—	177,096	18,393	195,489
Final 2005 dividend declared	—	—	—	—	—	—	—	—	—	(115,559)	(115,559)	—	(115,559)
Issue of shares pursuant to a scrip dividend scheme	1,448	67,301	—	—	—	—	—	—	—	—	68,749	—	68,749
Interim 2006 dividend	—	—	—	—	—	—	—	—	(56,266)	56,266	—	—	—
Contribution from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	10,000	10,000
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(28,049)	(28,049)
At 30 September 2005	<u>59,227</u>	<u>688,674</u>	<u>966</u>	<u>(814)</u>	<u>(2,057)</u>	<u>(837)</u>	<u>59,887</u>	<u>8,270</u>	<u>1,104,019</u>	<u>56,266</u>	<u>1,973,601</u>	<u>299,198</u>	<u>2,272,799</u>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	(45,449)	123,628
INVESTING ACTIVITIES	(546,346)	(64,428)
FINANCING ACTIVITIES	(156,762)	(1,386)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(748,557)	57,814
Cash and cash equivalents at beginning of period	1,272,400	334,416
Effect of foreign exchange rate changes, net	2,523	1,441
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>526,366</u>	<u>393,671</u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	206,348	194,061
Time deposits with original maturity of less than three months when acquired	320,018	199,610
	<u>526,366</u>	<u>393,671</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS

### 1. Basis of Preparation and Accounting Policies

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with the applicable disclosure requirements as set out in Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the annual financial statements for the year ended 31 March 2006, except that the Group has changed certain of its accounting policies mentioned in note 2 below following its adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”, which also include HKASs and Interpretations (“HK-Int”)) which have become effective for accounting periods beginning on or after 1 January 2006.

### 2. Impact of new and revised HKFRS

The following HKFRSs are adopted for the first time for the current period’s unaudited interim financial statements:

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

The adoption of the above new and revised HKFRSs had no material impact on the accounting policies of the Group and the methods of computation in the Group’s condensed consolidated interim financial statements.

The following new and revised HKFRSs relevant to the Group’s operations have been issued but are not effective in these interim financial statements and have not been early adopted:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) — Int 9	Reassessment of Embedded Derivatives

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

### 3. Segment Information

#### *Business segments*

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.

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.

An analysis by business segments is as follows:

	For the six months ended 30 September 2006			SEGMENT
	SEGMENT REVENUE			RESULTS
	Sales to external customers (Unaudited) HK'\$000	Intersegment sales (Unaudited) HK'\$000	Total sales (Unaudited) HK'\$000	(Unaudited) HK'\$000
Paper and carton box printing and manufacturing	892,131	19,341	911,472	142,290
Paper trading	159,357	266,916	426,273	21,392
Corrugated carton manufacturing	283,138	59,797	342,935	20,299
Paper manufacturing	370,712	71,544	442,256	34,469
Eliminations	—	(417,598)	(417,598)	948
	<u>1,705,338</u>	<u>—</u>	<u>1,705,338</u>	219,398
Interest, dividend income and other gains				24,189
Corporate and unallocated expenses				(7,491)
				<u>236,096</u>
Fair value gain on derivative component of convertible bonds				64,050
Finance costs				(31,211)
Profit before tax				268,935
Tax				(27,974)
Profit for the period				<u>240,961</u>



# NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

## 3. Segment Information (continued)

### Business segments (continued)

	For the six months ended 30 September 2005			SEGMENT
	SEGMENT REVENUE			RESULTS
	Sales to external customers (Unaudited) HK'\$000	Intersegment sales (Unaudited) HK'\$000	Total sales (Unaudited) HK'\$000	(Unaudited) HK'\$000
Paper and carton box printing and manufacturing	935,129	20,908	956,037	179,722
Paper trading	184,169	194,461	378,630	17,634
Corrugated carton manufacturing	266,224	68,088	334,312	23,808
Paper manufacturing	346,113	101,940	448,053	23,927
Eliminations	—	(385,397)	(385,397)	(806)
	<u>1,731,635</u>	<u>—</u>	<u>1,731,635</u>	244,285
Interest, dividend income and other gains				7,445
Corporate and unallocated expenses				(11,373)
				<u>240,357</u>
Fair value gain on derivative component of convertible bonds				—
Finance costs				(15,185)
Profit before tax				225,172
Tax				(38,777)
Profit for the period				<u>186,395</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 3. Segment Information *(continued)*

