

Interim Report  
2005/06



CHEONG MING



**CHEONG MING INVESTMENTS LIMITED**  
(Incorporated in Bermuda with limited liability)

The Board of Directors (the “Board”) of Cheong Ming Investments Limited (the “Company”) is pleased to present the unaudited interim financial report of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2005 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended 30 September	
		2005	2004
		(Unaudited)	(Unaudited and restated)
	Notes	HK\$'000	HK\$'000
Turnover		<b>348,431</b>	283,871
Cost of sales		<b>(255,020)</b>	(211,624)
Gross profit		<b>93,411</b>	72,247
Other revenue	5	<b>3,435</b>	2,135
Selling and distribution costs		<b>(13,628)</b>	(12,314)
Administrative expenses		<b>(44,461)</b>	(37,863)
Other operating expenses		<b>(3,599)</b>	(529)
Profit from operating activities	4	<b>35,158</b>	23,676
Finance costs		<b>(645)</b>	(215)
Profit before taxation		<b>34,513</b>	23,461
Taxation	6	<b>(5,317)</b>	(3,083)
Profit for the period		<b>29,196</b>	20,378
Attributable to:			
Equity holders of the Company		<b>29,329</b>	20,378
Minority interests		<b>(133)</b>	—
Profit for the period		<b>29,196</b>	20,378
Dividends	7	<b>4,867</b>	4,867
Earnings per share	8		
Basic		<b>HK6.03 cents</b>	HK4.2 cents
Diluted		<b>HK6.02 cents</b>	HK4.2 cents

## CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 September 2005 (Unaudited) HK\$'000	31 March 2005 (Audited and restated) HK\$'000
	Notes		
<b>ASSETS AND LIABILITIES</b>			
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	9	190,981	192,093
Investment properties		16,462	16,462
Prepaid lease payments		14,689	14,875
Goodwill		—	211
		<b>222,132</b>	223,641
<b>CURRENT ASSETS</b>			
Inventories		51,708	45,849
Trade and bills receivables	10	204,940	100,815
Prepayments, deposits and other receivables		11,092	6,849
Tax recoverable		977	977
Financial assets at fair value through profit or loss	11	40,611	37,921
Cash and cash equivalents		68,546	91,889
		<b>377,874</b>	284,300
<b>CURRENT LIABILITIES</b>			
Trade payables	12	132,999	68,814
Accrued liabilities and other payables		24,414	37,229
Tax payable		19,161	16,503
Interest-bearing borrowings		35,725	13,279
		<b>212,299</b>	135,825
<b>NET CURRENT ASSETS</b>		<b>165,575</b>	148,475
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>387,707</b>	372,116
<b>NON-CURRENT LIABILITIES</b>			
Interest-bearing borrowings		10,800	12,000
Deferred tax		4,066	3,492
		<b>14,866</b>	15,492
<b>NET ASSETS</b>		<b>372,841</b>	356,624
<b>CAPITAL AND RESERVES</b>			
Share capital	13	48,671	48,671
Reserves		319,406	293,352
Proposed dividend		4,897	14,601
Equity attributable to shareholders		<b>372,974</b>	356,624
Minority interests		(133)	—
<b>TOTAL EQUITY</b>		<b>372,841</b>	356,624

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	<b>For the six months ended 30 September</b>	
	<b>2005</b>	<b>2004</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
NET CASH INFLOW/(OUTFLOW) FROM:		
OPERATING ACTIVITIES	<b>(31,451)</b>	(14,556)
INVESTING ACTIVITIES	<b>(14,076)</b>	(6,450)
FINANCING ACTIVITIES	<b>15,439</b>	4,141
DECREASE IN CASH AND CASH EQUIVALENTS	<b>(30,088)</b>	(16,865)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<b>84,850</b>	82,541
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<b>54,762</b>	65,676
ANALYSIS OF BALANCES OF		
CASH AND CASH EQUIVALENTS		
Cash in hand, cash at banks and security brokerage firms, and time deposits with original maturity of more than three months	<b>57,017</b>	44,700
Time deposits with original maturity of less than three months	<b>11,529</b>	33,006
	<b>68,546</b>	77,706
Less: Time deposits with original maturity of more than three months	<b>(6,608)</b>	(5,668)
Bank overdrafts	<b>(7,176)</b>	(6,362)
	<b>54,762</b>	65,676

