Notes to the Financial Statements

For the year ended 31 December 2005

1. GENERAL

The Company was incorporated as an exempted company with limited liability in Bermuda on 3 June 1991 under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its ultimate holding company is Temasek Holdings (Private) Ltd., a company incorporated in Singapore. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company.

The principal activities of the Group are printing of books, magazines, packaging products and pop-up and touch-and-feel books.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. In particular, the presentation of minority interests and share of tax of associates have been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current and prior accounting years are prepared and presented:

Business Combinations

In the current year, the Group has applied HKFRS 3 *Business Combinations* which is effective for business combinations for which the agreement date is on or after 1 January 2005. In previous years, goodwill arising on acquisitions was capitalised and amortised over its estimated useful life. The Group has applied the transitional provisions in HKFRS 3. On 1 January 2005, the Group eliminated the carrying amount of the related accumulated amortisation of HK$4,647,000 with a corresponding decrease in the cost of goodwill (see Note 16). The Group has discontinued amortising such goodwill from 1 January 2005 onwards and such goodwill will be tested for impairment at least annually. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill has been charged in the current year. Comparative figures for 2004 have not been restated (see Note 2A for the financial impact).

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Share-based Payment

In the current year, the Group has applied HKFRS 2 *Share-based Payment* which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options granted to directors and employees of the Company, determined at the date of grant of the share options, over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. Now the Group is required to apply HKFRS 2 retrospectively to share options that were granted before 1 January 2005 and had not yet vested on 1 January 2005. Comparative figures have been restated (see Note 2A for the financial impact).

Financial Instruments

In the current year, the Group has applied HKAS 32 *Financial Instruments: Disclosure and Presentation* and HKAS 39 *Financial Instruments: Recognition and Measurement*. HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit the recognition, derecognition or measurement of financial assets and liabilities on a retrospective basis. The application of HKAS 32 has had no material impact on how financial instruments of the Group are presented for current and prior accounting periods. The principal effects resulting from the implementation of HKAS 39 are summarised below:

Classification and measurement of financial assets and financial liabilities

The Group has applied the relevant transitional provisions in HKAS 39 with respect to the classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

By 31 December 2004, the Group classified and measured its debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 ("SSAP 24"). Under SSAP 24, investments in debt or equity securities are classified as "investment securities", "other investments" or "held-to-maturity investments" as appropriate. "Investment securities" are carried at cost less impairment losses (if any) while "other investments" are measured at fair value, with unrealised gains or losses included in profit or loss. Held-to-maturity investments are carried at amortised cost less impairment losses (if any). From 1 January 2005 onwards, the Group has classified and measured its debt and equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. Available-for-sale equity investments that do not have quoted market prices in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are measured at cost less impairment after initial recognition. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method after initial recognition.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Financial Instruments *(continued)*

Classification and measurement of financial assets and financial liabilities (continued)

On 1 January 2005, the Group classified and measured its debt and equity securities in accordance with the transitional provisions of HKAS 39. As a result, "other investments" amounted to HK$622,000 has been classified as held-for-trading investments on 1 January 2005 (see Note 2A for the financial impact).

Financial assets and financial liabilities other than debt and equity securities

From 1 January 2005 onwards, the Group has classified and measured its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets under HKAS 39 are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables" or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "other financial liabilities". Financial liabilities at fair value through profit or loss are measured at fair value, with changes in fair value being recognised in profit or loss directly. Other financial liabilities are carried at amortised cost using the effective interest method after initial recognition. The Group has applied the relevant transitional provisions in HKAS 39. However, there has been no material effect on how the results for the current accounting period are prepared and presented.

Derivatives and hedging

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the non-derivative host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are designated as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in profit or loss for the period in which they arise.

The Group has applied the relevant transitional provisions in HKAS 39. As the derivatives that do not meet the requirements of hedge accounting in accordance with HKAS 39, the Group has, from 1 January 2005 onwards, deemed such derivatives as held for trading. The Group measured its derivative at fair value and recorded the amount in "other payables and accruals" account prior to 1 January 2005 with the change in fair values recognised in profit or loss for the period in which they arise. As a result, "other payables and accruals" amounted to HK$1,201,000 has been reclassified to derivative financial instruments on 31 December 2004.

2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES *(continued)*

Owner-occupied leasehold interest in land

In previous years, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current year, the Group has applied HKAS 17 *Leases*. Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively (see Note 2A for the financial impact).

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described above on the results for the current and prior year are as follows:

	2005 *HK$'000*	2004 *HK$'000*
Non-amortisation of goodwill	17,748	–
Decrease in share of results of associates	(1,409)	(1,382)
Decrease in income tax expenses	1,409	1,382
Recognition of share based payments as expenses	(466)	(266)
Increase (decrease) in profit for the year	17,282	(266)

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated)	Retrospective adjustments			As at 31 December 2004 (restated)	Prospective adjustments	As at 1 January 2005 (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		HKAS 1	HKAS 17	HKFRS 2		HKAS 39	
Balance sheet items							
Property, plant and equipment	679,490	–	(125,438)	–	554,052	–	554,052
Prepaid lease payments	–	–	115,291	–	115,291	–	115,291
Held-for-trading investments	–	–	–	–	–	622	622
Other investments	622	–	–	–	622	(622)	–
Other payables and accruals	(128,341)	–	–	–	(128,341)	–	(128,341)
Derivative financial instruments *(Note)*	(1,201)	–	–	–	(1,201)	–	(1,201)
Other net assets	206,953	–	–	–	206,953	–	206,953
Total effects on assets and liabilities	757,523	–	(10,147)	–	747,376	–	747,376
Share capital	40,273	–	–	–	40,273	–	40,273
Retained profits	348,142	–	–	(328)	347,814	–	347,814
Share options reserve	–	–	–	328	328	–	328
Property revaluation reserve	11,686	–	(10,147)	–	1,539	–	1,539
Other reserves	354,767	–	–	–	354,767	–	354,767
Minority interests	–	2,655	–	–	2,655	–	2,655
Total effects on equity	754,868	2,655	(10,147)	–	747,376	–	747,376
Minority interests	2,655	(2,655)	–	–	–	–	–

Note: The Group measured its derivative at fair value and recorded the amount in "other payables and accruals" account on 31 December 2004. As a result, "other payables and accruals" amounting to HK$1,201,000 has been reclassified to derivative financial instruments on 31 December 2004.

2A. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The financial effects of the application of the new HKFRSs to the Group's equity on 1 January 2004 are summarised below:

	As originally stated	HKAS 1	HKAS 17	HKFRS 2	As restated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Share capital	40,273	–	–	–	40,273
Retained profits	328,239	–	–	(62)	328,177
Share options reserve – recognition of equity-settled share-based payment expenses	–	–	–	62	62
Property revaluation reserve	11,686	–	(10,147)	–	1,539
Other reserves	341,523	–	–	–	341,523
Minority interests	–	2,410	–	–	2,410
Total effects on equity	721,721	2,410	(10,147)	–	713,984

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no or any material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure[1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures[2]
HKAS 21 (Amendment)	Net investment in a foreign operation[2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions[2]
HKAS 39 (Amendment)	The fair value option[2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts[2]
HKFRS 6	Exploration for and evaluation of mineral resources[2]
HKFRS 7	Financial instruments: disclosures[1]
HK (IFRIC) – INT 4	Determining whether an arrangement contains a lease[2]
HK (IFRIC) – INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds[2]
HK (IFRIC) – INT 6	Liabilities arising from participating in a specific market, waste electrical and electronic equipment[3]
HK (IFRIC) – INT 7	Applying the restatement approach under HKAS 29 financial reporting in hyperinflationary economies[4]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 January 2006.
[3] Effective for annual periods beginning on or after 1 December 2005.
[4] Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments, which are measured at revalued amounts or fair values, as explained in the accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Goodwill

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is before 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant subsidiary or associate at the date of acquisition.

