Notes to the Financial Statements

31 March 2005

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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

HKFRS 3 "Business Combinations" applies to accounting for business combinations for which the agreement date is on or after 1 January 2005. The Group's acquisition of subsidiaries was effected before 1 January 2005 and had been accounted for under Statement of Standard Accounting Practice ("SSAP") No. 30 "Business Combinations". Therefore, HKFRS 3 has had no impact on these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (which also includes Statements of Standard Accounting Practice and Interpretations), accounting principles generally accepted in Hong Kong and the Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of certain long term investments as further explained below.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 March 2005. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. 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.

Subsidiaries

A subsidiary is a company 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.

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

Associates

An associate is a company, 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 profit and loss account 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.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

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 and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 20 years.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Prior to the adoption of SSAP 30 "Business combinations" in 2001, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such goodwill, to remain eliminated against consolidated reserves. Goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Negative goodwill (continued)

Prior to the adoption of SSAP 30 "Business combinations" in 2001, negative goodwill arising on acquisitions was credited to the capital reserve in the year of acquisition. On the adoption of SSAP 30, the Group applied the transitional provision of the SSAP that permitted such negative goodwill to remain credited to the capital reserve. Negative goodwill on acquisitions subsequent to the adoption of the SSAP is treated according to the SSAP 30 negative goodwill accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate. Any attributable negative goodwill previously credited to the capital reserve at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use and its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at the revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at the revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for the revalued asset.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset 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 fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account 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 the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is provided so as to write off the cost of each asset over its estimated useful life. The principal annual rates and bases used are as follows:

Leasehold land	Over the lease terms
Buildings situated in Hong Kong	Over the lease terms
Buildings situated in Mainland China	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

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Land use rights

Land use rights are stated at cost less accumulated amortisation and any impairment losses. All land use rights, which are situated in Mainland China, are valid for 30 to 50 years, and are amortised on the straight-line basis over the remaining lives of the rights commencing after the completion of the construction of the building erected thereon.

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 fixed assets when completed and ready for use.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit and loss account on the straight-line basis over the lease terms.

Long term investments

Long term investments in listed and unlisted equity 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 as 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 profit and loss account for the period in which they arise.

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.

Accounts receivable

Accounts receivable, which generally have credit terms of 30 to 90 days, are recognised and carried at original invoice amount less any amounts deemed uncollectible by the directors. A provision for doubtful debts is estimated when collection of debts is deemed no longer probable. Bad debts and provisions for doubtful debts are charged to the profit and loss account as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(c) dividend income, when the shareholders' right to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned on the temporary investment of specific borrowing pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves 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.

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 profit and loss account 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 profit and loss account 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 profit and loss account as they become payable in accordance with the rules of the central pension scheme.

Income tax

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 assets 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 assets and unused tax losses can be utilised except where the deferred tax asset relating to the deductible temporary differences arises from negative goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Foreign currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of subsidiaries and associates registered in the People's Republic of China, stated in Renminbi, are translated into Hong Kong dollars using the temporal method. Most of the products of these subsidiaries are provided for export to Hong Kong, and the currency in which the majority of the trading transactions is denominated, is Hong Kong dollars. Accordingly, these subsidiaries are dependent directly upon the economic circumstances of the holding company's reporting currency, which is the Hong Kong dollar.

Under the temporal method, all assets, liabilities, revenues and expenses are translated at the applicable exchange rates ruling at the transaction dates. At the balance sheet date, monetary assets and liabilities are re-translated at the closing rate and any resulting exchange difference is taken to the profit and loss account.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

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.

