



HUNG HING PRINTING GROUP LIMITED

鴻興印刷集團有限公司

(Stock Code 股份代號: 0450)

INTERIM REPORT 2008/2009 中期報告

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CORPORATE INFORMATION

Executive Directors

Yam Cheong Hung, Chairman
(resigned on 17 July 2008)
Yum Chak Ming, Matthew, Managing Director
Yam Ho Ming, Michael
Yam Hon Ming, Tommy
(resigned on 17 July 2008)
Sung Chee Keung
(appointed on 22 September 2008)

Non-Executive Directors

Chu Shu Ho, David, JP
(resigned on 17 July 2008)
Yum Pui Ming, Anna
(retired on 22 September 2008)
Peter Martin Springford, Chairman
(appointed on 17 July 2008)
David Murray Lonie
(appointed on 17 July 2008)
Ho Chi Kit
(appointed on 17 July 2008)
Lam Tsz-Wang, Alvin
(appointed on 17 July 2008)

Independent Non-Executive Directors

Wong Siu Ping
(resigned on 28 July 2008)
Yap, Alfred Donald
Yip Yu Bun, MH
Luk Koon Hoo
(appointed on 15 August 2008)

Company Secretary

Tung Yu Bui

Registered Office

Hung Hing Printing Centre
17–19 Dai Hei Street
Tai Po Industrial Estate
New Territories, Hong Kong
Tel: (852) 2664 8682
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Principal Bankers

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

Auditors

Ernst & Young
Nexia Charles Mar Fan & Co.

Share Registrar

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

INTERIM RESULTS

The directors of Hung Hing Printing Group Limited (“the Company”) are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (“the Group”) for the six months ended 30 September 2008 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended	
		30 September 2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
REVENUE	2	2,207,706	1,934,840
Cost of sales		<u>(1,815,816)</u>	<u>(1,593,070)</u>
Gross profit		391,890	341,770
Other income and gains		38,398	33,065
Distribution costs		(50,194)	(46,072)
Administrative and selling expenses		(156,505)	(131,434)
Write-down of inventories to net realisable value		(11,432)	–
Other expenses		<u>(7,705)</u>	<u>(7,360)</u>
		204,452	189,969
Fair value gain on derivative financial instruments not qualified as hedges, net	15	103,422	–
Fair value loss on structured borrowings, net	3	(14,741)	–
Fair value gain on derivative component of convertible bonds	4	–	10,200
Finance costs	5	(43,968)	(31,090)
Share of losses of an associate		<u>(213)</u>	<u>–</u>
PROFIT BEFORE TAX	6	248,952	169,079
Tax	7	<u>(27,295)</u>	<u>(30,899)</u>
PROFIT FOR THE PERIOD		<u>221,657</u>	<u>138,180</u>
ATTRIBUTABLE TO:			
Equity holders of the parent		221,890	124,795
Minority interests		<u>(233)</u>	<u>13,385</u>
		<u>221,657</u>	<u>138,180</u>
INTERIM DIVIDEND	8	<u>36,971</u>	<u>45,059</u>
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	9		
Basic		<u>HK29.6 cents</u>	<u>HK20.8 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,670,394	1,619,897
Prepaid land lease payments	11	150,468	150,784
Goodwill		3,041	3,041
Interests in an associate		1,347	–
Available-for-sale investments	12	11,810	15,067
Properties under construction	13	44,983	40,844
Deferred tax assets		6,140	7,735
Total non-current assets		<u>1,888,183</u>	<u>1,837,368</u>
CURRENT ASSETS			
Inventories		735,273	855,800
Accounts and bills receivable	14	1,168,173	891,195
Prepayments, deposits and other receivables		72,260	61,398
Derivative financial instruments	15	5,467	5,389
Tax recoverable		15,161	8,264
Pledged time deposits		327,011	322,492
Cash and cash equivalents	16	1,092,534	811,310
Total current assets		<u>3,415,879</u>	<u>2,955,848</u>
CURRENT LIABILITIES			
Accounts and bills payable	17	271,765	264,133
Tax payable		42,025	19,360
Other payables and accrued liabilities		207,211	164,975
Derivative financial instruments	15	4,762	126,682
Structured borrowings		–	22,655
Convertible bonds		–	11
Interest-bearing bank and other borrowings		658,317	785,353
Total current liabilities		<u>1,184,080</u>	<u>1,383,169</u>
NET CURRENT ASSETS		<u>2,231,799</u>	<u>1,572,679</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>4,119,982</u>	<u>3,410,047</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		545,351	893,485
Structured borrowings		–	42,163
Deferred tax liabilities		38,564	40,802
Total non-current liabilities		<u>583,915</u>	<u>976,450</u>
Net assets		<u>3,536,067</u>	<u>2,433,597</u>
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital		92,428	60,078
Reserves		3,017,286	1,981,389
Proposed dividend		36,971	9,243
		<u>3,146,685</u>	<u>2,050,710</u>
Minority interests		389,382	382,887
Total equity		<u>3,536,067</u>	<u>2,433,597</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2008 (Unaudited)