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 September 2005

	Equity attributable to shareholders								Total shareholders' fund	Minority interest	Total equity
	Share capital	Share premium account	Contributed surplus	Asset revaluation reserve	Goodwill reserve	Exchange reserve	Retained profits	Proposed dividend			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2004											
– as previously stated	48,233	65,910	34,080	22,818	(1,408)	–	153,857	14,470	337,960	–	337,960
– effect of changes in accounting policies	–	–	–	(10,980)	–	–	1,803	–	(9,177)	–	(9,177)
– restated	48,233	65,910	34,080	11,838	(1,408)	–	155,660	14,470	328,783	–	328,783
Exercise of share options	438	860	–	–	–	–	–	–	1,298	–	1,298
Reserve realised on disposal of leasehold land and buildings	–	–	–	(1,552)	–	–	1,552	–	–	–	–
Deferred tax credit	–	–	–	100	–	–	–	–	100	–	100
Net profit for the period	–	–	–	–	–	–	20,378	–	20,378	–	20,378
Final and special 2004 dividend paid	–	–	–	–	–	–	(131)	(14,470)	(14,601)	–	(14,601)
Proposed interim dividend	–	–	–	–	–	–	(4,867)	4,867	–	–	–
At 30 September 2004 (Unaudited and restated)	48,671	66,770	34,080	10,386	(1,408)	–	172,592	4,867	335,958	–	335,958
At 1 April 2005											
– as previously stated	48,671	66,765	34,080	33,876	(1,408)	–	172,286	14,601	368,871	–	368,871
– effect of changes in accounting policies	–	–	–	(18,408)	–	–	6,161	–	(12,247)	–	(12,247)
– restated	48,671	66,765	34,080	15,468	(1,408)	–	178,447	14,601	356,624	–	356,624
Transfer of goodwill	–	–	–	–	1,408	–	(1,408)	–	–	–	–
Exchange difference on consolidation	–	–	–	–	–	74	–	–	74	–	74
Deferred tax credit	–	–	–	1,518	–	–	–	–	1,518	–	1,518
Net profit for the period	–	–	–	–	–	–	29,329	–	29,329	(133)	29,196
Final and special 2005 dividend paid	–	–	–	–	–	–	–	(14,571)	(14,571)	–	(14,571)
Proposed interim dividend	–	–	–	–	–	–	(4,867)	4,867	–	–	–
At 30 September 2005 (Unaudited)	48,671	66,765	34,080	16,986	–	74	201,501	4,897	372,974	(133)	372,841

*Notes:***1. Basis of preparation and accounting policies**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

The accounting policies and basis of preparation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include the relevant new HKASs and Interpretations) issued by the HKICPA effective for the accounting period commencing on or after 1 January 2005, which are relevant to its operations, as set out below:

HKAS 1:	Presentation of Financial Statements
HKAS 2:	Inventories
HKAS 7:	Cash Flow Statements
HKAS 8:	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10:	Events after the Balance Sheet Date
HKAS 12:	Income Taxes
HKAS 14:	Segment Reporting
HKAS 16:	Property, Plant and Equipment
HKAS 17:	Leases
HKAS 18:	Revenue
HKAS 19:	Employee Benefits
HKAS 21:	The Effects of Changes in Foreign Exchange Rates
HKAS 24:	Related Party Disclosures
HKAS 32:	Financial Instruments: Disclosure and Presentation
HKAS 33:	Earnings Per Share
HKAS 36:	Impairment of Assets
HKAS 37:	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39:	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment:	Transition and Initial Recognition of Financial Assets and Financial Liabilities
HKAS 40:	Investment Property
HKAS-Int 21:	Income Taxes – Recovery of Revalued Non-Depreciated Assets
HKFRS 2:	Share-based Payment

The adoption of HKASs 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 24, 33, 36 and 37 has no material impact on the accounting policies of the Group and the methods of computation of these interim financial statements.

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the presentation of certain comparative amounts have been amended in accordance with HKAS 8. Due to the change in accounting policies, certain comparatives contained in these condensed financial statements differ from those published in the financial statements for the year ended 31 March 2005 and the condensed financial statements for the six months ended 30 September 2004.