#### *Geographical segments*

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

An analysis of segment revenue by geographical segments is as follows:

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	<b>2005</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK'\$000</b>	<b>HK'\$000</b>
Sales to external customers:		
Hong Kong	<b>687,050</b>	814,011
Mainland China	<b>568,612</b>	509,063
Europe	<b>215,251</b>	175,097
United States of America	<b>157,547</b>	172,443
Others	<b>76,878</b>	61,021
	<b><u>1,705,338</u></b>	<b><u>1,731,635</u></b>

### 4. Fair Value Gain on Derivative Component of 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. There was no movement in the number of these convertible bonds during the period.

The net proceeds received from the issue of the convertible bonds have been split between the derivative and liability components. The derivative component is measured at fair value using an option pricing model and the change in fair value of that component is recognised in the income statement.

During the period, the share price of the Company decreased considerably, the fair value of the derivative component of the convertible bonds decreased accordingly, resulting in a fair value gain of HK\$64,050,000.

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

## 5. Finance Costs

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on:		
Bank loans	12,288	15,185
Convertible bonds	18,923	—
	<u>31,211</u>	<u>15,185</u>

## 6. Profit before Tax

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

	For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
After charging —		
Depreciation	60,075	54,847
Recognition of prepaid land lease payments	1,601	1,777
Employee benefits expense (including directors' remuneration)	247,061	219,351
Write-down of inventories	—	129
After crediting —		
Bank interest income	20,473	5,269
Fair value gain on derivative component of convertible bonds	64,050	—
Net fair value gains on other derivative instruments, not qualified as hedges	3,510	1,970
Dividend income from available-for-sale investments/long term investments	<u>206</u>	<u>206</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 7. 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 period. 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.

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current — Hong Kong	<b>7,335</b>	14,791
— Mainland China	<b>14,448</b>	23,733
Deferred tax	<b>6,191</b>	253
Total tax charge for the period	<b><u>27,974</u></b>	<u>38,777</u>

### 8. Interim Dividend

	<b>For the six months ended</b>	
	<b>30 September</b>	
	<b>2006</b>	2005
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK9.5 cents (2005: HK9.5 cents) per ordinary share	<b><u>57,074</u></b>	<u>56,266</u>

### 9. Earnings per Share attributable to Equity Holders of the Parent

The calculation of basic earnings per share amount is based on the net profit for the period attributable to equity holders of the parent of HK\$226,649,000 (2005: HK\$171,720,000) and the weighted average of 600,780,529 (2005: 577,875,157) shares in issue during the period.

Diluted earnings per share amount for the period ended 30 September 2006 has not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period. Diluted earnings per share amount for the period ended 30 September 2005 has not been presented as there were no dilutive potential ordinary shares in existence during that period.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 10. Property, Plant and Equipment

	<b>30 September 2006 (Unaudited) HK\$'000</b>
Net carrying amount at 1 April 2006	1,373,577
Additions	121,450
Acquisition of a subsidiary	149
Transfer from properties under construction	2,016
Disposals	(1,971)
Depreciation provided during the period	(60,075)
Exchange realignment	19,194
Net carrying amount at 30 September 2006	<u><u>1,454,340</u></u>

Certain buildings and plant and machinery of the Group with a total net book value of HK\$272,879,000 (31 March 2006 : HK\$283,637,000) have been pledged to secure banking facilities granted to the Group.

### 11. Prepaid Land Lease Payments

	<b>30 September 2006 (Unaudited) HK\$'000</b>
Carrying amount at beginning of period	145,531
Recognised during the period	(1,601)
Exchange realignment	1,616
Carrying amount at 30 September 2006	<u><u>145,546</u></u>

Certain leasehold land of the Group with a total net book value of HK\$45,693,000 (31 March 2006: HK\$46,584,000) have been pledged to banks to secure banking facilities granted to the Group.