For previously capitalised goodwill, the Group has discontinued amortisation from 1 January 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

Goodwill arising on an acquisition of a subsidiary or an associate for which the agreement date is on or after 1 January 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary or associate at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the balance sheet. Capitalised goodwill arising on an acquisition of an associate (which is accounted for using the equity method) is included in the cost of the investment of the relevant associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary or an associate, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Interests in associates

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the profit or loss and of changes in equity of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

Rental income is recognised on a straight-line basis over the relevant lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment

Property, plant and equipment, other than plant and machinery under installation and factory buildings under construction, are stated at cost or valuation less accumulated depreciation and amortisation and impairment loss.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 *Property, Plant and Equipment* from the requirement to make regular revaluations of the Group's land and buildings which had been carried at revalued amounts prior to 30 September 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30 September 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to retained profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment other than plant and machinery under installation and factory buildings under construction over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method, at the following rate per annum:

Buildings	2.5% – 5%
Plant and machinery	$6^{2}/_{3}$% – $33^{1}/_{3}$%
Equipment, furniture and fixtures	10% – 50%
Motor vehicles	10% – 25%

Plant and machinery under installation and factory buildings under construction are stated at cost less any impairment losses, and are not depreciated. They are reclassified to the appropriate category of property, plant and equipment when completed and ready to use.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the year in which the item is dereognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in the income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financials statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies *(continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Retirement benefits costs

Payments to state-managed retirement benefits schemes and the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Taxation *(continued)*

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a Group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance leases are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedging

The Group uses derivative financial instruments (primarily forward contracts and interest rate swaps) to hedge its exposure against foreign currency and interest risk. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Derivatives of the Group do not qualify for hedge accounting thus they are deemed as financial assets held for trading or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet (i.e. when the obligation specified in the relevant contract is discharged, cancelled or expired). The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

Equity settled share-based payment transactions

Share options granted to directors and employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period with a corresponding increase in equity (share options reserve).

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Impairment losses (other than goodwill – see the accounting policies in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately unless the relevant asset is carried at a revalued amount under another standard in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that other standard.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Depreciation and amortisation

The Group's net book value of property, plant and equipment as at 31 December 2005 was HK$593 million. The Group depreciates the plant and machinery on a straight line basis over the estimated useful life of three to fifteen years, and after taking into account of their estimated residual value, using the straight-line method, at the rate $6^2/_3\%$ to $33^1/_3\%$ per annum, commencing from the date the equipment is placed into productive use. The estimated useful life and dates that the Group places the equipment into productive use reflects the directors' estimate of the periods that the Group intend to derive future economic benefits from the use of the Group's plant and equipment.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

During the year, there was significant increase in net realisable value of raw materials due to certain raw materials previously written off can be used in the production of other products. As a result, a reversal of write-down of raw materials of HK$3,145,000 (2004: Nil) has been recognised in cost of sales in the current year.

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. As at 31 December 2005, the carrying amount of goodwill was HK$169,807,000. Details of the recoverable amount calculation are disclosed in note 17.

Income taxes

As at 31 December 2005, a deferred tax asset of HK$1,247,000 in relation to unused tax losses has been recognised in the Group's balance sheet. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in the income statement for the period in which such a reversal takes place.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, trade and bills payables, other payables and borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Several subsidiaries of the Company have foreign currency sales, which expose the Group to foreign currency risk. In order to mitigate the foreign currency risk, foreign currency forward contracts are entered into in respect of highly probable foreign currency forecast sales in accordance with the Group's risk management policies.

Certain trade receivables and borrowings of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Interest rate risk

The Group's fair value interest rate risk relates to fixed-rate and variable-rate borrowings (see Note 25 for details of these borrowings). In relation to these fixed-rate borrowings, the Group aims at keeping borrowings at variable rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in fair values for some of these borrowings (see Note 27 for details).

Besides, the Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and obligations under finance leases. The interest rates and terms of repayment of bank borrowings and obligations under finance leases of the Group are disclosed in notes 25 and 26 respectively.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Price risk

The Group's held-for-trading investments are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

6. REVENUE

Revenue represents the amounts received and receivable for goods sold by the Group to outside customers, less returns and trade discounts, during the year.

An analysis of the Group's revenue is as follows:

	2005 *HK$'000*	2004 *HK$'000*
Printing of books and magazines	855,882	691,124
Printing of packaging products	296,781	95,683
Printing pop-up and touch-and-feel books	547,397	187,340
	1,700,060	974,147

7. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions – printing of books and magazines, printing of packaging products and printing of pop-up and touch-and-feel books. These divisions are the basis on which the Group reports its primary segment information.

Inter-segment sales are charged at prevailing market prices.

Segment information about these businesses is presented below:

For the year ended 31 December 2005

	Printing of books and magazines *HK$'000*	Printing of packaging products *HK$'000*	Printing of pop-up and touch-and-feel books *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
Segment revenue					
External sales	855,882	296,781	547,397	–	1,700,060
Inter-segment sales	178	13,806	7,577	(21,561)	–
Total	856,060	310,587	554,974	(21,561)	1,700,060
Result					
Segment result	92,803	3,988	38,584	–	135,375
Unallocated corporate expenses					(34,768)
Finance costs					(26,594)
Share of results of associates	1,582	1,962	–	–	3,544
Profit before tax					77,557
Income tax expenses					(3,086)
Profit for the year					74,471

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2005

	Printing of books and magazines *HK$'000*	Printing of packaging products *HK$'000*	Printing of pop-up and touch-and-feel books *HK$'000*	Consolidated *HK$'000*
OTHER INFORMATION				
Capital expenditure by the Group	39,304	8,268	19,910	67,482
Capital expenditure through acquisition of a subsidiary	–	55,222	–	55,222
Depreciation	39,922	10,291	22,184	72,397
Gain (loss) on disposal of property, plant and equipment	2,539	(140)	(334)	2,065
Allowance for doubtful debt, net	–	–	2,552	2,552
Write-down (reversal of write-down) of inventories, net	66	–	(3,211)	(3,145)
At 31 December 2005				
BALANCE SHEET				
Assets				
Segment assets	875,504	307,150	518,847	1,701,501
Interests in associates	59,266	24,535	–	83,801
Unallocated corporate assets				261,790
Consolidated total assets				2,047,092
Liabilities				
Segment liabilities	213,470	25,380	58,492	297,342
Unallocated corporate liabilities				800,887
Consolidated total liabilities				1,098,229