## 1. Basis of preparation and accounting policies (Continued)

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect of presentation, recognition and measurement of accounts are described as follows:

### (i) *Presentation of Financial Statements*

The application of HKAS 1 "Presentation of Financial Statements" led to an update of the presentation of financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to owners of the parent company is now presented as an allocation of the net result of the period.

### (ii) *Leasehold Land*

The adoption of HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. In accordance with HKAS 17, a lease of land and building should be split into a lease of land and a lease of building according to their fair value at inception. A lease of land is an operation lease and a lease of building is a finance lease unless the two elements cannot be allocated reliably **at the inception of the lease**, in which case the entire lease is classified as a finance lease. Pursuant to these requirements, the up-front prepayments made for distinguishable leasehold land is accounted for as operating lease and amortised over its unexpired lease term, whereas undistinguishable leasehold land and building is stated collectively at valuation less accumulated depreciation. In prior years, the leasehold land was accounted for at valuation less accumulated depreciation and accumulated impairment. The increase in fair value was credited to the revaluation reserve. Decrease in fair value was first set off against increases on earlier valuations in respect of the same property and thereafter expensed in the income statement. The adoption of HKAS 17 for the six months ended 30 September 2005 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy. The current policy is adopted as it is considered more appropriate.

**1. Basis of preparation and accounting policies (Continued)***(iii) Investment Property*

The Group has also applied HKAS 40 "Investment Property". The Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in the fair value model of investment properties to be recognised directly in the profit or loss for the period in which they arise. In previous periods, investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to investment property revaluation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve was charged to the income statement. Where a decrease had previously been charged to the income statement and a revaluation increase subsequently arose, that increase was credited to the income statement to the extent of the decrease previously charged. The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply HKAS 40 from 1 April 2005 onwards. The revaluation surplus or deficit of investment property of the Group was all charged to the income statement in previous years, therefore, no adjustment to the Group's retained profits or revaluation reserve is required. The change in accounting policy has not had any significant impact on the comparative figures of the Group.

In addition, HKAS-Int 21 now requires deferred taxation to be calculated, using profit tax rates, as opposed to using capital gain tax rates, on these surplus and deficits. This has been applied retrospectively.

*(iv) Financial Instruments*

The adoption of HKASs 32, 39 and 39 Amendment has resulted in a change in the accounting policy relating to the measurement and classification of investments. As a result, other investments of approximately HK\$40,611,000 is now classified as "Financial Assets at Fair Value through Profit or Loss". Gains and losses arising from change in fair value of "Financial Assets at Fair Value through Profit or Loss" are charged to income statement. The Group recorded the other investments at fair value and any gains or losses were credited or charged to the income statement in prior years. As a result, the adoption of HKAS 32, 39 and 39 Amendment does not result in any restatement in the unaudited interim financial statements. During the period, changes in fair value of Financial Assets at Fair Value through Profit or Loss was approximately HK\$282,000.

*(v) Share-based Payment*

Prior to the adoption of HKFRS 2 on 1 April 2005, equity-settled share-based payment transactions were treated as changes in the entity's equity only upon execution. HKFRS 2 requires all goods and services received in the course of share-based payment transactions to be measured at fair value and recognised in the financial statements with a corresponding credit to equity, unless the transaction is settled in cash. When applied to employee share-based compensation, this leads to the recognition of share options which have been granted and are expected to vest as an expense in profit or loss.

According to the transitional provisions of HKFRS 2, all equity-settled share-based payments granted after 7 November 2002 that had not vested at the first application of this standard are required to be recognised retrospectively in the Group's financial statements.

As the Group's share options were granted before 7 November 2002, in accordance with the transitional provisions the Group is not required to apply the accounting provisions of HKFRS 2.



## 2. SUMMARY OF THE IMPACT OF CHANGES ON ACCOUNTING POLICIES

The effect of changes in the above accounting policies on the consolidated balance sheet are as follows :