	Paper and carton box printing and manufacturing		Paper trading		Corrugated carton manufacturing		Paper manufacturing		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:												
Sales to external customers	**1,433,719**	1,304,781	**228,155**	251,929	**509,769**	472,210	**155,750**	—	**—**	—	**2,327,393**	2,028,920
Intersegment sales	**3,593**	4,977	**368,012**	465,532	**107,451**	93,510	**28,431**	—	**(507,487)**	(564,019)	**—**	—
Total	**1,437,312**	1,309,758	**596,167**	717,461	**617,220**	565,720	**184,181**	—	**(507,487)**	(564,019)	**2,327,393**	2,028,920
Segment results	**242,842**	273,610	**24,506**	44,937	**31,330**	27,370	**11,342**	—	**1,560**	(1,366)	**311,580**	344,551
Interest, dividend income and other gains											**22,522**	11,341
Corporate and unallocated expenses											**(19,507)**	(19,275)
Profit from operating activities											**314,595**	336,617
Finance costs											**(12,203)**	(5,551)
Share of profits and losses of associates	**—**	—	**—**	—	**—**	—	**3,882**	9,122	**—**	—	**3,882**	9,122
Profit before tax											**306,274**	340,188
Tax											**(43,222)**	(55,204)
Profit before minority interests											**263,052**	284,984
Minority interests											**(22,771)**	(20,242)
Net profit attributable to shareholders											**240,281**	264,742

4. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

	Paper and carton box printing and manufacturing		Paper trading		Corrugated carton manufacturing		Paper manufacturing		Eliminations		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment assets	**1,289,216**	1,103,759	**422,072**	376,878	**680,064**	670,661	**707,171**	—	**(185,281)**	(183,403)	**2,913,242**	1,967,895
Interests in associates	**—**	—	**—**	—	**—**	—	**—**	195,696	**—**	—	**—**	195,696
Unallocated assets	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**207,142**	313,296
Total assets	**1,289,216**	1,103,759	**422,072**	376,878	**680,064**	670,661	**707,171**	195,696	**(185,281)**	(183,403)	**3,120,384**	2,476,887
Segment liabilities	**148,374**	227,693	**55,369**	24,189	**62,990**	106,858	**182,406**	—	**(185,281)**	(183,403)	**263,858**	175,337
Unallocated liabilities	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**715,012**	410,213
Total liabilities	**148,374**	227,693	**55,369**	24,189	**62,990**	106,858	**182,406**	—	**(185,281)**	(183,403)	**978,870**	585,550
Other segment information:												
Depreciation	**53,535**	48,066	**2,512**	234	**23,957**	22,049	**6,653**	—	**—**	—	**86,657**	70,349
Unallocated depreciation	**—**	—	**—**	—	**—**	—	**—**	—	**—**	—	**194**	280
	53,535	48,066	**2,512**	234	**23,957**	22,049	**6,653**	—	**—**	—	**86,851**	70,629
Capital expenditure	**148,695**	120,328	**13,601**	22,531	**106,117**	50,473	**40**	—	**—**	—	**268,453**	193,332
Provision for bad and doubtful debts	**827**	5,270	**—**	—	**255**	1,370	**—**	—	**—**	—	**1,082**	6,640

(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		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:										
Sales to external customers	**1,064,529**	1,078,846	**676,188**	435,688	**278,269**	281,139	**308,407**	233,247	**2,327,393**	2,028,920
Other segment information:										
Segment assets	**493,656**	513,912	**2,498,359**	1,846,303	**61,123**	53,468	**67,246**	63,204	**3,120,384**	2,476,887
Capital expenditure	**3,992**	1,215	**264,461**	192,117	**—**	—	**—**	—	**268,453**	193,332

5. TURNOVER, OTHER REVENUE AND GAINS

Turnover represents the net invoiced sales, net of allowances for returns and trade discounts.