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 12. Available-for-sale Investments/Long Term Investments

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Unlisted equity investment, at fair value	<b>60</b>	60
Club debentures, at fair value	<b>2,177</b>	1,948
	<b>2,237</b>	2,008
Hong Kong listed equity investments, at market value	<b>7,432</b>	8,758
	<b>9,669</b>	10,766

### 13. Properties Under Construction

	<b>30 September 2006 (Unaudited) HK\$'000</b>
At beginning of period	<b>46,058</b>
Additions	<b>30,467</b>
Transfer to property, plant and equipment	<b>(2,016)</b>
Exchange realignment	<b>353</b>
At 30 September 2006	<b>74,862</b>

The properties under construction are located in Mainland China.

### 14. 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.

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Accounts receivable	<b>897,222</b>	506,900
Bills receivable	<b>46,688</b>	35,232
	<b>943,910</b>	542,132

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 14. Accounts and Bills Receivable *(continued)*

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

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Within 30 days	371,177	204,676
31 to 60 days	244,389	126,579
61 to 90 days	156,395	88,783
Over 90 days	125,261	86,862
	<u>897,222</u>	<u>506,900</u>

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

### 15. Derivative Financial Instruments

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Current assets:		
Forward currency contracts	<u>5,726</u>	<u>1,231</u>
Current liabilities:		
Forward currency contracts	823	—
Derivative component of convertible bonds (note 4)	<u>24,000</u>	<u>88,050</u>
	<u>24,823</u>	<u>88,050</u>

### 16. Cash and Cash Equivalents

	30 September 2006 (Unaudited) HK\$'000	31 March 2006 (Audited) HK\$'000
Cash and bank balances	206,348	196,285
Time deposits	<u>628,697</u>	<u>1,114,746</u>
Cash and cash equivalents	<u>835,045</u>	<u>1,311,031</u>

## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 17. Accounts Payable

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

	<b>30 September 2006 (Unaudited) HK\$'000</b>	31 March 2006 (Audited) HK\$'000
Within 30 days	<b>112,705</b>	87,052
31 to 60 days	<b>46,569</b>	24,980
61 to 90 days	<b>12,178</b>	341
Over 90 days	<b>4,533</b>	1,465
	<b><u>175,985</u></b>	<u>113,838</u>

### 18. 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 period:

		<b>For the six months ended 30 September 2006 (Unaudited) HK\$'000</b>	2005 (Unaudited) HK\$'000
	Note		
Rentals paid to companies in which directors of the Company are controlling shareholders	(i)	<b><u>420</u></b>	<u>660</u>

Note:

- (i) The rentals paid in the current period to a company of which Mr. Yam Hon Ming, Tommy, a director of the Company, is the controlling shareholder were in connection with the housing benefits provided to him, and were based on estimated open market rentals. They have been included in the directors' remuneration.

The rentals paid in the last period 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.

#### (b) *Outstanding balances with related parties*

There are no outstanding balances with related parties as at 30 September 2006 (31 March 2006: Nil).



## NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

### 18. Related Party Transactions *(continued)*

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

	For the six months ended	
	30 September	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Short term employment benefits	11,259	11,284
Post-employment benefits	335	317
	<u>11,594</u>	<u>11,601</u>

### 19. Contingent Liabilities and Commitments

	30 September	31 March
	2006	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
(a) Total future minimum lease payments under non-cancellable operating leases falling due as follows:		
Within one year	6,182	3,885
In the second to fifth years, inclusive	6,802	6,751
After five years	64,880	64,161
	<u>77,864</u>	<u>74,797</u>
	30 September	31 March
	2006	2006
	(Unaudited)	(Audited)
	HK\$'000	HK\$'000
(b) In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the balance sheet date:		
Contracted for:		
Buildings	25,720	38,486
Plant and machinery	37,070	99,762
	<u>62,790</u>	<u>138,248</u>

## **NOTES TO THE CONDENSED FINANCIAL STATEMENTS** *(continued)*

### **19. Contingent Liabilities and Commitments** *(continued)*

- (c) As at 30 September 2006, the Company has provided corporate guarantees to the extent of HK\$984,756,000 (31 March 2006: HK\$922,184,000) to secure the banking and trading facilities of subsidiaries. The amount drawn against the banking and trading facilities was HK\$311,853,000 as at 30 September 2006 (31 March 2006: HK\$353,301,000).