	HKAS 17 HK\$'000	HKAS 32 & HKAS 39 HK\$'000	Total effect adoption of HKFRSs and HKASs HK\$'000
<b>At 1 April 2005 (audited and restated)</b>			
<b>Increase/(Decrease) in assets/liabilities</b>			
Property, plant and equipment	(30,016)	–	(30,016)
Prepaid lease payments	14,875	–	14,875
Other investments	–	(37,921)	(37,921)
Financial assets at fair value through profit or loss	–	37,921	37,921
Deferred tax liabilities	(2,894)	–	(2,894)
<b>Increase/(Decrease) in equity</b>			
Asset revaluation reserve	(18,408)	–	(18,408)
Retained profits	6,161	–	6,161
<b>At 30 September 2005 (unaudited)</b>			
<b>Increase/(Decrease) in assets/liabilities</b>			
Property, plant and equipment	(31,214)	–	(31,214)
Prepaid lease payments	14,689	–	14,689
Other investments	–	(40,611)	(40,611)
Financial assets at fair value through profit or loss	–	40,611	40,611
Deferred tax liabilities	1,494	–	1,494
<b>Increase/(Decrease) in equity</b>			
Asset revaluation reserve	(16,890)	–	(16,890)
Retained profits	5,320	–	5,320

**2. SUMMARY OF THE IMPACT OF CHANGES ON ACCOUNTING POLICIES (Continued)**

The effect of changes in the above accounting policies on the consolidated income statement are as follows :

	<b>HKAS 17</b> <i>HK\$'000</i>	<b>HKAS 32 &amp; HKAS 39</b> <i>HK\$'000</i>	<b>Total effect on adoption of HKFRSs and HKASs</b> <i>HK\$'000</i>
<b>For the six months ended</b>			
<b>30 September 2005 (unaudited)</b>			
<b>Increase/(Decrease) in profit</b>			
Increase in depreciation	(654)	–	(654)
Increase in amortisation of prepaid lease payment	(187)	–	(187)
<b>Total decrease in profit</b>	<b>(841)</b>	<b>–</b>	<b>(841)</b>
<b>For the six months ended</b>			
<b>30 September 2004 (unaudited)</b>			
<b>Increase/(Decrease) in profit</b>			
Decrease in depreciation	449	–	449
Increase in amortisation of prepaid lease payment	(187)	–	(187)
<b>Total increase in profit</b>	<b>262</b>	<b>–</b>	<b>262</b>

### 3. Segmental information

The following tables present the Group's turnover and results for the period, analysed by business segments and geographical segments, are as follows:

#### Business segments

	Manufacture and sale of paper cartons, packaging boxes and children's novelty books		Commercial printing		Manufacture and sale of hangtags, labels, shirt paper boards and plastic bags		Eliminations		Consolidated	
	For the six months ended		For the six months ended		For the six months ended		For the six months ended		For the six months ended	
	30 September		30 September		30 September		30 September		30 September	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)		(Unaudited)	
	(Unaudited)	and restated)	(Unaudited)	and restated)	(Unaudited)	and restated)	(Unaudited)	and restated)	(Unaudited)	and restated)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment turnover:										
Sales to external customers	283,211	226,776	37,802	36,216	27,418	20,879	-	-	348,431	283,871
Intersegment sales	-	-	42	199	50	107	(92)	(306)	-	-
	283,211	226,776	37,844	36,415	27,468	20,986	(92)	(306)	348,431	283,871
Segment results	23,380	11,082	4,565	7,167	5,961	4,589	-	-	33,906	22,838
Interest income									1,252	838
Unallocated expenses									-	-
Profit from operating activities									35,158	23,676
Finance costs									(645)	(215)
Profit before taxation									34,513	23,461
Taxation									(5,317)	(3,083)
Profit for the period									29,196	20,378

**3. Segmental information (Continued)***Geographical segments*

	Hong Kong		Elsewhere in the PRC		Europe and other countries		Consolidated	
	For the six months ended		For the six months ended		For the six months ended		For the six months ended	
	30 September		30 September		30 September		30 September	
	2005	2004	2005	2004	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	and restated	and restated	and restated	and restated	and restated	and restated	and restated	and restated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	272,332	247,566	12,020	9,851	64,079	26,454	348,431	283,871

**4. Profit from operating activities**

	For the six months ended	
	30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	and restated	and restated
	HK\$'000	HK\$'000
Profit from operating activities is arrived at after charging/(crediting):		
Amortisation of prepaid lease payment	187	187
Depreciation of property, plant and equipment	13,680	13,184
Net unrealised (gain)/loss on financial assets at fair value through profit or loss	(282)	247