An analysis of the Group's turnover, other revenue and gains is as follows:

	Group	
	2005	2004
	HK$'000	HK$'000
Turnover — sale of goods	**2,327,393**	2,028,920
Other revenue and gains:		
Dividend income from listed equity investments	**258**	258
Interest income	**9,344**	9,924
Unrealised gains on listed investments	**3,639**	1,159
Gain on foreign exchange forward contracts	**9,281**	—
Sundry income	**19,815**	12,315
	42,337	23,656
Total revenue	**2,369,730**	2,052,576

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	Group	
	2005	2004
	HK$'000	HK$'000
Depreciation (note 14)	**86,851**	70,629
Auditors' remuneration	**1,788**	1,679
Staff costs (including directors' remuneration — note 7):		
Wages, salaries and other allowances	**329,269**	281,911
Retirement scheme contributions	**2,968**	2,877
Less: Forfeited contributions*	**(16)**	(94)
Net retirement scheme contributions	**2,952**	2,783
Total staff costs	**332,221**	284,694
Minimum lease payments under operating leases in respect of land and buildings	**5,727**	3,998
Provision for bad and doubtful debts	**1,082**	6,640
Loss on disposal of fixed assets	**772**	481
Exchange gains, net	**(1,687)**	(4,202)

* At 31 March 2005, the Group had no forfeited contributions available to reduce its contributions to the retirement scheme in future years (2004: Nil).

7. DIRECTORS' REMUNERATION

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

	2005	2004
	HK$'000	HK$'000
Fees:		
Executive directors	**—**	—
Non-executive directors*	**322**	270
Other emoluments:		
Executive directors:		
Salaries, allowances and benefits in kind	**13,471**	12,979
Retirement scheme contributions	**395**	422
Discretionary bonuses paid and payable	**12,766**	13,940
	26,954	27,611

* Fees include HK$242,000 (2004: HK$190,000) payable to the independent non-executive directors. There were no other emoluments payable to the independent non-executive directors during the year (2004: Nil).

The number of directors whose remuneration fell within the following bands is as follows:

		Number of directors	
		2005	2004
Nil	– HK$1,000,000	**6**	4
HK$2,500,001	– HK$3,000,000	**1**	—
HK$3,000,001	– HK$3,500,000	**—**	1
HK$3,500,001	– HK$4,000,000	**1**	1
HK$8,500,001	– HK$9,000,000	**1**	1
HK$11,500,001	– HK$12,000,000	**1**	1
		10	8

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2004: four) directors, details of whose remuneration are set out in note 7 above. The details of the remuneration of the remaining one (2004: one) non-director, highest paid employee for the year are as follows:

	2005	2004
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**1,211**	1,140
Retirement scheme contributions	**46**	46
Discretionary bonuses paid and payable	**2,602**	2,664
	3,859	3,850

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

	Number of employees	
	2005	2004
HK$3,500,001 – HK$4,000,000	**1**	1

9. FINANCE COSTS

	Group	
	2005	2004
	HK$'000	HK$'000
Interest on bank loans	**12,203**	5,551

10. TAX

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 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 and the associates operate, based on existing legislation, interpretations and practices in respect thereof.

	2005	2004
	HK$'000	HK$'000
Group:		
Current — Hong Kong		
— Charge for the year	**16,122**	21,244
— Overprovision in prior years	**(809)**	(1,507)
Current — Mainland China		
— Charge for the year	**31,264**	32,470
— Tax refund#	**(6,478)**	—
Deferred tax (note 26)	**3,997**	2,446
	44,096	54,653
Share of tax attributable to associates:		
Mainland China	**(874)**	551
Total tax charge for the year	**43,222**	55,204

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, and associates 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

	2005					
	Hong Kong		**Mainland China**		**Total**	
	HK$'000	**%**	**HK$'000**	**%**	**HK$'000**	**%**
Profit before tax	**109,310**		**196,964**		**306,274**	
Tax at the statutory tax rate	**19,129**	**17.5**	**64,998**	**33.0**	**84,127**	**27.4**
Lower tax rate for local authority*	**—**	**—**	**(31,245)**	**(15.8)**	**(31,245)**	**(10.2)**
Profits not subject to tax, due to concessions**	**—**	**—**	**(372)**	**(0.2)**	**(372)**	**(0.1)**
Adjustment in respect of current tax of previous period	**(809)**	**(0.7)**	**—**	**—**	**(809)**	**(0.3)**
Tax refund	**—**	**—**	**(6,478)**	**(3.3)**	**(6,478)**	**(2.1)**
Income not subject to tax	**(2,921)**	**(2.7)**	**(2,628)**	**(1.3)**	**(5,549)**	**(1.8)**
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**	**0.5**
Tax losses utilised	**(114)**	**(0.1)**	**—**	**—**	**(114)**	**—**
Tax charge at the Group's effective rate	**17,102**	**15.6**	**26,120**	**13.3**	**43,222**	**14.1**