The Company has also given a guarantee to the extent of HK\$760,125,000 as at 30 September 2006 (31 March 2006: HK\$750,000,000) to a subsidiary for the settlement of convertible bonds issued.

### **20. Comparative Amounts**

Certain comparative amounts have been reclassified and restated to confirm with the current period's presentation. The reclassifications and restatements had no impact on the Group's earnings for the six months ended 30 September 2005.

### **21. Approval of the Condensed Consolidated Interim Financial Statements**

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 11 December 2006.

## MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, Hung Hing was able to successfully implement a diversification strategy both in terms of product range and in terms of geographic customer spread. Hung Hing's paper manufacturing business grew to become the Group's second largest division, and the Group achieved steady growth in mainland China as well as Europe.

The first quarter of the period under review saw global adjustments in oil prices, which impacted customer confidence. This resulted in a short-term slowdown in orders during the first quarter of the period under review. Customer confidence improved during the following quarters, however, resulting in a steady flow of orders. Overall revenue for the Group declined by 2 per cent and operating profit declined by 2 per cent.

The paper and carton box printing and manufacturing division was impacted by a temporary slowdown in orders in the first quarter and revenues declined 5 per cent. The paper trading division took advantage of global adjustments in paper prices and grew its internal sales to record an overall increase of 13 per cent in revenues. The Group's corrugated carton and paper manufacturing division took advantage of the strong mainland China economy to record increases of 6 per cent and 7 per cent respectively in external sales.

The global oil price changes during the period under review impacted the Group in two ways. First, it had a direct impact on the Group's cost of sales due to items such as energy, transportation and material costs. Secondly, the adjustments also impacted customer confidence. Other macro economic factors continued to have an impact on the sector as a whole, such as the power shortage in southern China as well as continued regulation-driven increases in wage and benefits levels.

Despite these challenges, the Group leveraged its vertically integrated operations and exercised tight control over costs and expenses to control increases in its cost of sales.

The Group used the funds raised through its convertible bond (CB) issue to pay off some bank loans as well as to invest in some capital equipment. During the period under review, the Group recognised a significant change in the fair value of the derivative component of the CB which resulted in an exceptional gain of HK\$64 million. In accordance with the accounting rules, this gain was reflected in the Group's income statement and led to an increase of 19 per cent in profit before tax.

Net profit attributable to equity holders of the parent increased 32 per cent to HK\$227 million. Earnings per share increased 27 per cent to HK37.7 cents.

The Board of Directors has declared an interim dividend of HK9.5 cents per share.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Successful diversification of product and customer base**

The Group successfully pursued a diversification strategy in terms of both product base and geographic regions to reduce its reliance on the economic cycles of any one market.

In its current 5-year plan, the mainland China Government encourages and emphasizes foreign investors who bring in advanced technology and know-how into the market, while providing new employment opportunities. The Group has been able to take advantage of these directions through the introduction of new capacity in Heshan and deployment of advanced printing equipment, as well as ongoing investment in research and development to broaden its range of products. Through these initiatives, the Group broadened its product base across business divisions.

The paper manufacturing division grew steadily, accounting for 22 per cent of the Group's total revenue. The printing division, which is the Group's largest division, expanded its range of products and increased its revenue from conventional book printing. The paper trading division also diversified the range of paper it offered, especially on the high end.

As a result of these strategic investments and ongoing economic growth, the Groups was able to increase its presence and revenues in mainland China, which accounted for 33 per cent of the Group's business during the period under review.

Marketing efforts drove sales in other overseas markets, especially Europe, with the Group securing customers in markets like the UK, Germany, Italy, Spain, Russia and Ireland, which altogether accounted for 13 per cent of the Group's business. The Group has appointed an agent in Scandinavia to further grow the business there. The Group's strategy in appointing an agent for South America proved successful with continued growth in the South and Latin American markets.