**5. Other revenue**

	For the six months ended 30 September	
	2005	2004
	(Unaudited)	(Unaudited)
	and restated	and restated
	HK\$'000	HK\$'000
Interest income	1,252	838
Dividend income from listed investments	177	33
Rental income	1,014	910
Gain on disposal of property, plant and equipment	–	33
Gain on disposal of listed investments	679	–
Others	31	321
Unrealised gain on financial assets at fair value through profit or loss	282	–
	3,435	2,135

## 6. Taxation

	<b>For the six months ended 30 September</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
The charge comprises:		
Hong Kong profits tax	<b>4,300</b>	2,726
Overseas tax	<b>1,017</b>	357
	<b>5,317</b>	3,083

Hong Kong profits tax is calculated at 17.5% (2004: 17.5%) of the estimated assessable profits for the six months ended 30 September 2005. Taxes on profits assessable elsewhere have been calculated at the rates of taxation prevailing in the relevant jurisdictions in which the Group operates.

## 7. Interim dividends

	<b>For the six months ended 30 September</b>	
	<b>2005</b>	2004
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interim dividend of HK1 cent (2004: HK1 cent) per ordinary share	<b>4,867</b>	4,867

## 8. Earnings per share

The calculation of basic earnings per share is based on the Group's unaudited consolidated profit after tax from ordinary activities attributable to shareholders for the period ended 30 September 2005 of approximately HK\$29,329,000 (2004: HK\$20,378,000) and the weighted average of 486,706,061 ordinary shares in issue (2004: 483,598,138) during the period.

The calculation of diluted earnings per share for the period ended 30 September 2005 is based on the Group's unaudited consolidated profit after tax from ordinary activities attributable to shareholders of approximately HK\$29,329,000 (2004: HK\$20,378,000). The weighted average number of ordinary shares used in the calculation is 486,706,061 ordinary shares in issue (2004: 483,598,138), as used in the basic earnings per share calculation, and the weighted average of 297,515 ordinary shares (2004: 1,610,475) assumed to have been issued at no consideration, on the deemed exercise of all share options during the period.

## 9. Movement in property, plant and equipment

During the period, the Group spent approximately HK\$12,063,000 on plant and machinery in order to upgrade its manufacturing capacities.

**10. Trade and bills receivables**

The Group allows an average credit period of 75 days to its trade customers.

*Ageing Analysis*

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2005</b>	2005
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>67,119</b>	38,684
31 – 60 days	<b>64,615</b>	21,828
61 – 90 days	<b>42,992</b>	24,168
Over 90 days	<b>30,214</b>	16,135
	<b>204,940</b>	100,815

**11. Financial assets at fair value through profit or loss**

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2005</b>	2005
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Hong Kong listed equity investments	<b>3,144</b>	1,909
Overseas listed equity securities	<b>6,312</b>	–
Overseas unlisted equity investments	<b>8,548</b>	10,541
Overseas unlisted debt investments	<b>22,607</b>	25,471
	<b>40,611</b>	37,921

**12. Trade payables***Ageing analysis*

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2005</b>	2005
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Current to 30 days	<b>36,595</b>	32,706
31 – 60 days	<b>33,162</b>	9,416
61 – 90 days	<b>30,839</b>	13,161
Over 90 days	<b>32,403</b>	13,531
	<b>132,999</b>	68,814

### 13. Share capital

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2005</b>	2005
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
<i>Authorised:</i>		
800,000,000 ordinary shares of HK\$0.1 each	<b>80,000</b>	80,000
<i>Issued and fully paid:</i>		
486,706,061 ordinary shares of HK\$0.1 each	<b>48,671</b>	48,671

### 14. Contingent liabilities and charge on assets

At 30 September 2005, the Company provided corporate guarantees to banks for the provision of general banking facilities to its subsidiaries to the extent of HK\$89,900,000 (31 March 2005: HK\$89,900,000).

The amount of banking facilities utilised by the subsidiaries amounted to HK\$49,106,000 as at 30 September 2005 (31 March 2005: HK\$27,151,000).

At 30 September 2005, a bank placed a charge to one of the subsidiaries to secure all relevant liability which may be due to the bank as stipulated in the financial service agreements between the bank and the subsidiary.

At 30 September 2005, certain of the Group's properties amounting to HK\$27,511,000 million (31 March 2005: HK\$27,840,000) were pledged to secure general banking facilities granted to the Group.