	2004					
	Hong Kong		Mainland China		Total	
	HK$'000	%	HK$'000	%	HK$'000	%
Profit before tax	125,606		214,582		340,188	
Tax at the statutory tax rate	21,981	17.5	70,812	33.0	92,793	27.3
Lower tax rate for local authority*	—	—	(34,710)	(16.2)	(34,710)	(10.2)
Profits not subject to tax, due to concessions**	—	—	(683)	(0.3)	(683)	(0.2)
Effect on deferred tax of increase in rates	—	—	(51)	—	(51)	—
Adjustment in respect of current tax of previous period	(1,507)	(1.2)	(956)	(0.4)	(2,463)	(0.7)
Income not subject to tax	(1,747)	(1.4)	(175)	(0.1)	(1,922)	(0.6)
Expenses not deductible for tax	651	0.5	1,134	0.5	1,785	0.5
Tax losses not recognised	455	0.4	—	—	455	0.1
Tax charge at the Group's effective rate	19,833	15.8	35,371	16.5	55,204	16.2

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

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

11. NET PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The net profit attributable to shareholders for the year ended 31 March 2005 dealt with in the financial statements of the Company was HK$184,085,000 (2004: HK$170,456,000) (note 28(b)).

12. DIVIDENDS

	2005 **HK$'000**	2004 HK$'000
Interim dividend of HK9.5 cents (2004: HK9.5 cents) per ordinary share	**54,341**	54,341
Proposed final dividend of HK20.0 cents (2004: HK20.0 cents) per ordinary share	**115,559**	114,401
	169,900	168,742

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

(a) Basic earnings per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the year of HK$240,281,000 (2004: HK$264,742,000) and the weighted average of 572,942,598 (2004: 572,006,798) shares in issue during the year.

(b) Diluted earnings per share

Diluted earnings per share amounts for the years ended 31 March 2005 and 2004 have not been presented as there were no dilutive potential ordinary shares in existence during these years.

14. FIXED ASSETS

Group

	Leasehold land and buildings HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost:					
At beginning of year	465,319	911,042	27,782	59,835	1,463,978
Additions	30,798	180,423	3,352	3,868	218,441
Acquisition of subsidiaries (note 29(b))	104,882	209,700	2,926	465	317,973
Transfer from properties under construction (note 17)	33,921	—	—	—	33,921
Disposals	—	(2,874)	(1,852)	(165)	(4,891)
At 31 March 2005	634,920	1,298,291	32,208	64,003	2,029,422
Accumulated depreciation:					
At beginning of year	70,035	381,338	19,654	35,622	506,649
Provided during the year	14,229	63,908	3,073	5,641	86,851
Disposals	—	(1,788)	(1,554)	(102)	(3,444)
At 31 March 2005	84,264	443,458	21,173	41,161	590,056
Net book value:					
At 31 March 2005	550,656	854,833	11,035	22,842	1,439,366
At 31 March 2004	395,284	529,704	8,128	24,213	957,329

Certain leasehold land and buildings and plant and machinery of the Group with a total net book value of HK$335,785,000 (2004: HK$55,146,000) have been pledged to secure banking facilities granted to the Group (note 25).