	Attributable to equity holders of the parent												
	Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Hedging reserve	Available-for-sale investment revaluation reserve	Legal reserves	Exchange fluctuation reserve	Retained profits	Proposed dividend	Total	Minority interests	Total equity
At 1 April 2008	60,078	724,845	966	(814)	(1,954)	4,802	99,515	104,814	1,049,215	9,243	2,050,710	382,887	2,433,597
Exchange realignment	—	—	—	—	—	—	—	17,079	—	—	17,079	9,475	26,554
Changes in fair value of available-for-sale investments	—	—	—	—	—	(3,274)	—	—	—	—	(3,274)	—	(3,274)
Net gains on cash flow hedge	—	—	—	—	2,557	—	—	—	—	—	2,557	—	2,557
Total income and expense recognised directly in equity	—	—	—	—	2,557	(3,274)	—	17,079	—	—	16,362	9,475	25,837
Profit/(loss) for the period	—	—	—	—	—	—	—	—	221,890	—	221,890	(233)	221,657
Total income and expense for the period	—	—	—	—	2,557	(3,274)	—	17,079	221,890	—	238,252	9,242	247,494
Final 2008 dividend declared	—	—	—	—	—	—	—	—	—	(9,243)	(9,243)	—	(9,243)
Issue of shares	32,350	841,101	—	—	—	—	—	—	—	—	873,451	—	873,451
Share issue expenses	—	(6,485)	—	—	—	—	—	—	—	—	(6,485)	—	(6,485)
Interim 2009 dividend	—	—	—	—	—	—	—	—	(36,971)	36,971	—	—	—
Contribution from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	9,266	9,266
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(12,013)	(12,013)
At 30 September 2008	<u>92,428</u>	<u>1,559,461</u>	<u>966</u>	<u>(814)</u>	<u>603</u>	<u>1,528</u>	<u>99,515</u>	<u>121,893</u>	<u>1,234,134</u>	<u>36,971</u>	<u>3,146,685</u>	<u>389,382</u>	<u>3,536,067</u>

For the six months ended 30 September 2007 (Unaudited)

	Attributable to equity holders of the parent												
	Issued capital	Share premium account	Capital redemption reserve	Capital reserve	Hedging reserve	Available-for-sale investment revaluation reserve	Legal reserves	Exchange fluctuation reserve	Retained profits	Proposed dividend	Total	Minority interests	Total equity
At 1 April 2007	60,078	724,845	966	(814)	—	1,116	89,241	40,030	1,131,590	120,156	2,167,208	354,094	2,521,302
Exchange realignment	—	—	—	—	—	—	—	20,103	—	—	20,103	11,143	31,246
Changes in fair value of available-for-sale investments	—	—	—	—	—	2,793	—	—	—	—	2,793	—	2,793
Charged to the income statement upon disposal of available-for-sale investments	—	—	—	—	—	68	—	—	—	—	68	—	68
Total income and expense recognised directly in equity	—	—	—	—	—	2,861	—	20,103	—	—	22,964	11,143	34,107
Profit for the period	—	—	—	—	—	—	—	—	124,795	—	124,795	13,385	138,180
Total income and expense for the period	—	—	—	—	—	2,861	—	20,103	124,795	—	147,759	24,528	172,287
Final 2007 dividend declared	—	—	—	—	—	—	—	—	—	(120,156)	(120,156)	—	(120,156)
Interim 2008 dividend	—	—	—	—	—	—	—	—	(45,059)	45,059	—	—	—
Contribution from minority shareholders	—	—	—	—	—	—	—	—	—	—	—	15,160	15,160
Dividends paid to minority shareholders	—	—	—	—	—	—	—	—	—	—	—	(16,153)	(16,153)
At 30 September 2007	<u>60,078</u>	<u>724,845</u>	<u>966</u>	<u>(814)</u>	<u>—</u>	<u>3,977</u>	<u>89,241</u>	<u>60,133</u>	<u>1,211,326</u>	<u>45,059</u>	<u>2,194,811</u>	<u>377,629</u>	<u>2,572,440</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	130,112	(115,804)
INVESTING ACTIVITIES	(115,228)	208,456
FINANCING ACTIVITIES	262,090	(34,017)
NET INCREASE IN CASH AND CASH EQUIVALENTS	276,974	58,635
Cash and cash equivalents at beginning of period	810,807	422,638
Effect of foreign exchange rate changes, net	4,253	4,426
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>1,092,034</u>	<u>485,699</u>
ANALYSIS OF BALANCES OF CASH AND		
CASH EQUIVALENTS		
Cash and bank balances	173,835	302,958
Time deposits with original maturity of less than three months when acquired	918,199	183,127
Bank overdraft, unsecured	—	(386)
	<u>1,092,034</u>	<u>485,699</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. Basis of Preparation and Accounting Policies