### **Paper and Carton Box Printing and Manufacturing**

The Group's largest business division contributed 52 per cent and 60 per cent of the Group's revenue and operating profit respectively for the period under review.

The division was impacted by increasing labour and benefits costs driven by government regulations, resulting in pressure on margins. The Group's Wuxi plant continued to make progress and achieved success in both the mainland China and export markets, with a 38 per cent increase in revenue over the comparable period last year.

Trial runs are underway on the machinery installed at the new facility in Heshan. Operations are expected to commence at the end of 2006, with a focus on labour intensive printing projects.

The newly reopened Hong Kong plant has commenced operations on a small scale and made satisfactory progress with an increase in conventional book printing.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Paper Trading**

The Group's paper trading division benefited from the paper price adjustments across the world to achieve an increase of 21 per cent in its contribution to the Group's operating profit. The Shenzhen logistic warehouse continued to drive sound performance for the Group. It is expected that the trend for local manufacturers to source paper from local suppliers such as Hung Hing would continue to grow, which would potentially benefit the Group.

The division will continue to expand the range of papers it sells and introduce more varieties of paper to the market.

### **Corrugated Carton Manufacturing**

This key division recorded a slight increase in revenue of 3 per cent, driven by an increase of 6 per cent in external sales due to diversification of customer base to the electronic and food industries. However, this sector continued to face keen competition and price pressure, which, combined with the increased labour and energy costs, affected margins. The division also incurred a higher depreciation charge for the new corrugator at the Zhongshan facility.

### **Paper Manufacturing**

The Group's paper manufacturing division continued to enhance performance and operational efficiency and succeeded in capitalizing on strong domestic demand in mainland China to increase external sales by 7 per cent. The division took advantage of the prevalent adjustments in paper prices to achieve growth of 44 per cent in contribution to the Group's operating profit. The steady improvement in performance has validated the Group's decision in acquiring the division in 2004.

### **Liquidity and Capital Resources**

The Group continued to invest strategically in new equipment and facilities in the period under review. Capital expenditure during the period amounted to HK\$152 million, of which HK\$31 million was spent on buildings and HK\$121 million on plant and machinery.

As at 30 September 2006, the Group had total bank borrowings of HK\$582 million, of which HK\$413 million was repayable within one year and HK\$169 million was repayable within two to four years.

Of the Group's total bank borrowings, 66 per cent was in Hong Kong dollars, 27 per cent was in Renminbi and 7 per cent was in U.S. dollars.

The Group has accrued loan interest of HK\$19 million for the convertible bonds (CB), assuming that it has to repay CB in full at the end of the fifth year in March 2011. This has resulted in an increase in the Group's interest expenses of 106 per cent to HK\$31 million.

Excluding the loan interest on the CB, interest expenses declined by 19 per cent to HK\$12 million, reflecting a lower level of bank borrowings amidst generally higher interest rates prevailing during the period.

## **MANAGEMENT DISCUSSION AND ANALYSIS** *(continued)*

### **Liquidity and Capital Resources** *(continued)*

As at 30 September 2006, the Group had total cash on hand of HK\$982 million, of which HK\$775 million was placed in time deposits. Of the total cash on hand, 44 per cent was in Hong Kong dollars, 35 per cent was in Renminbi, 20 per cent was in U.S. dollars and 1 per cent was in Euros.

The total debt of the Group, including the loan component of the CB, was HK\$1,242 million. Net debt (total debt net of cash on hand) was HK\$260 million which, as a ratio to shareholders' equity, was 12 per cent.

### **Employees**

As at 30 September 2006, the Group employed a total of 16,694 people in Hong Kong and China. Of the total, 353 were employed in Hong Kong and 16,341 in China. As the Heshan facility comes onstream, the number of employees based in China is expected to trend upwards.

The Group continues its policy of remunerating its employees competitively. The Group's scheme of continuous improvement and enhancement of employee care and benefits continued during the period under review.