14. FIXED ASSETS (continued)

Group (continued)

An analysis of the cost of the Group's leasehold land and buildings at the balance sheet date is as follows:

	2005 **HK$'000**	2004 HK$'000
Hong Kong — medium term leases	**107,119**	107,119
Mainland China, under land use rights valid for:		
50 years from 28 May 1992	**75,646**	75,646
30 years from 17 December 1996	**85,596**	85,596
50 years from 24 March 1997	**98,950**	98,497
50 years from 17 September 1998	**104,882**	—
50 years from 30 March 2002	**75,975**	72,697
50 years from 2 December 2002	**57,131**	19,427
45 years from 1 December 2003	**6,337**	6,337
50 years from 31 January 2005	**23,284**	—
	634,920	465,319

14. FIXED ASSETS (continued)

Company

	Leasehold land and buildings HK$'000	Motor vehicles HK$'000	Furniture, fixtures and equipment HK$'000	Total HK$'000
Cost:				
At beginning of year	14,981	4,704	748	20,433
Disposals	—	(624)	—	(624)
At 31 March 2005	14,981	4,080	748	19,809
Accumulated depreciation:				
At beginning of year	2,307	4,126	638	7,071
Provided during the year	559	169	25	753
Disposals	—	(594)	—	(594)
At 31 March 2005	2,866	3,701	663	7,230
Net book value:				
At 31 March 2005	12,115	379	85	12,579
At 31 March 2004	12,674	578	110	13,362

The Company's leasehold land and buildings are situated in Mainland China under land use rights valid for 30 years from 17 December 1996.

15. GOODWILL

The amount of goodwill capitalised as an asset in the consolidated balance sheet, arising from the acquisition of subsidiaries, is as follows:

	Group
	HK$'000
Cost:	
Acquisition of subsidiaries during the year (note 29(b)) and at 31 March 2005	3,041

As detailed in note 3 to the financial statements, on the adoption of SSAP 30 in 2001, the Group applied the transitional provision of SSAP 30 that permitted goodwill and negative goodwill in respect of acquisitions which occurred prior to the adoption of the SSAP, to remain eliminated against consolidated reserves or credited to the capital reserve, respectively.

The amounts of goodwill and negative goodwill remaining in the Group's capital reserve, arising from the acquisition of subsidiaries prior to the adoption of SSAP 30 in 2001, were HK$814,000 and HK$105,103,000, respectively as at 1 April 2004 and 31 March 2005. The amount of goodwill is stated at its cost.

16. LONG TERM INVESTMENTS

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Unlisted equity investments, at fair value	**60**	86	**—**	—
Club debentures, at fair value	**1,362**	1,362	**802**	802
	1,422	1,448	**802**	802
Hong Kong listed equity investments, at market value	**9,016**	5,377	**—**	—
	10,438	6,825	**802**	802

Notes to the Financial Statements
31 March 2005

17. PROPERTIES UNDER CONSTRUCTION

	Group	
	2005	2004
	HK$'000	HK$'000
At beginning of year	**41,291**	46,399
Additions	**50,012**	57,980
Transfer to fixed assets (note 14)	**(33,921)**	(63,088)
At 31 March	**57,382**	41,291

The properties under construction are located in Mainland China.

18. INTERESTS IN SUBSIDIARIES

	Company	
	2005	2004
	HK$'000	HK$'000
Unlisted shares, at cost	**401,861**	120,813
Due from subsidiaries	**367,484**	487,710
Due to subsidiaries	**—**	(60,549)
	769,345	547,974
Less: Provision against an amount due from a subsidiary	**(1,353)**	(1,353)
	767,992	546,621

The balances with subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

18. 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$80,000,000	—	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/ Mainland China	US$100	100	—	Investment holding
South Gain Enterprises Limited	Hong Kong	HK$1,000,000	—	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	Not yet commenced operations
Sun Hing Paper (Shenzhen) Company Limited*§§	the PRC/Mainland China	HK$30,000,000	—	100	Paper trading

18. INTERESTS IN SUBSIDIARIES (continued)

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 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 (note)*§	the PRC/Mainland China	US$28,830,000	51	8	Paper manufacturing
Zhongshan Ren Hing Paper Manufacturing Company Limited (note)*§	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

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.