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

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated financial statements are consistent with those followed in the annual financial statements for the year ended 31 March 2008, except that in relation to the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations), which are effective for the Group’s accounting periods beginning on or after 1 April 2008 and are adopted for the first time for the current period’s financial statements.

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

2. Segment Information

Business segments

The principal activities of the Group consisted of the printing and manufacturing of paper and carton boxes, the manufacturing of paper, the manufacturing of corrugated cartons and the trading of paper.

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

2. Segment Information (continued)

Business segments (continued)

An analysis by business segments is as follows:

	For the six months ended 30 September 2008			SEGMENT
	SEGMENT REVENUE			RESULTS
	Sales to external customers (Unaudited) HK\$'000	Intersegment sales (Unaudited) HK\$'000	Total sales (Unaudited) HK\$'000	(Unaudited) HK\$'000
Paper and carton box printing and manufacturing	1,196,143	34,301	1,230,444	132,070
Paper manufacturing	421,761	87,007	508,768	(36,375)
Corrugated carton manufacturing	342,170	102,696	444,866	52,583
Paper trading	247,632	204,074	451,706	48,616
Eliminations	—	(428,078)	(428,078)	3,686
	<u>2,207,706</u>	<u>—</u>	<u>2,207,706</u>	<u>200,580</u>
Interest, dividend income and other gains				15,397
Corporate and unallocated expenses				<u>(11,525)</u>
				204,452
Fair value gain on derivative financial instruments not qualified as hedges, net				103,422
Fair value loss on structured borrowings, net				(14,741)
Fair value gain on derivative component of convertible bonds				—
Finance costs				(43,968)
Share of losses of an associate				(213)
Profit before tax				248,952
Tax				<u>(27,295)</u>
Profit for the period				<u>221,657</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

2. Segment Information (continued)

Business segments (continued)

	For the six months ended 30 September 2007			SEGMENT
	SEGMENT REVENUE			RESULTS
	Sales to external customers (Unaudited) HK\$'000	Intersegment sales (Unaudited) HK\$'000	Total sales (Unaudited) HK\$'000	(Unaudited) HK\$'000
Paper and carton box printing and manufacturing	970,796	20,728	991,524	98,872
Paper manufacturing	394,197	92,168	486,365	26,487
Corrugated carton manufacturing	320,766	69,355	390,121	27,549
Paper trading	249,081	204,767	453,848	35,792
Eliminations	—	(387,018)	(387,018)	(1,662)
	<u>1,934,840</u>	<u>—</u>	<u>1,934,840</u>	187,038
Interest, dividend income and other gains				17,590
Corporate and unallocated expenses				<u>(14,659)</u>
				189,969
Fair value gain on derivative component of convertible bonds				10,200
Finance costs				<u>(31,090)</u>
Profit before tax				169,079
Tax				<u>(30,899)</u>
Profit for the period				<u>138,180</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

2. Segment Information *(continued)*

Geographical segments

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

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

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Sales to external customers:		
Hong Kong	678,645	771,532
Mainland China	856,080	676,768
United Kingdom	266,893	232,460
Europe other than United Kingdom	107,560	46,918
United States of America	191,824	139,513
Others	106,704	67,649
	<u>2,207,706</u>	<u>1,934,840</u>

3. Fair Value Loss on Structured Borrowings, Net

The structured borrowings, which contain embedded derivatives, are managed in accordance with documented risk management and are evaluated on fair value basis. The embedded derivatives are closely related to the host contracts, and hence the contracts were designated as financial liabilities at fair value through profit and loss upon initial recognition. The net fair value loss amounting to HK\$14,741,000 was charged to the income statement upon termination of these structured borrowings contracts during the period (2007: gain of HK\$1,494,000) (Note 6).