### **Contingent Liabilities and Pledge of Assets**

As at 30 September 2006, guarantees amounting to HK\$985 million were given to banks by the Company for banking and trading facilities granted to the Group's subsidiaries. The Company has also given a guarantee to the extent of HK\$760 million to a subsidiary for the settlement of convertible bonds issued.

Certain buildings and plant and machinery of the Group with a total net book value of HK\$273 million as at 30 September 2006 have been pledged to secure banking facilities granted to the Group.

### **Prospects**

As a result of the policies in the Chinese Government's current five-year plan, the business environment in China will likely shift gradually from emphasizing only quantity to an emphasis on value, moving the economy as a whole up the value chain. At the same time, a clear preference is emerging among global customers for quality partners who are highly reliable and have the ability to provide value added services.

Businesses such as Hung Hing, with its vertically integrated operations and long-time emphasis on quality and continuous investment in printing technology, are well placed to capitalize on the opportunities arising from this shift in the macro economic climate.

The Group is optimistic about the long term growth of the China domestic market. We expect that demand from the mainland China market will likely continue to be strong in the months ahead. A trend of consolidation in the industry is anticipated. The Group continues to strategically explore suitable avenues for long-term expansion.

Hung Hing, with its strong financial situation, market reputation, as well as the new capacity and capability which will shortly be created through its new facilities, is cautiously confident of continued steady growth in the months ahead.

## INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

### Interim Dividend

The directors have resolved to pay an interim dividend of HK9.5 cents (2005 : HK9.5 cents) per share. The interim dividend will be paid on 11 January 2007 to shareholders whose names appear on the Register of Members of the Company on 29 December 2006.

### Closure of Register of Members

The Register of Members of the Company will be closed from 27 December 2006 to 29 December 2006, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tengis Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 22 December 2006.

### 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 period.

### Directors' Interests in Shares and Convertible Bonds

At 30 September 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:

Name of director	Number of shares held, capacity and nature of interest			Percentage of	
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation (Note)	Total	the Company's issued share capital
Yam Cheong Hung	300,000	1,650,207	282,676,379	284,626,586	47.38
Yum Chak Ming, Matthew	9,184,537	—	—	9,184,537	1.53
Yum Pui Ming, Anna	1,246,135	951,134	—	2,197,269	0.37
Yap, Alfred Donald	27,504	—	—	27,504	—

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

## INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(continued)*

### Directors' Interests in Shares and Convertible Bonds *(continued)*

Save as disclosed above, as at 30 September 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 period 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 30 September 2006, the following interest of 5% or more of the issued share capital and convertible bonds of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
Yam Cheong Hung	(a)	Directly beneficially owned and through controlled corporation and his spouse	284,626,586	47.38
C.H. Yam International Limited	(a)	Directly beneficially owned and through controlled corporation	282,676,379	47.05
C.H. Yam Holding Limited	(a)	Through controlled corporation	193,789,190	32.26
Hung Tai Industrial Company Limited	(a)	Directly beneficially owned	193,789,190	32.26
Aberdeen Asset Management PLC		Through controlled corporation	30,112,000	5.01
Commonwealth Bank of Australia		Through controlled corporation	36,083,210	6.01
Morgan Stanley		Through controlled corporation	32,729,362	5.45



## INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES *(continued)*

### Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares *(continued)*

Short positions:

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

Note:

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

Save as disclosed above, as at 30 September 2006, no person, other than the directors of the Company, whose interests are set out in 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.

### Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim results, with the exception of the following deviation:

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company's articles of association.

## **INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES** *(continued)*

### **Model Code for Securities Transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as the Company’s code of conduct for dealings in securities of the Company by the directors. Based on specific enquiry of the Company’s directors, the directors have complied with the required standard set out in the Model Code, throughout the accounting period covered by the interim results.

### **Audit Committee**

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The audit committee comprises three independent non-executive directors of the Company.

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the unaudited financial consolidated accounts of the Company for the period ended 30 September 2006.

By Order of the Board  
**Yam Cheong Hung**  
*Chairman*

Hong Kong, 11 December 2006