### 15. Capital commitments

	<b>Group</b>	
	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2005</b>	2005
	<b>(Unaudited)</b>	(Audited)
	<b>HK\$'000</b>	HK\$'000
Contracted for acquisition of property, plant and equipment	<b>1,354</b>	2,923
Investment in a subsidiary in the PRC	<b>–</b>	4,800
	<b>1,354</b>	7,723

### 16. Comparative figures

As disclosed in note 1, due to adoption of new/revised HKFRSs for the current period, the accounting treatment and presentation of certain items on the financial statements have been revised to comply with the new requirements. In addition, certain comparative figures of segmental information in note 3 have been reclassified to conform with the current period's presentation.

## REVIEW OF OPERATION

At its dedicated effort within an improved global market sentiment, the Group has been able to achieve an encouraging interim results for the six months ended 30 September 2005. For the period under review, the Group recorded a growth of approximately 22.7% in its total turnover and an increase of approximately 43.9% in its profit attributable to shareholders. For the six months ended 30 September 2005, the total turnover of the Group and its profit attributable to shareholders was approximately HK\$348.4 million and HK\$29.3 million respectively, as compared to its total turnover of approximately HK\$283.9 million and profit attributable to shareholders of HK\$20.4 million for the corresponding period of last year. Gross profit margin of the Group has also improved from its 25.5% for the six months ended 30 September 2004 to about 26.8% for the period under review.

Printing and manufacture of packaging boxes, including accompanying brochures, manuals and catalogues, together with the manufacture of children novelty books continued to be the Group's major business. For the six months ended 30 September 2005, the Group recorded a total turnover of about HK\$283.2 million from this major business category, which represented a significant growth of 24.9% over that of the previous period of about HK\$226.8 million and accounted for about 81.3% of the Group's total turnover for the period under review. The Group's effort in recent years to explore the overseas markets has seen positive results and which has helped contribute to the increased business in this major category. The necessary know how and delicate workmanship that the Group built up and developed within its solid manufacturing teams in recent years for innovative children novelty books has especially facilitated the Group to secure more orders of these kinds, which are usually sophisticated products but of higher margins, in the overseas markets.

The Group continued to maintain a strong upwards momentum in the manufacture of hangtags, labels, shirt paper boards and plastic bags. For the period under review, the turnover for the manufacture of hangtags, labels, shirt paper boards and plastic bags was approximately HK\$27.4 million, which was about 7.9% of the Group's total turnover and represented another encouraging growth of about 31.3% over that of the corresponding period last year. The Group has also seen an increase in the turnover of commercial printing. However, due to increasing competition, the increase was only at a moderate rate of 4.4%. For the period under review, the turnover of the Group's commercial printing was approximately HK\$37.8 million as compared to that of the corresponding period of approximately HK\$36.2 million and was about 10.8% of the Groups' total turnover for the six months ended 30 September 2005. Both the manufacture of hangtags, labels, shirt paper boards and plastic bags as well as commercial printing continued to make a satisfactory contribution towards the performance of the Group for the period under review.



## REVIEW OF OPERATION (Continued)

For the period under review, the selling and distribution costs and administration expenses was approximately HK\$13.6 million and HK\$44.5 million and which accounted for about 3.9% and 12.8% of the Group's total turnover respectively. For the corresponding period of last year, the selling and distribution costs and administration expenses was approximately HK\$12.3 million and HK\$37.9 million respectively and accounted for about 4.3% and 13.3% of the Group's total turnover of the six months ended 30 September 2004 respectively. The improvement in the respective percentage to the total turnover of Group of both the selling and distribution and administration expenses over the two periods was attributable to the Group's endeavour to adhere to its stringent cost controls and streamlined administration efficiency. During the period under review, provision for doubtful debt in the amount of about HK\$2.2 million was made against an overseas customer for a long overdue account. The Group has tight credit appraisal procedures in place and will continue to closely monitor its credit that is allowed to its customers.

The Group's production base in Shanghai to manufacture labels and hangtags is at its trial run and is expected to be in operation in the early first quarter of the calendar year 2006.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cashflow and banking facilities provided by its principal bankers in Hong Kong. The Group is financially sound. The Group's cash and bank balances and short term bank deposits as at 30 September 2005 amounted to approximately HK\$68.5 million. The Group's gearing ratio as at 30 September 2005 was 12.5% (31 March 2005: 7.1%), basing on the short term and long term interest bearing bank borrowings of HK\$46.5 million (31 March 2005: HK\$25.3 million) and the shareholders' fund of HK\$373.0 million (31 March 2005: HK\$356.6 million).