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2004

	Printing of books and magazines *HK$'000*	Printing of packaging products *HK$'000*	Printing of pop-up and touch-and-feel books *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000* (restated)
Segment revenue					
External sales	691,124	95,683	187,340	–	974,147
Inter-segment sales	353	6,611	414	(7,378)	–
Total	691,477	102,294	187,754	(7,378)	974,147
Result					
Segment result	80,978	(9,391)	13,340	–	84,927
Surplus on revaluation of investment properties					7,525
Amortisation of goodwill arising from the acquisition of subsidiaries	–	–	(4,647)	–	(4,647)
Unallocated corporate expenses					(30,953)
Finance costs					(4,111)
Share of results of associates	1,896	1,962	–	–	3,858
Amortisation of goodwill arising from the acquisition of an associate	(403)	–	–	–	(403)
Profit before tax					56,196
Income tax expenses					(5,697)
Profit for the year					50,499

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2004

	Printing of books and magazines *HK$'000*	Printing of packaging products *HK$'000*	Printing of pop-up and touch-and-feel books *HK$'000*	Consolidated *HK$'000* (Restated)
OTHER INFORMATION				
Capital expenditure by the Group	49,402	3,279	7,708	60,389
Capital expenditure through acquisition of subsidiaries	–	–	126,167	126,167
Depreciation	38,173	5,623	6,579	50,375
Gain (loss) on disposal of property, plant and equipment	1,323	(6)	(9)	1,308
Allowance for doubtful debt, net	–	–	6,315	6,315
Write-down (reversal of write-down) of inventories, net	2,763	–	(881)	1,882

At 31 December 2004

	Printing of books and magazines *HK$'000*	Printing of packaging products *HK$'000*	Printing of pop-up and touch-and-feel books *HK$'000*	Consolidated *HK$'000* (Restated)
BALANCE SHEET				
Assets				
Segment assets	742,726	140,616	549,465	1,432,807
Interests in associates	58,342	24,535	–	82,877
Unallocated corporate assets				217,878
Consolidated total assets				1,733,562
Liabilities				
Segment liabilities	195,076	9,165	85,589	289,830
Unallocated corporate liabilities				696,356
Consolidated total liabilities				986,186

7. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(b) Geographical segments

The printing of books and magazines, packaging products and pop-up and touch-and-feel books divisions are located in the People's Republic of China (the "PRC"), Thailand and Hong Kong.

The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods/services.

	2005	2004
	HK$'000	*HK$'000*
The PRC	**398,065**	392,819
Hong Kong	**155,714**	24,317
Taiwan	**119,040**	8,710
The United States of America	**574,485**	331,885
United Kingdom	**313,838**	115,215
Australia	**42,401**	46,406
Other areas	**96,517**	54,795
	1,700,060	974,147

An analysis of the carrying amount of segment assets, and additions to property, plant and equipment, analysed by the geographical area in which the assets are located has not been presented as they are substantially located in the PRC.

8. FINANCE COSTS

	2005	2004
	HK$'000	*HK$'000*
Interest on:		
Bank and other borrowings wholly repayable within five years	**18,423**	3,144
Bank and other borrowings wholly repayable over five years	**7,840**	914
Obligations under finance leases	**331**	53
	26,594	4,111

9. PROFIT BEFORE TAX

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Profit before tax has been arrived at after charging (crediting):		
Staff costs, including directors' remuneration *(Note 11(a))*:		
– Salaries, wages and other benefits	233,194	137,825
– Retirement benefit scheme contributions, net of forfeited contributions of HK$4,000 (2004: HK$5,000)	5,790	4,715
Total staff costs	238,984	142,540
Auditors' remuneration	2,146	1,222
Depreciation of property, plant and equipment	72,397	50,375
Minimum lease payments under operating leases:		
– Plant and machinery	127	96
– Properties	15,918	4,496
	16,045	4,592
Exchange (gain) loss, net	(1,878)	3,046
(Reversal of) write-down of inventories, net	(3,145)	1,882
Allowance for doubtful debts, net	2,552	6,315
Gross rental income	(1,089)	(1,185)
Less: outgoings	879	966
Net rental income	(210)	(219)
Interest income	(2,140)	(1,164)
Increase in fair value of held-for-trading investments	(44)	–
Decrease in fair value of derivative financial instruments	3,692	1,201
Share of tax of associates (included in share of results of associates)	1,409	1,382

10. INCOME TAX EXPENSES

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Current tax:		
– Hong Kong	5,701	2,035
– Other jurisdictions	6,282	5,851
	11,983	7,886
(Over) underprovision in prior years:		
– Hong Kong	(9,200)	(834)
– Other jurisdictions	960	1,762
	(8,240)	928
	3,743	8,814
Deferred taxation *(Note 28)*	(657)	(3,117)
	3,086	5,697

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

Taxation arising in other jurisdictions are calculated at the rate prevailing in the respective jurisdictions.

The Group's subsidiaries operating in Thailand are eligible for certain tax holidays and concessions and certain amount of these subsidiaries' profits were exempted from Thailand corporate income tax for the year.

During the year, a subsidiary obtained approval from the Hong Kong Inland Revenue Department in claiming certain offshore profits as being non-taxable in prior years. An overprovision of taxation in prior years amounting to approximately HK$9,200,000 was thus reversed in current year.

10. INCOME TAX EXPENSES *(continued)*

Tax charge for the year can be reconciled to the profit per the income statement as follows:

	2005		2004	
	HK$'000	*%*	*HK$'000* (Restated)	*%*
Profit before tax	77,557		56,196	
Tax at Hong Kong Profits Tax rate of 17.5%	13,572	17.5	9,834	17.5
Tax effect of share of associates	(251)	(0.3)	(675)	(1.2)
Tax effect of expenses that are not deductible in determining taxable profit	5,033	6.5	3,410	6.1
Tax effect of income that are not taxable in determining taxable profit	(2,935)	(3.8)	(2,487)	(4.4)
(Over) underprovision in respect of prior year	(8,240)	(10.6)	928	1.6
Tax effect of different tax rates of the subsidiaries and associates operating in other jurisdictions	97	0.1	(1,460)	(2.6)
Tax effect of unrecognised tax losses	823	1.1	588	1.0
Utilisation of tax losses previously not recognised	–	–	(2,953)	(5.3)
Tax effect of utilisation of deductible temporary difference not recognised (write-down of inventories)	–	–	(616)	(1.1)
Recognition of tax losses previously not recognised	–	–	(300)	(0.5)
Tax effect of offshore profits not subject to Hong Kong Profits Tax	(3,948)	(5.1)	–	–
Effect of tax exemptions granted to a subsidiary in Thailand	(1,065)	(1.4)	(572)	(1.0)
Tax expense and effective tax rate for the year	3,086	4.0	5,697	10.1

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

The emoluments paid or payable to each of the nine (2004: eleven) directors were as follows:

		Other emoluments			
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Peter, Yang Sze Chen	–	2,141	210	–	2,351
Yeo Chee Tong	–	1,085	457	–	1,542
Tay Siew Choon	155	–	–	–	155
John Robert Walter	155	–	–	–	155
Edmund, Cheng Wai Wing	116	–	–	–	116
Joseph, Lai Ming	170	–	–	–	170
Alice, Kan Lai Kuen	93	–	–	–	93
Frank, Wong Kwong Shing	2	–	–	–	2
Kyle Arnold Shaw, Jr.	28	–	–	–	28
Total for 2005	719	3,226	667	–	4,612

		Other emoluments			
	Fees	Salaries and other benefits	Performance related incentive payments	Retirement benefit scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Peter, Yang Sze Chen	–	2,110	342	46	2,498
Yeo Chee Tong	–	1,596	339	–	1,935
Tay Siew Choon	128	–	–	–	128
John Robert Walter	116	–	–	–	116
Edmund, Cheng Wai Wing	103	–	–	–	103
Joseph, Lai Ming	55	–	–	–	55
Frank, Wong Kwong Shing	77	–	–	–	77
Koo Tse Chia	9	–	–	–	9
Maria Yang	9	–	–	–	9
Kyle Arnold Shaw, Jr.	110	–	–	–	110
Ma King Wah	7	–	–	–	7
Total for 2004 (Restated)	614	3,706	681	46	5,047

No director waived any emoluments in the years ended 31 December 2005 and 2004.