Note: During the year, the Group acquired additional 24% interests in its associates, Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited ("Rengo") and Zhongshan Ren Hing Paper Manufacturing Company Limited ("Ren Hing"), from their existing shareholders. Subsequent to this acquisition, Rengo and Ren Hing have become 59% owned subsidiaries of the Group. Further details of this acquisition are included in note 29(b) to the financial statements.

@ Incorporated during the year

§ Sino-foreign equity joint venture

§§ Wholly foreign-owned enterprise

* The financial statements of these subsidiaries for the year ended 31 December 2004 have been audited by Ernst & Young. The results of these subsidiaries have been consolidated into the Group's financial statements for the year ended 31 March 2005 based on the audited financial statements for the year ended 31 December 2004 and their unaudited management accounts for the three months ended 31 March 2005.

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

19. INTERESTS IN ASSOCIATES

	Group 2005 HK$'000	Group 2004 HK$'000	Company 2005 HK$'000	Company 2004 HK$'000
Unlisted shares, at cost	—	—	—	118,213
Share of net assets other than goodwill	—	137,557	—	—
	—	137,557	—	118,213

Particulars of the associates are as follows:

Name	Business structure	Place of registration and operations	Percentage of ownership interest attributable to the Group 2005	2004	Principal activities
Zhongshan Rengo Hung Hing Paper Manufacturing Company Limited	Corporate	the PRC/Mainland China	—	35	Paper Manufacturing
Zhongshan Ren Hing Paper Manufacturing Company Limited	Corporate	the PRC/Mainland China	—	35	Paper Manufacturing

During the year, the Group acquired additional 24% interests in Rengo and Ren Hing from their existing shareholders. Subsequent to this acquisition, Rengo and Ren Hing have become 59% owned subsidiaries of the Group. Further details of this acquisition are included in notes 18 and 29(b) to the financial statements.

20. DUE FROM ASSOCIATES

The Group's amounts due from associates were unsecured, bore interest at prime rate for balances due over one month and had no fixed terms of repayment.

21. INVENTORIES

	Group 2005 HK$'000	2004 HK$'000
Raw materials	**392,010**	327,886
Work in progress	**48,941**	31,203
Finished goods	**112,660**	41,909
	553,611	400,998

As at 31 March 2005, there were no inventories stated at net realisable value (2004: Nil).

22. ACCOUNTS AND BILLS RECEIVABLE

	Group 2005 HK$'000	2004 HK$'000
Accounts receivable	**594,600**	407,144
Bills receivable	**49,909**	—
	644,509	407,144

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

	Group 2005 HK$'000	2004 HK$'000
Within 30 days	**256,816**	162,752
Between 31 and 60 days	**151,451**	125,840
Between 61 and 90 days	**97,577**	43,836
Over 90 days	**88,756**	74,716
	594,600	407,144

22. ACCOUNTS AND BILLS RECEIVABLE (continued)

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.

23. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash and bank balances	**170,962**	145,331	**4,333**	7,022
Time deposits	**163,454**	292,044	**69,114**	107,621
	334,416	437,375	**73,447**	114,643

At the balance sheet date, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to HK$238,867,000 (2004: HK$244,391,000). 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.

24. ACCOUNTS PAYABLE

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

	Group	
	2005	2004
	HK$'000	HK$'000
Within 30 days	**98,921**	54,952
Between 31 and 60 days	**17,207**	25,352
Between 61 and 90 days	**1,812**	2,263
Over 90 days	**6,076**	4,607
	124,016	87,174

25. INTEREST-BEARING BANK LOANS

	Group 2005 HK$'000	2004 HK$'000
Bank loans:		
Secured	**136,792**	—
Unsecured	**501,736**	322,792
Trust receipt loans	**14,985**	18,095
	653,513	340,887
Short term bank loans and trust receipt loans repayable within one year	**308,513**	100,887
Long term bank loans repayable:		
Within one year	**20,000**	10,000
In the second year	**135,417**	20,000
In the third to fifth years, inclusive	**189,583**	210,000
	345,000	240,000
	653,513	340,887
Portion classified as current liabilities	**(328,513)**	(110,887)
Long term portion	**325,000**	230,000

Certain of the Group's banking facilities amounting to HK$174,528,000 (2004: HK$37,736,000) are secured by the pledge of certain leasehold land and buildings and plant and machinery of the Group with a total net book value of HK$335,785,000 (2004: HK$55,146,000) (note 14). The above banking facilities were utilised to the extent of HK$136,792,000 (2004: Nil) as at the balance sheet date.