4. Fair Value Gain on Derivative Component of Convertible Bonds

On 29 March 2006, Greatest Joy Investments Limited, a subsidiary of the Company, issued five-year zero coupon guaranteed convertible bonds with a nominal value of HK\$750,000,000. The net proceeds received from the issue of the convertible bonds have been split between the derivative and liability components. The derivative component is measured at fair value using an option pricing model and the change in fair value of that component is recognised in the income statement. During the period ended 30 September 2007, the share price of the Company decreased, the fair value of the derivative component of the convertible bonds decreased accordingly, resulting in a fair value gain of HK\$10,200,000. As of 28 April 2008, all the outstanding convertible bonds were fully redeemed.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

5. Finance Costs

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on convertible bonds	—	20,056
Interest on bank loans	43,968	11,034
	<u>43,968</u>	<u>31,090</u>

6. Profit Before Tax

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

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
After charging —		
Depreciation	72,054	66,225
Recognition of prepaid land lease payments	2,049	1,915
Employee benefits expense (including directors' remuneration)	326,707	279,224
Write-down of inventories to net realisable value	11,432	—
Fair value losses, net:		
Derivative financial instruments not qualified as hedges (Note 15)*	—	3,982
Short-term note	—	979
Structured borrowings (Note 3)**	14,741	—
After crediting —		
Dividend income from available-for-sale investments	208	232
Gain on disposal of available-for-sale investments	—	225
Bank interest income	14,849	9,715
Fair value gains, net:		
Derivative financial instruments not qualified as hedges (Note 15)*	103,422	—
Structured deposits	—	5,356
Structured borrowings (Note 3)**	—	1,494

* The net fair value gain on derivative financial instruments not qualified as hedges, for the period ended 30 September 2008 is separately presented on the face of the consolidated income statement since, in the opinion of the directors, it is individually significant. The comparative balance for the period ended 30 September 2007 was included in "Other expenses" on the face of the consolidated income statement.

** The net fair value loss on structured borrowings for the period ended 30 September 2008 is separately presented on the face of the consolidated income statement since, in the opinion of the directors, it is individually significant. The comparative balance for the period ended 30 September 2007 was included in "Other income and gains" on the face of the consolidated income statement.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

7. Tax

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the locations in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current — Hong Kong	13,723	7,252
— Mainland China	14,851	16,627
Deferred tax	(1,279)	7,020
Total tax charge for the period	<u>27,295</u>	<u>30,899</u>

8. Interim Dividend

	For the six months ended	
	30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interim dividend of HK4.0 cents (2007: HK7.5 cents) per ordinary share	<u>36,971</u>	<u>45,059</u>

9. Earnings Per Share Attributable to Equity Holders of the Parent

The calculation of basic earnings per share amount is based on the profit for the period attributable to equity holders of the parent of HK\$221,890,000 (2007: HK\$124,795,000) and the weighted average of 749,272,536 (2007: 600,780,529) shares in issue during the period.

Diluted earnings per share amount for the period ended 30 September 2008 has not been presented as there were no dilutive potential ordinary shares in existence during the period.

Diluted earnings per share amount for the period ended 30 September 2007 has not been presented as the convertible bonds had an anti-dilutive effect on the basic earnings per share for the period.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

10. Property, Plant and Equipment

	30 September 2008 (Unaudited) HK\$'000
Net carrying amount at 1 April 2008	1,619,897
Additions	78,396
Transfer from properties under construction	26,336
Disposals	(2,560)
Depreciation provided during the period	(72,054)
Exchange realignment	20,379
Net carrying amount at 30 September 2008	<u>1,670,394</u>

Certain buildings and plant and machinery of the Group with a total net book value of HK\$387,834,000 (31 March 2008: HK\$306,588,000) have been pledged to secure banking facilities granted to the Group.

11. Prepaid Land Lease Payments

	30 September 2008 (Unaudited) HK\$'000
Carrying amount at beginning of period	150,784
Recognised during the period	(2,049)
Exchange realignment	1,733
Carrying amount at 30 September 2008	<u>150,468</u>

Certain leasehold lands of the Group with a total net book value of HK\$51,641,000 (31 March 2008: HK\$49,728,000) have been pledged to banks to secure banking facilities granted to the Group.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

12. Available-for-sale Investments

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Unlisted equity investments, at fair value	80	80
Club debentures, at fair value	5,477	6,209
	5,557	6,289
Hong Kong listed equity investments, at market value	6,253	8,778
	11,810	15,067

13. Properties Under Construction

	30 September 2008 (Unaudited) HK\$'000
At beginning of period	40,844
Additions	30,039
Transfer to property, plant and equipment	(26,336)
Exchange realignment	436
At 30 September 2008	44,983

The properties under construction are located in Mainland China.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