11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(continued)*

(b) Employees' emoluments

During the year, the five highest paid individuals included one director (2004: two directors), details of whose emoluments are set out above. The emoluments of the remaining four (2004: three) highest paid individuals were as follows:

	2005	2004
	HK$'000	*HK$'000*
		(Restated)
Salaries and other benefits	6,234	4,191
Performance related incentive payments	800	696
Retirement benefits schemes contributions	48	24
	7,082	4,911

Their emoluments were within the following bands:

	Number of employees	
	2005	2004
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	3	2
HK$2,000,001 to HK$2,500,000	1	–
	4	3

12. DIVIDENDS

	2005	2004
	HK$'000	*HK$'000*
Interim dividend paid: HK2 cents (2004: HK2 cents) per share	10,068	8,055
Final dividend proposed: HK3 cents (2004: HK3 cents) per share	15,102	12,082
	25,170	20,137

The directors propose that final dividend of HK3 cents per share will be paid to shareholders on 11 April 2006. This dividend is subject to approval by shareholders at the Annual General Meeting and has been included as a dividend reserve in these financial statements.

The proposed dividend for 2005 is payable to all shareholders on the Register of Members on 17 March 2006.

13. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit attributable to the equity holders of the parent of HK$70,368,000 (2004: HK$50,216,000 as restated) and the weighted average of 453,534,504 shares (2004: 409,573,275 shares as restated) in issue during the year. The weighted average numbers of ordinary shares for the purpose of basic earnings per share have been adjusted for the Rights Issue on 14 July 2005.

No diluted earnings per share have been presented because the exercise prices (as adjusted for the effect of share-based payments) of the Company's options were higher than the average market prices of the shares for both financial years.

The following table summarises the impact on basic earnings per share as a result of:

	Impact on basic earnings per share	
	2005	2004
	HK cents	*HK cents*
Reported figures before adjustments	**11.70**	12.54
Adjustments arising from rights issue on 14 July 2005	**–**	(0.21)
Adjustments arising from changes in accounting policies *(see Note 2A)*	**3.82**	(0.07)
Restated	**15.52**	12.26

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Equipment, furniture and fixtures	Motor vehicles	Plant and machinery under installation and factory buildings under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST OR VALUATION						
At 1 January 2004						
– As originally stated	307,456	502,582	42,701	13,945	724	867,408
– Reclassified to prepaid lease payments	(133,485)	–	–	–	–	(133,485)
– As restated	173,971	502,582	42,701	13,945	724	733,923
Additions	301	9,217	5,014	1,586	44,271	60,389
Acquired on acquisition of subsidiaries	42,015	71,401	8,676	4,075	–	126,167
Reclassifications	1,333	1,043	1,619	324	(4,319)	–
Disposals	(3,202)	(3,620)	(3,658)	(3,472)	–	(13,952)
Transfer from investment properties	17,945	–	–	–	–	17,945
Exchange realignment	575	1,747	128	92	–	2,542
At 31 December 2004 and 1 January 2005	232,938	582,370	54,480	16,550	40,676	927,014
Additions	1,112	35,079	10,576	5,729	14,986	67,482
Acquired on acquisition of a subsidiary	9,612	42,591	1,229	1,790	–	55,222
Reclassifications	992	52,475	185	275	(53,927)	–
Disposals	(6,772)	(21,166)	(5,710)	(5,942)	–	(39,590)
Exchange realignment	4,113	4,943	748	151	38	9,993
At 31 December 2005	**241,995**	**696,292**	**61,508**	**18,553**	**1,773**	**1,020,121**
Comprising:						
At cost	230,186	696,292	61,508	18,553	1,773	1,008,312
At valuation:						
31.3.1994	3,495	–	–	–	–	3,495
31.3.1995	4,205	–	–	–	–	4,205
31.3.1998	3,039	–	–	–	–	3,039
30.11.2004	1,070	–	–	–	–	1,070
	241,995	696,292	61,508	18,553	1,773	1,020,121

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

	Buildings	Plant and machinery	Equipment, furniture and fixtures	Motor vehicles	Plant and machinery under installation and factory buildings under construction	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
DEPRECIATION						
At 1 January 2004						
– As originally stated	41,526	255,123	30,285	10,322	–	337,256
– Reclassified to prepaid lease payments	(7,124)	–	–	–	–	(7,124)
– As restated	34,402	255,123	30,285	10,322	–	330,132
Provided for the year	5,904	37,125	5,235	2,111	–	50,375
Eliminated on disposals	(765)	(1,187)	(3,627)	(3,368)	–	(8,947)
Exchange realignment	169	1,071	92	70	–	1,402
At 31 December 2004 and 1 January 2005	39,710	292,132	31,985	9,135	–	372,962
Provided for the year	8,305	52,635	8,140	3,317	–	72,397
Reclassification	–	198	(198)	–	–	–
Eliminated on disposals	(1,415)	(11,791)	(4,014)	(4,171)	–	(21,391)
Exchange realignment	881	1,638	429	93	–	3,041
At 31 December 2005	**47,481**	**334,812**	**36,342**	**8,374**	**–**	**427,009**
NET BOOK VALUES						
At 31 December 2005	**194,514**	**361,480**	**25,166**	**10,179**	**1,773**	**593,112**
At 31 December 2004 (restated)	193,228	290,238	22,495	7,415	40,676	554,052

	2005	2004
	HK$'000	*HK$'000*
The carrying amount of buildings located at:		
Long-term leases in Hong Kong	5,853	6,139
Medium-term leases in Hong Kong	5,610	9,392
Medium-term leases in PRC	174,685	168,365
Medium-term leases in Thailand	8,366	9,332
	194,514	193,228

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

Certain of the Group's buildings were revalued at 31 March 1994 and 1995 by Sallmanns (Far East) Limited, independent professionally qualified valuers on an open market value basis. Since 1995, no further revaluations of the Group's buildings have been carried out, as the Group has relied upon the exemption granted under the transitional provisions of HKAS 16 Property, plant and equipment, from the requirement to carry out future revaluations of its property, plant and equipment which were stated at valuation at that time. Properties carried at 1998 and 2004 valuations are properties which were reclassified from investment properties on the basis of the directors' and independent professional qualified valuers' valuation as at 31 March 1998 and 30 November 2004, respectively.

Had these buildings been carried at cost less accumulated depreciation, their carrying values would have been approximately HK$192 million (2004: HK$191 million).

At 31 December 2005, the net book value of plant and machinery and motor vehicles of the Group includes an amount of approximately HK$10,399,000 (2004: HK$1,841,000) and HK$1,137,000 (2004: HK$2,189,000) respectively in respect of plant and machinery and motor vehicles held under finance leases.

The Group has pledged property, plant and equipment having a net book value of approximately HK$10,741,000 (2004: HK$9,998,000) to secure general banking facilities granted to the Group.