26. 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 2003	18,014	(3,173)	(662)	14,179
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	1,597	925	(73)	2,449
At 31 March 2004 and at 1 April 2004	19,611	(2,248)	(735)	16,628
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	3,575	(867)	(11)	2,697
At 31 March 2005	23,186	(3,115)	(746)	19,325

26. 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 2003	88	(2,121)	(351)	(2,384)
Deferred tax charged/(credited) to the profit and loss account during the year, including a credit of HK$51,000 due to the effect of a change in tax rate (note 10)	70	93	(166)	(3)
At 31 March 2004 and at 1 April 2004	158	(2,028)	(517)	(2,387)
Acquisition of subsidiaries (note 29(b))	(2,113)	(2,860)	—	(4,973)
Deferred tax charged/(credited) to the profit and loss account during the year (note 10)	169	1,133	(2)	1,300
At 31 March 2005	(1,786)	(3,755)	(519)	(6,060)

The Group has tax losses arising in Hong Kong of HK$8,696,000 (2004: HK$9,345,000) and in Mainland China of HK$33,301,000 (2004: HK$14,032,000) that are available for offsetting against future taxable profits of the companies in which the losses arose. 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 2005, there was no unrecognised deferred tax liability (2004: Nil) for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates 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.

26. DEFERRED TAX (continued)

Deferred tax liabilities/(assets)

Company

	Accelerated tax depreciation HK$'000	Others HK$'000	Total HK$'000
At 1 April 2003	121	—	121
Deferred tax credited to the profit and loss account during the year	(29)	(212)	(241)
At 31 March 2004 and at 1 April 2004	92	(212)	(120)
Deferred tax credited to the profit and loss account during the year	(27)	(21)	(48)
At 31 March 2005	65	(233)	(168)

27. SHARE CAPITAL

	2005 Number of shares	2004 Number of shares	**2005 HK$'000**	2004 HK$'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	**577,796,067**	572,006,798	**57,779**	57,200

Pursuant to a scrip dividend scheme as detailed in the Company's circular dated 7 January 2005, a total of 5,789,269 ordinary shares of HK$0.10 each were issued on 31 January 2005 to shareholders who elected to receive shares for the Company's 2005 interim dividend, at an issue price of HK$5.4 per share during the year.

27. SHARE CAPITAL (continued)

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 share in issue	Issued share capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 April 2003, 31 March 2004 and 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	577,796,067	57,779	621,373	679,152

28. 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.

28. RESERVES (continued)

(b) Company

	Notes	Share premium account HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance at 1 April 2003		590,690	966	34,569	626,225
Net profit for the year		—	—	170,456	170,456
Interim 2004 dividend	*12*	—	—	(54,341)	(54,341)
Proposed final 2004 dividend	*12*	—	—	(114,401)	(114,401)
At 31 March 2004 and 1 April 2004		590,690	966	36,283	627,939
Net profit for the year		—	—	184,085	184,085
Issue of shares pursuant to a scrip dividend scheme	*27*	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		621,373	966	50,468	672,807

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Major non-cash transaction

During the year, the Company settled its 2005 interim dividend of HK$31,262,000 by the issue of 5,789,269 ordinary shares of HK$0.1 each at an issue price of HK$5.4 per share pursuant to a scrip dividend scheme. Further details of which are set out in note 27 to the financial statements.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	Notes	2005 HK$'000	2004 HK$'000
Net assets acquired:			
Fixed assets	*14*	**317,973**	—
Deferred tax assets	*26*	**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 loans		**(139,623)**	—
Minority interests		**(134,796)**	—
		250,337	—
Goodwill on acquisition	*15*	**3,041**	—
		253,378	—
Satisfied by:			
Cash		**118,581**	—
Reclassification to interests in subsidiaries from interests in associates		**134,797**	—
		253,378	—