14. Accounts and Bills Receivable

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

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Accounts receivable	1,172,811	818,911
Impairment	<u>(44,188)</u>	<u>(38,746)</u>
	1,128,623	780,165
Bills receivable	39,550	111,030
	<u>1,168,173</u>	<u>891,195</u>

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

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within 30 days	422,539	355,498
31 to 60 days	331,832	158,898
61 to 90 days	194,052	139,143
Over 90 days	<u>180,200</u>	<u>126,626</u>
	<u>1,128,623</u>	<u>780,165</u>

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

15. Derivative Financial Instruments

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Assets:		
Forward currency contracts	4,746	4,734
Structured forward currency contracts	—	655
Interest rate swaps	<u>721</u>	<u>—</u>
	<u>5,467</u>	<u>5,389</u>
Liabilities:		
Forward currency contracts	4,762	27,106
Structured forward currency contracts	—	97,207
Interest rate swaps	<u>—</u>	<u>2,369</u>
	<u>4,762</u>	<u>126,682</u>

Forward currency contracts and structured forward currency contracts

The Group has entered into various forward currency contracts and structured forward currency contracts to manage its exchange rate exposures which did not meet the criteria for hedge accounting. The net fair value gain on non-hedging currency derivatives amounting to HK\$103,422,000 were credited to the consolidated income statement during the period (2007: loss of HK\$3,982,000) (Note 6).

Interest rate swaps — cash flow hedge

The Group had interest rate swap agreements in place with notional amounts, in aggregate, of HK\$250,000,000 (31 March 2008: HK\$250,000,000) whereby it receives interest at variable rates equal to HIBOR on the notional amounts and pays interest at fixed rates ranging between 2.75% and 2.89% for a period of three years. The swap is used to hedge the exposure to variability of cash flows that is attributable to the Group's bank borrowings. The increase in fair value of this cash flow hedge net of deferred tax during the period ended 30 September 2008 of HK\$2,557,000 (2007: Nil) was included in the hedging reserve.

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

16. Cash and Cash Equivalents

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Cash and bank balances	173,835	245,117
Time deposits	<u>1,245,710</u>	<u>888,685</u>
	1,419,545	1,133,802
<i>Less:</i> Pledged time deposits	<u>(327,011)</u>	<u>(322,492)</u>
Cash and cash equivalents	<u>1,092,534</u>	<u>811,310</u>

17. Accounts and Bills Payable

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

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within 30 days	184,399	184,073
31 to 60 days	65,058	55,491
61 to 90 days	11,862	11,294
Over 90 days	<u>10,446</u>	<u>13,275</u>
	<u>271,765</u>	<u>264,133</u>

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

NOTES TO THE CONDENSED FINANCIAL STATEMENTS *(continued)*

18. Related Party Transactions

(a) Transactions with related parties

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

	Note	For the six months ended 30 September	
		2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Rentals paid to a director and a company in which a director of the Company is a controlling shareholder	(i)	<u>306</u>	<u>420</u>

Note:

- (i) The rentals paid to a director and a company in which a director of the Company is a controlling shareholder were in connection with the housing benefits provided to Mr. Yam Hon Ming, Tommy, a director of the Company during the period, who has resigned on 17 July 2008. The rentals were determined based on estimated open market rental. It has been included in the directors' remuneration in note 6 to the financial statements.

(b) Outstanding balances with related parties

There were no outstanding balances with related parties as at 30 September 2008 (31 March 2008: Nil).

(c) Compensation of key management personnel of the Group

	For the six months ended 30 September	
	2008 (Unaudited) HK\$'000	2007 (Unaudited) HK\$'000
Short-term employment benefits	11,223	10,613
Post-employment benefits	<u>325</u>	<u>336</u>
	<u>11,548</u>	<u>10,949</u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS (continued)

19. Contingent Liabilities and Commitments

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
(a) Total future minimum lease payments under non-cancellable operating leases falling due as follows:		
Within one year	5,886	4,562
In the second to fifth years, inclusive	8,613	8,628
After five years	70,325	69,766
	<u>84,824</u>	<u>82,956</u>

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
(b) In addition to the operating lease commitments detailed above, the Group had the following capital commitments at the balance sheet date:		
Contracted for, but not provided for:		
Land and buildings	21,558	35,344
Plant and machinery	32,265	59,727
	<u>53,823</u>	<u>95,071</u>

- (c) As at 30 September 2008, the Company has provided corporate guarantees to the extent of HK\$1,742,370,000 (31 March 2008: HK\$1,734,218,000) to secure the banking and trading facilities of subsidiaries and an associate. The amount drawn against the banking and trading facilities was HK\$626,851,000 as at 30 September 2008 (31 March 2008: HK\$1,046,339,000).