15. PREPAID LEASE PAYMENTS

	2005	2004
	HK$'000	*HK$'000*
The Group's prepaid lease payments comprise:		
Long-term leasehold land in Hong Kong	**86,425**	86,521
Medium-term leasehold land in Hong Kong	**3,818**	3,209
Medium-term leasehold land in PRC	**25,074**	25,561
Medium-term leasehold land in Thailand	**156**	–
	115,473	115,291
Analysed for reporting purposes as:		
Current asset	**934**	923
Non-current asset	**114,539**	114,368
	115,473	115,291

16. GOODWILL

	HK$'000
COST	
Arising on acquisition of subsidiaries and at 1 January 2005	139,249
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(4,647)
Arising on acquisition of a subsidiary *(see Note 31)*	35,205
At 31 December 2005	**169,807**
AMORTISATION	
Charge for the year ended 31 December 2004 and at 1 January 2005	4,647
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(4,647)
At 31 December 2005	**–**
CARRYING VALUES	
At 31 December 2005	**169,807**
At 31 December 2004	134,602

Particulars regarding impairment testing on goodwill are disclosed in note 17.

Until 31 December 2004, goodwill had been amortised over 10 years.

17. IMPAIRMENT TESTING ON GOODWILL

As explained in note 7, the Group uses business segments as its primary segment for reporting segment information. For the purposes of impairment testing, goodwill set out in note 16 have been allocated to three individual cash generating units (CGUs), including two subsidiaries in printing of pop-up and touch-and-feel books segment and one subsidiary in printing of packaging products segment. The carrying amounts of goodwill (net of accumulated amortisation) as at 31 December 2005 allocated to these units are as follows:

	Goodwill *HK$'000*
Printing of pop-up and touch-and-feel books	
– SNP Excel (Hong Kong) Company Limited	128,263
– SNP Excel (Thailand) Co., Ltd.	6,339
Printing of packaging products	
– SNP Yau Yue Paper Products Limited	35,205
	169,807

17. IMPAIRMENT TESTING ON GOODWILL *(continued)*

During the year ended 31 December 2005, the Management of the Group determines that there are no impairments of any of its CGUs containing goodwill.

The recoverable amounts of the above CGUs have been determined on the basis of value in use calculations. Their recoverable amounts are based on certain similar key assumptions. All value in use calculations use cash flow projections based on financial budgets approved by the Management covering a 10-year period, and a discount rate of 12%. Cash flow projections during the budget period for the CGUs are based on the expected gross margins during the budget period. Budgeted gross margins have been determined based on past performance and management's expectations for the market development.

18. INTERESTS IN ASSOCIATES

The summarised financial information in respect of the Group's associates is set out below:

	2005	2004
	HK$'000	*HK$'000*
Cost of investment in unlisted associates	**85,389**	85,389
Share of post-acquisition profits and reserves, net of dividends received	**(1,588)**	(2,512)
	83,801	82,877

Included in the cost of investment in associates is goodwill of HK$470,000 (2004: HK$470,000) arising on acquisitions of associates in prior years. The movement of goodwill is set out below.

	HK$'000
COST	
At 1 January 2004 and 31 December 2004	2,016
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(1,546)
At 31 December 2005	**470**
AMORTISATION	
At 1 January 2004 and 31 December 2004	1,546
Elimination of accumulated amortisation upon the application of HKFRS 3 *(see Note 2)*	(1,546)
At 31 December 2005	**–**
CARRYING VALUES	
At 31 December 2005	**470**
At 31 December 2004	470

Until 31 December 2004, goodwill had been amortised over 5 years.

18. INTERESTS IN ASSOCIATES *(continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2005 *HK$'000*	2004 *HK$'000*
Total assets	335,292	336,503
Total liabilities	(76,456)	(79,070)
Net assets	258,836	257,433
Group's share of net assets of associates	83,331	82,407
Revenue	275,143	270,433
Profit for the year	22,184	27,671
Group's share of result of associates for the year	3,544	3,858

Information of the significant associates are set out in note 39.

19. INVENTORIES

	2005 *HK$'000*	2004 *HK$'000*
Raw materials	198,463	167,924
Work in progress	34,781	33,309
Finished goods	5,921	6,140
	239,165	207,373

During the year, there was significant increase in net realisable value of raw materials due to certain raw materials previously written off can be used in the production of other products. As a result, a reversal of write-down of raw materials of HK$3,145,000 (2004: Nil) has been recognised and included in cost of sales in the current year.

20. TRADE AND BILLS RECEIVABLES

	2005 *HK$'000*	2004 *HK$'000*
Trade and bills receivables	684,187	473,573
Less: allowance for doubtful debts	(61,029)	(56,291)
	623,158	417,282

The Group allows different credit periods to its trade customers depending on the type of printing products provided. Credit periods vary from 90 to 180 days in accordance with the industry practice.

An aged analysis of the trade and bills receivables as at the balance sheet date, based on payment due date, and net of allowance, is as follows:

	2005 *HK$'000*	2004 *HK$'000*
Within credit period	345,744	302,420
1 – 30 days	141,657	49,528
31 – 60 days	62,215	40,248
61 – 90 days	33,580	10,272
Over 90 days	39,962	14,814
	623,158	417,282

The fair value of the Group's trade and bills receivables at 31 December 2005 approximates to the corresponding carrying amount.

21. HELD-FOR-TRADING INVESTMENTS

Held-for-trading investments as at 31 December 2005 represent equity securities listed in Hong Kong. The fair values of the held-for-trading investments are determined based on the quoted market bid prices available on the relevant exchange.

22. OTHER INVESTMENTS

Other investments as at 31 December 2004 represent equity securities listed in Hong Kong. Upon the application of HKAS 39 on 1 January 2005, other investments were reclassified to held-for-trading investments under HKAS 39 (see Note 2 for details).

23. PLEDGED BANK DEPOSITS

The amount represents deposits pledged to banks to secure short-term banking facilities granted to the Group and are therefore classified as current assets.

The deposits carry fixed interest rate of 0.72%. The pledged bank deposits will be released upon the settlement of relevant bank borrowings. The fair value of bank deposits at 31 December 2005 approximates to the corresponding carrying amount.

24. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	2005 *HK$'000*	2004 *HK$'000*
0 – 30 days	148,797	119,533
31 – 60 days	11,901	14,695
61 – 90 days	7,423	3,303
91 – 120 days	3,569	2,213
Over 120 days	4,191	7,432
	175,881	147,176

The fair value of the Group's trade and bills payables at 31 December 2005 approximates to the corresponding carrying amount.

25. BANK BORROWINGS

	2005 *HK$'000*	2004 *HK$'000*
Secured bank loans	41,713	6,736
Unsecured bank loans	709,715	652,145
	751,428	658,881

The above amounts bear interest at prevailing market rates and are repayable as follows:

	2005 *HK$'000*	2004 *HK$'000*
Within one year	240,503	158,881
In the second year	119,172	100,000
In the third to fifth years inclusive	326,753	275,000
Over five years	65,000	125,000
	751,428	658,881
Less: Amount due within one year shown under current liabilities	(240,503)	(158,881)
	510,925	500,000

Bank loans include approximately HK$15,385,000 (2004: Nil) fixed-rate borrowings which carry interest at 5.22% per annum. The remaining bank loans are variable-rate borrowings which carry interest ranging from 4% to 7% (2004: 1% to 3% per annum).