29. 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 **HK$'000**	2004 HK$'000
Cash consideration	**(118,581)**	—
Cash and bank balances acquired	**48,555**	—
	(70,026)	—

On 9 December 2004, 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 turnover and HK$7,614,000 to the consolidated profit after tax and before minority interests for the year ended 31 March 2005.

30. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group had the following transactions with related parties during the year:

		Group	
		2005	2004
	Notes	**HK$'000**	HK$'000
Sales to associates	*(i)*	**254,354**	249,982
Purchases from associates	*(i)*	**61,133**	90,717
Rentals paid to Perla City Investments Limited, a company beneficially owned by Mr. Yum Chak Ming, Matthew	*(ii)*	**480**	480
Rentals paid to Gaintek Holdings Limited, a company beneficially owned by Mr. Yam Hon Ming, Tommy	*(ii)*	**840**	840
Interest income received from associates	*(iii)*	**1,821**	2,552

30. RELATED PARTY TRANSACTIONS (continued)

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, and 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.

(ii) The rentals paid to Perla City Investments Limited and Gaintek Holdings Limited 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 and have been included in the directors' remuneration as detailed in note 7 to the financial statements.

(iii) The interest income from associates arose from the amounts due from associates, arising in the ordinary course of business of the Group, further details including the terms of which are disclosed in note 20 to the financial statements.

31. CONTINGENT LIABILITIES

(a) The tax assessments for the years 1996/1997 to 2003/2004 in respect of certain subsidiaries of the Group are currently under review by the Hong Kong Inland Revenue Department (the "IRD"). Based on the information available up to the date of approval of these financial statements, the Company's directors consider that adequate provision has been made in the current year's financial statements. Moreover, the IRD may impose additional assessments upon completion of the review. The directors are of the opinion that the additional assessments, if any, cannot be reliably ascertained at this stage and will not be significant to the Group's financial statements. Accordingly, no provision for any additional tax assessments was made at the balance sheet date.

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

	Group		**Company**	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees given to banks for banking and trading facilities granted to subsidiaries	**—**	—	**912,520**	712,520
Amount of banking facilities with the Company's guarantees utilised by subsidiaries	**—**	—	**384,184**	308,038

32. 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 2005, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**2,760**	3,216	**480**	480
In the second to fifth years, inclusive	**6,268**	6,303	**480**	—
After five years	**64,303**	69,904	**—**	—
	73,331	79,423	**960**	480

33. COMMITMENTS

(a) Capital commitments

In addition to the operating lease commitments detailed in note 32 above, the Group had the following capital commitments at the balance sheet date:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Contracted for:				
Land and buildings	**21,416**	40,724	**—**	—
Plant and machinery	**13,853**	108,711	**—**	—
Investments in subsidiaries in Mainland China	**—**	—	**6,118**	104,188
	35,269	149,435	**6,118**	104,188

33. COMMITMENTS (continued)

(b) Forward foreign exchange contracts

At the balance sheet date, the Group had the following notional amounts of forward foreign exchange contracts:

	Group		Company	
	2005	2004	**2005**	2004
	HK$'000	HK$'000	**HK$'000**	HK$'000
Buying of RMB	**—**	237,380	**—**	—
Buying of EURO	**40,464**	38,123	**—**	38,123
Buying of USD	**95,909**	134,395	**95,909**	134,395
Selling of RMB	**94,340**	405,032	**94,340**	307,391
Selling of USD	**39,936**	84,739	**—**	37,939

The net unrealised gain on forward foreign exchange contracts at the balance sheet date has not been recorded as it is not material to the Group's financial statements.

34. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 5 July 2005.