As at 31 March 2008, the Company has also given a guarantee to the extent of HK\$11,000 to a subsidiary for the settlement of convertible bonds issued. As of 28 April 2008, all the outstanding convertible bonds were fully redeemed.

20. Approval of the Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements were approved and authorised for issue by the board of directors on 16 December 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

During the period under review, Hung Hing delivered consistent performance despite challenging macro economic circumstances to achieve revenue growth of 14%.

The revenue growth was attributable to increase in business from both existing and new customers, particularly during the first quarter of the period under review. Revenue in the China domestic market grew more than 26%. Strong revenue growth of 129% was also recorded in the European markets excluding the UK.

The Group benefited from the involvement of its new investor, Asia Packaging Company Ltd, not only through enhanced financial stability, but also strengthened management with the addition of new directors to the Board who are seasoned professionals in the financial and packaging industries.

During the period under review, the Group's performance was affected by several macro-economic factors. Oil price adjustments and continuous increases in labour cost impacted the industry as a whole. While the appreciation of the RMB further impacted export-oriented manufacturers in China, the Group was able to partially offset these cost increases by relocating certain labour-intensive processes to its new Heshan plant.

The Paper Manufacturing division was affected by increases in the cost of raw materials and coal prices, and oversupply as a result of new capacity in the market did not allow the division to raise prices. The drop in paper prices towards the end of September 2008 and the need to write down its inventory increased the division's operating loss to HK\$36 million. However improved operating profits in other divisions from effective cost control and prudent inventory management helped the Group increase profit from operating activities by 8%.

In July 2008, all the Group's structured forward currency contracts and structured borrowings have either expired or been terminated. Together with certain forward currency contracts which remained at their open position, the Group recognized an aggregate fair value gain of HK\$89 million.

With the inclusion of this gain, profit for the period increased 60% to HK\$222 million. Net profit attributable to equity holders of the parent increased 78% to HK\$222 million. Earnings per share increased 42% to HK 29.6 cents.

The Board of Directors has declared an interim dividend of HK 4 cents per share.

Continued diversification to offset economic uncertainty

In anticipation of volatility in a number of world markets, Hung Hing continued to pursue its policy of diversification. During the period under review, the Group made progress in expanding its product range, customer base and geographic sales coverage.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Continued diversification to offset economic uncertainty *(continued)*

Products

The Group expanded into a new product area as a result of its joint venture with Graphic Packaging International Japan Limited in March 2008. The joint venture, based in Shanghai, provides multi-pack beverage packages and packing machines for beverage companies in China. The venture started operations during the period under review and has already secured business within the target customer base.

Customer base

With the robust economy in China driving demand for high quality paper and packaging products, the Group adjusted its emphasis from export markets to the domestic market. The Group secured a number of brand-name customers in the domestic market during the period under review. The Group also made further inroads into the information technology and electronics sectors, apart from its traditional areas such as toys, and food and beverage.

Geographic markets

The Group continued to expand its geographic reach beyond its traditional markets of the US and UK. It made satisfactory progress in Europe, where ex-UK revenues increased by 129%. As a result of its aggressive marketing efforts in Europe, the Group secured incremental business in new markets such as Russia, Belgium, Spain and Portugal.

Paper and Carton Box Printing and Manufacturing

The Group's largest division successfully diversified its geographical markets during the period under review. Increases in business from both existing and new customers increased revenue and operating profit respectively by 23% and 34%. There was strong demand for the Group's packaging products from brand-name customers in the food and beverage as well as the electronics sector in the domestic market, while continued demand for children books and greeting cards drove growth in the export market.

The division also benefited from industry consolidation which, apart from easing pricing pressure, drew more orders as customers turned to reliable suppliers like Hung Hing.

The Heshan plant continued to grow, increasing the number of workers employed to 2,500. The Wuxi plant is now in its fifth year of operations with 1,200 workers and achieved an increase in operating profit of 98% as a result of growth in export as well as domestic sales. The two plants will continue to grow and play a key role in the Group's efforts to address the growing demand within China and overseas markets.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Paper Manufacturing

The Group's paper manufacturing division increased its revenues by 7% but was impacted by adjustments in the prices of waste paper and coal. Increased production capacity, particularly in the Pearl River Delta region led to intensified competition and lower prices. In addition, the division wrote down its inventory by HK\$11 million. As a result, the division incurred an operating loss of HK\$36 million, compared with an operating profit of HK\$26 million for the same period last year.