25. BANK BORROWINGS *(continued)*

The Group's borrowings that are denominated in currencies other the functional currencies of the relevant group entities are set out below:

	RMB	Thai Baht
	'000	*'000*
As at 31 December 2005	16,000	13,000
As at 31 December 2004	–	86,930

During the year, the Group obtained new loans in the amount of HK$404,167,000. The loans drawn during the year bear interest at market rates and will be repayable varying from 2006 to 2009.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

As at the balance sheet date, the Group has undrawn borrowing facilities with floating rate expiring within one year amounting to approximately HK$846,380,000 (2004: HK$603,334,000).

26. OBLIGATIONS UNDER FINANCE LEASES

The lease term ranges from two to four years. For the year ended 31 December 2005, the average effective borrowing rate was 6% (2004: 5%). Interest rates are fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**3,760**	1,436	**3,432**	1,333
In more than one year but not more two years	**2,753**	1,087	**2,622**	1,042
In more than two year but not more three years	**492**	251	**473**	248
	7,005	2,774	**6,527**	2,623
Less: Future finance charges	**(478)**	(151)	**–**	–
Present value of lease obligations	**6,527**	2,623	**6,527**	2,623
Less: Amount due within one year shown under current liabilities			**(3,432)**	(1,333)
			3,095	1,290

26. OBLIGATIONS UNDER FINANCE LEASES *(continued)*

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

All finance lease obligations are denominated in Hong Kong dollars, functional currency of the subsidiary entered into these arrangements.

The directors consider that the carrying amount of the obligations under finance leases approximates their fair value.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2005	2004
	HK$'000	*HK$'000*
Interest rate swaps	**521**	543
Foreign currency forward contracts	**4,372**	658
	4,893	1,201

Major terms of the interest rate swaps are as follows:

Notional amount	**Maturity**	**Swaps**
HK$100,000,000	16 March 2007	From 2.5% to HIBOR

At 31 December 2005, the Group had entered into forward contracts denominated in United States Dollar ("USD"), Thai Baht ("THB"), Euro ("EUR") and Swiss Franc ("CHF"). The major terms of the foreign currency forward contracts are as follows:

Notional amount	**Maturity**	**Exchange rates**
Sell USD3,000,000	16 January 2006	USD0.0254 to THB1
Sell USD3,000,000	27 March 2006	USD0.0254 to THB1
Sell USD1,222,000	29 March 2006	USD1.222 to EUR1
Sell USD2,476,000	29 March 2006	USD1.238 to EUR1
Sell USD5,301,000	27 September 2006	USD1.178 to EUR1
Sell USD1,149,425	28 June 2006	USD0.7663 to CHF1
Sell THB20,954,814	18 January 2006	THB38.65 to USD1
Sell THB101,875,000	2 August 2006	THB40.75 to USD1
Sell THB10,602,762	4 August 2006	THB40.75 to USD1
Sell THB181,893,600	2 October 2006	THB40.10 to USD1

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

28. DEFERRED TAX LIABILITIES

The following are the major deferred tax liabilities (assets) recognised by the Group and movements thereon during the year and prior reporting period:

	Accelerated tax depreciation	Allowance for doubtful debts	Write-down of inventories	Revaluation of properties	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	17,690	(3,250)	(2,862)	2,389	(362)	13,605
Acquired on acquisition of subsidiaries	6,233	–	–	–	–	6,233
(Credit) charge to income statement for the year	(1,388)	72	(11)	–	(1,790)	(3,117)
At 31 December 2004 and 1 January 2005	22,535	(3,178)	(2,873)	2,389	(2,152)	16,721
Acquired on acquisition of a subsidiary	3,489	–	–	–	–	3,489
(Credit) charge to income statement for the year	(2,024)	(176)	638	–	905	(657)
At 31 December 2005	**24,000**	**(3,354)**	**(2,235)**	**2,389**	**(1,247)**	**19,553**

As at the balance sheet date, the Group has unprovided deferred assets due to the unpredictability of the future profit streams arising from tax losses amounting to approximately HK$2,345,000 (2004: HK$1,522,000). All tax losses may be carried forward indefinitely.

29. SHARE CAPITAL

	Number of shares		Share capital	
	2005	2004	**2005**	2004
	'000	*'000*	***HK$'000***	*HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning of year	**500,000**	500,000	**50,000**	50,000
Increase during the year *(Note a)*	**500,000**	–	**50,000**	–
At end of year	**1,000,000**	500,000	**100,000**	50,000
Issued and fully paid:				
At beginning of year	**402,727**	402,727	**40,273**	40,273
Issued during the year *(Note b)*	**100,682**	–	**10,068**	–
At end of year	**503,409**	402,727	**50,341**	40,273

Notes:

(a) By the ordinary resolution passed on 22 June 2005 at the special general meeting, the authorised share capital of the Company was increased from HK$50 million to HK$100 million by the creation of additional 500 million new shares of HK$0.10 each.

(b) On 14 July 2005, 100,681,729 new shares of HK$0.10 each were issued at HK$1.2 per share by way of Rights Issue on the basis of one new share for every four shares. The proceeds of the Rights Issue were used to finance the Group's expansion and general operations. The new shares rank pari passu with the existing shares in all respects.

30. SHARE OPTIONS SCHEMES AND SHARE AWARD SCHEMES

(a) 2003 Scheme

A share option scheme (the "2003 Scheme") of the Company was adopted on 28 August 2003 for the purpose of providing incentives and rewards to eligible participants, including the executive directors of the Company, who contribute to the success of the Group's operations.

The Board of Directors of the Company may, at their discretion, grant options to the eligible participant including any employee, officer, director or consultant of the Group. The maximum number of shares of the Company which may be issued upon exercise of all options granted under its 2003 Scheme or any other share option scheme adopted by the Company must not exceed 30% of its issued share capital from time to time. The maximum number of shares issuable under the options to each eligible participant in any 12-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of the grant) in excess of HK$5 million, in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

30. SHARE OPTIONS SCHEMES AND SHARE AWARD SCHEMES *(continued)*

(a) 2003 Scheme *(continued)*

At 31 December 2005, the number of shares of the Company in respect of which options had remained outstanding under the 2003 Scheme of the Company was 7,121,250, representing 1.4% of the shares of the Company in issue at that date.

The offer of a grant of share options may be accepted within 30 business days from the date of the offer, upon payment of a consideration by the offeree. The consideration for a grant of options of the Company is HK$1.00. The exercise period of the share options granted is determined by the Board of Directors.

Total consideration received during the year from a director and employees for taking up the options granted during the year is HK$27 (2004: HK$19).

The exercise price of the share options is determined by the Board of Directors providing that the exercise price of the share options must be the highest of (i) the Stock Exchange closing price of the Company's shares on the date of the offer; (ii) the average of the Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares on the date of the offer.