Due to downward adjustments in waste paper and coal prices towards the end of September 2008 it is expected that raw materials costs will decline in the upcoming financial period. However given the lag effect of waste paper, the major raw material for paper manufacturing, already on order and in transit, the division's margins are not expected to improve until late in the second half.

Corrugated Carton Manufacturing

This division took advantage of increases in intra-group sales as well as domestic demand, particularly for colored cartons, to increase revenue and operating profit by 7% and 91% respectively.

The sector continued to mature and consolidation eased the previously intense competition and pricing pressure, allowing the division to pass on some of the paper price increases to its customers. Under the Group's diversification strategy, the division achieved more sales from new market segments such as information technology, office equipment and household products where the emphasis on quality helped increase the division's sales.

Paper Trading

The division benefited from global paper price adjustments and prudent inventory strategies to achieve steady revenue and an increase in operating profit of 36%.

The Group continued its strategy of maintaining a broad range of paper to offer wider choice to customers, but focused its efforts more on high-value items such as wood-free paper, art paper and ivory board which offered better margins. Increased demand from the Group's printing division also helped increase the division's operating profits.

With the decline of paper prices and demand over the immediate term, the division continues to pursue a prudent inventory policy to maintain stocks at optimal levels. To pre-empt any potential issues relating to bad debts driven by the challenging economic situation ahead, the division has adopted a cautious sales strategy.

Environmental achievements

Despite challenging economic times the Group continues to invest in and pursue sustainable business practices. For example, at the Shenzhen plant, further investment was made in energy saving techniques including the installation of an air compressor regulator which can save 110,000kwh of electricity per year. The Group is also installing an air purifier at the Zhongshan paper mill to ensure that emissions remain far below the levels required by national legislative standards.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Capital Resources

The Group continued its capital investment program and invested a total of HK\$108 million in its plants and machinery, including installation of a book binding production line and the construction of a warehouse at the Group's Heshan plant. In the context of the expected global financial downturn, the Group has reviewed its capital expenditure plan downwards for the second half of the year.

In July 2008 the Group completed the issue of new shares to a new investor Asia Packaging Company Ltd. This helped raise fund of HK\$867 million and enlarged the capital base of the Group. Part of the proceeds had been used to repay bank loans. During the period under review, the Group had a net loan repayment including the termination of structured borrowings of HK\$555 million.

As at 30 September the Group had total bank borrowings of HK\$1,204 million, of which HK\$658 million was repayable within one year and HK\$546 million was repayable within two to five years. Of the Group's total bank borrowings, 73% was borrowed in Hong Kong dollars, 21% in U.S. dollars and 6% in Renminbi.

Tightened liquidity in mainland China increased the borrowing cost of the Group's subsidiaries there during the period under review. Together with charges arising from the early repayment of the Group's U.S. dollar term loan, finance costs increased 41% to HK\$44 million.

At 30 September 2008 the Group had total cash on hand (including pledged time deposits) of HK\$1,420 million, of which HK\$1,246 million was placed in bank deposits. Of the total cash on hand, 49% was in Hong Kong dollars, 40% in Renminbi and 11% in U.S. dollars.

Net cash (cash on hand net of total debt) totaled HK\$216 million. The Group's financial position is sound and healthy. It has sufficient funds to meet its working capital and capital expenditure requirements.

Employees

As at 30 September 2008, the Group employed a total of 17,111 people in Hong Kong and China with 390 based in Hong Kong and 16,721 in China. During the period under review the Group continued to provide its employees with a competitive remuneration package, as well as career development opportunities. The Group continues to offer regular training to motivate staff and enhance their skills and facilitate further career development.

Prospects

The challenging macro-economic situation will affect all participants in the sector and time will be required to rebuild confidence in the market. The Group will not be immune to the expected global economic downturn. In addition, the second half is traditionally a low season with fewer orders. Given these adverse factors, we expect the Group's performance will be significantly weaker in the second half of the fiscal year. We will focus on increasing productivity and cost controls to address the challenges ahead.

INFORMATION PROVIDED IN ACCORDANCE WITH THE LISTING RULES

Interim Dividend

The directors have resolved to pay an interim dividend of HK4.0 cents (2007 : HK7.5 cents) per share. The interim dividend will be paid on 21 January 2009 to shareholders whose names appear on the Register of Members of the Company on 9 January 2009.