The following table discloses the details of the share options under 2003 Scheme held by a director and employees and movements in such holdings during the year of 2004 and 2005:

		Number of share options								
	Date of grant	Outstanding at 1.1.2004	Granted during the year	Lapsed during the year	Outstanding at 1.1.2005	Granted during the year	Adjustment for rights issue	Lapsed during the year	Outstanding at 31.12.2005	Exercise price per share *HK$*
A director	9 October 2003	450,000	–	–	450,000	–	112,500	–	562,500	1.421
	25 November 2004	–	225,000	–	225,000	–	56,250	–	281,250	1.029
	12 April 2005	–	–	–	–	225,000	56,250	–	281,250	1.597
	28 October 2005	–	–	–	–	600,000	–	–	600,000	1.140
		450,000	225,000	–	675,000	825,000	225,000	–	1,725,000	
Employees	9 October 2003	1,510,000	–	(180,000)	1,330,000	–	232,500	(400,000)	1,162,500	1.421
	25 November 2004	–	895,000	–	895,000	–	176,875	(187,500)	884,375	1.029
	12 April 2005	–	–	–	–	747,500	186,875	–	934,375	1.597
	28 October 2005	–	–	–	–	2,415,000	–	–	2,415,000	1.140
		1,510,000	895,000	(180,000)	2,225,000	3,162,500	596,250	(587,500)	5,396,250	
		1,960,000	1,120,000	(180,000)	2,900,000	3,987,500	821,250	(587,500)	7,121,250	
Exercisable at the end of the year					445,000				1,153,906	

30. SHARE OPTIONS SCHEMES AND SHARE AWARD SCHEMES *(continued)*

(a) 2003 Scheme *(continued)*

The options granted may be exercised in accordance with the terms of the relevant scheme as to:

(i) 25% of the options will be exercisable after the expiry of 12 months from the date of grant (the "First Exercise Date");

(ii) 25% of the options will be exercisable after the expiry of each successive 12 months period from the First Exercise Date; and

(iii) the options will expire after ten years from the date of grant.

During the year ended 31 December 2005, options were granted on 12 April and 28 October. The estimated fair values of the options granted on those dates are HK$577,000 and HK$618,000 respectively. During the year ended 31 December 2004, options were granted on 25 November. The estimated fair value of the options granted on the date is HK$326,000.

These fair values were calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share option grant date		
	28.10.2005	**12.4.2005**	**25.11.2004**
Share price on grant date	HK$1.08	HK$1.63	HK$1.05
Exercise price	HK$1.14	HK$1.63	HK$1.05
Expected volatility	26.61%	39.25%	40.78%
Expected life	10 years	10 years	10 years
Risk-free rate	4.43%	4.18%	3.43%
Expected dividend yield	4.63%	3.07%	4.76%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous 256 days. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

The Group recognised the total expense of HK$466,000 for the year ended 31 December 2005 (2004: HK$266,000) in relation to share options granted by the Company.

30. SHARE OPTIONS SCHEMES AND SHARE AWARD SCHEMES *(continued)*

(b) Share Award Schemes

The Company adopted a performance related incentive award scheme and a time-based incentive award scheme (together the "Share Award Schemes") on 18 March 2004 for the purpose of recognising the performance and/or contribution by certain employees of the Group, including executive Directors, giving incentives to retain them and attracting suitable personnel for further development of the Group. Pursuant to the Share Award Schemes, awards of performance shares, which are released to the recipients free of payment, are granted conditional on performance targets set based on medium-term corporate objectives.

As at 31 December 2005, no awards pursuant to the Share Award Schemes had been made.

(c) SNP Share Option Plan and SNP Performance Share Plan

SNP Corporation Ltd ("SNP"), the immediate holding company of the Company, also operates SNP Share Option Plan and SNP Performance Share Plan (collectively referred to as the "Share Plans").

These Share Plans apply to SNP and its subsidiaries' employees, non-executive directors and associated company employees.

(i) SNP Share Option Plan

The following table discloses details of the SNP share options held by the directors of the Company and movements thereon during the year:

	Number of share options			
Name of director	**Outstanding at 1.1.2005**	**Granted during the year**	**Exercised during the year**	**Outstanding at 31.12.2005**
Peter, Yang Sze Chen	25,000	22,000	–	47,000
Yeo Chee Tong	560,000	300,000	(100,000)	760,000
Tay Siew Choon	190,000	77,000	–	267,000
Edmund, Cheng Wai Wing	80,000	55,000	–	135,000
John Robert Walter	140,000	55,000	–	195,000
	995,000	509,000	(100,000)	1,404,000

(ii) SNP Performance Share Plan

SNP Performance Share Plan was established with the objective of motivating senior executives to strive for superior performance and sustaining long-term growth for SNP and its subsidiaries ("SNP Group"). Awards of performance shares, which are released to recipients free of payment, are granted conditional on performance targets based on medium-term corporate objectives.

31. ACQUISITION OF A SUBSIDIARY

On 3 May 2005, the Group acquired 60% of the issued share capital of SNP Yau Yue Paper Products Limited for a consideration of approximately HK$70,694,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was approximately HK$35,205,000.

The fair value of the identifiable assets and liabilities of the subsidiary acquired during the year have no significant differences from their respective carrying amounts. The net assets acquired in the transaction, and the goodwill arising, are as follows:

	2005 **Acquiree's carrying amount and fair value** *HK$'000*
Net assets acquired:	
Property, plant and equipment	55,222
Prepaid lease payments	702
Inventories	34,947
Trade receivables	58,233
Prepayment, deposits and other receivables	3,193
Tax recoverable	748
Bank balances and cash	2,276
Trade and bills payable	(5,255)
Other payables and accruals	(13,331)
Obligations under finance leases	(7,343)
Deferred tax liabilities	(3,489)
Bank borrowings	(46,515)
Amounts due to minority shareholders	(20,240)
Minority interests	(23,659)
	35,489
Goodwill	35,205
	70,694

31. ACQUISITION OF A SUBSIDIARY *(continued)*

Total consideration is satisfied by cash.

Net cash outflow (inflow) arising on acquisition:

	2005	2004
	HK$'000	*HK$'000*
Cash consideration	**70,694**	409,296
Bank balances and cash acquired	**(2,276)**	(25,424)
Net outflow of cash and cash equivalents in respect of the purchase of a subsidiary	**68,418**	383,872

The goodwill arising on the acquisition of SNP Yau Yue Paper Products Limited is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

SNP Yau Yue Paper Products Limited contributed HK$215 million revenue and HK$10 million to the Group's profit for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group revenue for the period would have been HK$1,783 million, and profit for the year would have been HK$76 million. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

32. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2004, the Group has purchased plant and equipment of approximately HK$60,389,000 of which approximately HK$22,325,000 had not been due under the terms of the contract as at 31 December 2004 which was included in other payables and accruals. The amounts were settled in current year.

33. CONTINGENT LIABILITIES

	2005	2004
	HK$'000	*HK$'000*
Guarantee given to an independent third party in respect of future lease payment of a staff quarter	**–**	49

34. OPERATING LEASES

(a) The Group as lessee

The Group leases certain of its production factories, warehouse and staff quarters under operating lease arrangements. Leases for properties are negotiated for a term ranging from one to fifty years.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**9,131**	5,529
In the second to fifth year inclusive	**30,611**	15,060
Over five years	**123,903**	111,865
	163,645	132,454

(b) The Group as lessor

The Group leases its property and machinery under operating lease arrangements, with leases negotiated for terms ranging from three to four years. The property and machinery are expected to generate average rental yields of 18% (2004: 5%) on an ongoing basis.

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2005	2004
	HK$'000	*HK$'000*
Within one year	**1,107**	1,097
In the second to fifth year inclusive	**187**	1,297
	1,294	2,394

35. CAPITAL COMMITMENTS

	2005	2004
	HK$'000	*HK$'000*
Commitments in respect of the acquisition of property, plant and equipment		
– contracted but not provided for	84,439	3,878
– authorised but not contracted for	2,289	47
	86,728	3,925

In addition, the Group also entered into an agreement with certain third parties to establish a joint venture in which the Group will invest approximately HK$28,269,000 (2004: Nil) to develop printing facilities in the PRC during the year ended 31 December 2005. The amount is being capital commitments contracted but not yet provided for.

36. RETIREMENT BENEFIT SCHEMES

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

The employees of the Group's subsidiaries which operates in the PRC are required to participate in a central pension scheme operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the central pension scheme. The contributions are charged to the income statement as they become payable in accordance with the rules of the central pension scheme.

The total cost charged to income statement of approximately HK$5,790,000 (2004: HK$4,715,000) represents contributions payable to these schemes by the Group in respect of the current accounting period. As at 31 December 2005, contributions of approximately HK$1,302,000 (2004: HK$898,000) due in respect of the reporting period had not been paid to the schemes.

37. RELATED PARTY TRANSACTIONS

During the year, the Group had significant transactions with the following related parties, together with balance with them as at the balance sheet date, details of which are as follows:

Balances

	2005 *HK$'000*	2004 *HK$'000*
Amount due to SNP Group	832	1,971
Amounts due to associates	24,102	13,862

The balances with related parties are unsecured, interest-free and are repayable on demand.

An aged analysis of the amounts due to associates as at the balance sheet date, based on invoice date, is as follows:

	2005 *HK$'000*	2004 *HK$'000*
0 – 30 days	7,190	3,901
31 – 60 days	7,667	4,271
61 – 90 days	3,558	4,066
91 – 120 days	5,687	1,624
	24,102	13,862

Transactions

(a) During the year, the Group entered the following transactions with Beijing SNP Leefung Changcheng Printers Co., Ltd., an indirect 47% owned associate.

Nature of transactions	2005 *HK$'000*	2004 *HK$'000*
Subcontracting fee paid	39,041	40,638
Rental income received	924	877
Sales of goods	1,132	1,829

(b) During the year, the Group also entered the following transactions with SNP Group.

Nature of transactions	2005 *HK$'000*	2004 *HK$'000*
Services fee paid	1,046	1,664
Sales of goods	1,296	89
Rental income received	157	–
Management fee received	507	186

37. RELATED PARTY TRANSACTIONS *(continued)*

Transactions *(continued)*

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2005	2004
	HK$'000	*HK$'000*
Short-term benefits	8,855	11,361
Post-employment benefits	20	91
Share-based payments	211	221
	9,086	11,673

The remuneration of directors and key executives is determined by the Executive Resource and Compensation Committee having regard to the performance of individuals and market trends.

(d) Besides, Mr. Kwong Chi Kin and Mr. Kwong Chi Keung, the minority shareholders of the Group and Ms. Law Yuk Oi, wife of Mr. Kwong Chi Kin gave their personal guarantee and pledged their deposits and investment funds to banks to secure general banking facilities granted to the Group amounting to approximately HK$67,335,000 (2004: Nil).

38. AMOUNTS DUE TO MINORITY SHAREHOLDERS

Amounts are unsecured, interest-free and are repayable on demand.

39. PRINCIPAL SUBSIDIARIES AND ASSOCIATES

Details of the principal subsidiaries at 31 December 2005 are as follows:

Name of subsidiary	Class of shares held	Place of incorporation or registration/ operation	Nominal value of issued and fully paid capital	Attributable equity interest of the Group	Principal activities
Best-Set Typesetter Limited Guangzhou	Contributed capital	PRC *(Note 1)*	US$1,010,023	100%	Typesetting
Geltin Limited	Ordinary	Hong Kong	HK$1,000	100%	Property holding
Panyu Excel Printing United Company Limited	Contributed capital	PRC *(Note 1)*	HK$43,000,000	100%	Printing of books
Shenzhen SNP Leefung Printers Co., Ltd.	Contributed capital	PRC *(Note 2)*	US$1,500,000	90%	Printing of magazines
SNP Best-Set Typesetter Limited	Ordinary	Hong Kong	HK$600,000	100%	Typesetting
SNP Excel (Hong Kong) Company Limited	Ordinary	Hong Kong	HK$7,000,000	100%	Printing of books
SNP Excel (Thailand) Co., Ltd.	Ordinary Preference *(Note 3)*	Thailand	Baht107,800,000 Baht112,200,000	99.96% 98.93%	Printing of books
SNP Leefung Investments Limited	Ordinary	British Virgin Islands	US$100	100%	Investment holding
SNP Leefung Limited	Ordinary Deferred *(Note 4)*	Hong Kong	HK$10,000 HK$7,500,000	100% 100%	Investment holding and trading of books and packaging products
SNP Leefung Packaging and Printing (Dongguan) Co., Ltd.	Contributed capital	PRC *(Note 1)*	US$16,250,000	100%	Printing of books and packaging products
SNP Leefung Printers Limited	Ordinary	Hong Kong	HK$2	100%	Trading of books and packaging products
SNP Leefung Printers (Shenzhen) Co., Ltd.	Contributed capital	PRC *(Note 1)*	US$15,000,000	100%	Printing of books and magazines
SNP Leefung Properties Limited	Ordinary	Hong Kong	HK$2	100%	Property holding
SNP Yau Yue Paper Products Limited	Ordinary	Hong Kong	HK$4,400,000	60%	Printing of packaging products

Other than SNP Leefung Investments Limited which is held directly by the Company, all subsidiaries are held by the Company indirectly.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

The above table lists the subsidiaries which, in the opinion of the directors, principally affected the results of the Group 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.

39. PRINCIPAL SUBSIDIARIES AND ASSOCIATES *(continued)*

Notes:

1. The company is a wholly foreign owned enterprise in the PRC.

2. The company is a cooperative joint venture establishment in the PRC.

3. The holders of preference shares are eligible to receive dividend at the fixed rate at Baht4.5 per share per annum and have preferred rights to receive dividend and the capital repayment before ordinary shareholders. However, the right to receive dividend is non-cumulative. In the shareholders' meeting, the holders of preference shares have the rights of voting of one vote per one hundred preference shares held.

4. The deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meeting of the Company or to participate in any distribution in winding up.

Details of the Group's associates which are held by the Company indirectly at 31 December 2005 are as follows:

Name of associate	Class of shares held	Place of registration/ operation	Attributable equity interest of the Group	Principal activities
Beijing SNP Leefung Changcheng Printers Co., Ltd.	Contributed capital	PRC	47%	Magazines printing
Shanghai Fang Yin Leefung-Asco Printing and Packing Co., Ltd. *(Note a)*	Contributed capital	PRC	25% *(Note b)*	Cigarette packaging printing

Notes:

(a) The companies are registered in the term of sino-foreign cooperative enterprise.

(b) 3.9% equity interest in this associate was pledged to secure one of the Group's other borrowings which is included in other payables and accruals.

40. SUMMARISED BALANCE SHEET OF THE COMPANY

	2005 *HK$'000*	2004 *HK$'000*
Interests in subsidiaries	73,024	73,024
Amounts due from subsidiaries	846,884	737,595
Other current assets	631	547
Amounts due to subsidiaries	(165,895)	(155,380)
Other current liabilities	(1,088)	(2,804)
	753,556	652,982
Share capital	50,341	40,273
Reserves	703,215	612,709
	753,556	652,982