Closure of Register of Members

The Register of Members of the Company will be closed from 7 January 2009 to 9 January 2009, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Tengis Limited of 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 6 January 2009.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

Directors' Interests in Shares

At 30 September 2008, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company:

Name of director	Number of shares held, capacity and nature of interest			Total	Percentage of the Company's issued share capital
	Directly beneficially owned	Through spouse or minor children	Through controlled corporation (Note)		
Yum Chak Ming, Matthew	9,374,537	—	—	9,374,537	1.01
Yap, Alfred Donald	27,504	—	—	27,504	—
Sung Chee Keung	602,824	60,000	—	662,824	0.07

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

Directors' Interests in Shares *(continued)*

Long positions in ordinary shares of associated corporations:

Name of directors	Name of associated corporation	Capacity and nature of interest	Number of ordinary shares/ registered capital held	Percentage of the associated corporation's issued share capital/ registered capital
Sung Chee Keung	South Gain Enterprises Limited	Through controlled corporation	85,000 shares	5
Sung Chee Keung	Zhongshan Hung Hing Printing & Packaging Company Limited	Through controlled corporation	US\$900,000	5
Sung Chee Keung	Zhongshan Hung Hing Off-Set Printing Company Limited	Through controlled corporation	US\$250,000	5

Save as disclosed above, as at 30 September 2008, none of the directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares

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

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

Substantial Shareholders' and Other Persons' Interests in Shares and Underlying Shares

At 30 September 2008, the following interest of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Long positions:

Name	Note	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
CVC Capital Partners Asia III Limited	(a)	Through controlled corporation	340,174,445	36.80
CVC Capital Partners Asia Pacific III L.P.	(a)	Through controlled corporation	340,174,445	36.80
Asia Packaging Group Holdings Limited	(a)	Through controlled corporation	340,174,445	36.80
Asia Packaging Holdings Limited	(a)	Through controlled corporation	340,174,445	36.80
Asia Packaging Company Limited	(a)	Directly beneficially owned	340,174,445	36.80
Yam Cheong Hung	(b)	Directly beneficially owned and through controlled corporation and his spouse	288,526,586	31.22
C.H. Yam International Limited	(b)	Directly beneficially owned and through controlled corporation	284,592,379	30.79
C.H. Yam Holding Limited	(b)	Through controlled corporation	195,263,190	21.13
Hung Tai Industrial Company Limited	(b)	Directly beneficially owned	195,263,190	21.13
Commonwealth Bank of Australia		Through controlled corporation	59,412,491	6.43

Note:

- (a) There is a duplication of interests of 340,174,445 shares in the Company among CVC Capital Partners Asia III Limited, CVC Capital Partners Asia Pacific III L.P., Asia Packaging Group Holdings Limited, Asia Packaging Holdings Limited and Asia Packaging Company Limited.
- (b) C.H. Yam International Limited is a company owned by Yam Cheong Hung and his family. C.H. Yam International Limited in turn owns Hung Tai Industrial Company Limited as to 96.6% through its wholly-owned subsidiary C.H. Yam Holding Limited. Further, under the SFO, Yam Cheong Hung is deemed to be interested in the 1,650,207 shares (0.18% of the Company's issued share capital) owned by his spouse.

There is a duplication of interests of 195,263,190 shares in the Company among C.H. Yam International Limited, C.H. Yam Holding Limited and Hung Tai Industrial Company Limited.

Save as disclosed above, as at 30 September 2008, no person, other than the directors of the Company, whose interests are set out in section "Directors' interests in shares" above, had registered an interest and short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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

Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the code provisions listed in the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim results, with the exception that under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. However, the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in accordance with the Company’s articles of association.

Following the resignation of Mr. Wong Siu Ping as an independent non-executive director and a member of the audit committee of the Company with effect from 28 July 2008, the Company had two independent non-executive directors, which fell below the minimum number of three independent non-executive directors as required under Rule 3.10(1) of the Listing Rule and also the audit committee members did not have the appropriate accounting expertise as required under Rule 3.21 of the Listing Rule. Mr. Luk Koon Hoo has been appointed as an independent non-executive director and a member of the audit committee of the Company to fill the vacancy with effect from 15 August 2008.

Model Code for Securities Transactions

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

Audit Committee

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

The audit committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters in connection with the preparation of the unaudited financial consolidated accounts of the Company for the period ended 30 September 2008.

Remuneration Committee

To comply with the CG Code, a remuneration committee was established with specific written terms of reference which deal clearly with its authority and duties. The members of the remuneration committee comprises three independent non-executive directors, Mr. Yip Yu Bun, Mr. Yap, Alfred Donald and Mr. Luk Koon Hoo and a non-executive director, Mr. Lam Tsz Wang, Alvin.

By Order of the Board
Peter Martin Springford
Chairman

Hong Kong, 16 December 2008