## PROSPECTS

Despite its general encouraging results for the first half of the fiscal year under review, the Group believes that the operating environment for the second half of the year will continue to be full of challenges. Like many other manufacturers in the Southern China, the Group will still be experiencing the problems of labor supply, power shortage, rising fuel prices, higher material costs and increased minimum wages. The higher operating costs, together with the pricing pressure from competition will continue to have impact on the operating environment for the second half of the year. To cope with these challenges, every effort will be made by the Group to enhance its operation efficiency for providing continued sustainable growth and returns for the Group and its shareholders.

## INTERIM DIVIDEND

The Directors have resolved to declare an interim dividend of HK1 cent per share (2004: HK1 cent per share) for the six months ended 30 September 2005 payable on or before Wednesday, 25 January 2006 to shareholders whose names appear on the Register of Members of the Company on Thursday, 19 January 2006.

**CLOSURE OF THE REGISTER OF MEMBERS**

The Register of Members of the Company will be closed from Tuesday, 17 January 2006 to Thursday, 19 January 2006 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong not later than 4:00 p.m. on Monday, 16 January 2006. Tengis Limited is currently located at G/F, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong. Effective from 3 January 2006, its address will be changed to 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 September 2005, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance "SFO") as recorded in the register maintained by the Company under 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 Companies (the "Model Code"), were as follows:

**(i) Directors' interests in shares****(A) Long position in the shares of the Company**

Name of director	Personal interests (held as beneficial owner)	Family interests	Other interests	Total interests	Total interests as % of the issued share capital
Mr. Lui Chi	–	239,541,029 (Note 1)	239,541,029 (Note 1)	239,541,029	49.22%
Mr. Lui Shing Ming, Brian	4,375,000	–	239,541,029 (Note 2)	243,916,029	50.12%
Mr. Lui Shing Cheong	3,125,000	–	239,541,029 (Note 2)	242,666,029	49.86%
Mr. Lui Shing Chung, Victor	3,125,000	625,000 (Note 3)	239,541,029 (Note 2)	243,291,029	49.99%
Mr. Lung Wai Kee	1,250,000	2,500,000 (Note 4)	–	3,750,000	0.77%

## **DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)**

### **(i) Directors' interests in shares (Continued)**

#### **(A) Long position in the shares of the Company**

*Notes:*

- (1) Mr. Lui Chi is interested in 239,541,029 shares of the Company by virtue of (i) his being a founder of a discretionary trust, the discretionary objects of which include Messrs. Lui Shing Ming Brian, Lui Shing Chung Victor, Lui Shing Cheong and other family members of Mr. Lui Chi; and (ii) his spouse is also a founder of the discretionary trust.
- (2) The 239,541,029 shares are owned by Harmony Link Corporation, a company incorporated in the British Virgin Islands. Approximately 48.4% of the issued share capital of Harmony Link Corporation is held by The Lui Family Company Limited as trustee of The Lui Unit Trust. All units (except 1 unit which is owned by Mr. Lui Shing Ming Brian) of The Lui Unit Trust are held by Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") as trustee of a discretionary trust, the discretionary objects of which have been disclosed in Note (1) above. Mr. Lui Chi and his spouse, Madam Ng Sze Mui are the founders of the discretionary trust. Each of Messrs. Lui Shing Ming Brian, Lui Shing Chung Victor and Lui Shing Cheong further owns approximately 24.13%, 14.59% and 12.88% of the issued share capital of Harmony Link Corporation respectively.
- (3) The 625,000 shares are owned by the spouse of Mr. Lui Shing Chung, Victor.
- (4) The 2,500,000 shares are owned by the spouse of Mr. Lung Wai Kee.

All the interests stated above represent long positions in the shares of the Company and exclude those in the underlying shares through share options or equity derivatives. Interests of the respective directors set out in this subsection (A) need to be aggregated with their interests in the underlying shares through share options or equity derivatives of the Company set out in subsection (B) below in order to give the total interests of the respective directors in the Company pursuant to the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

In addition to the above, certain directors have non-beneficial personal equity interest in certain subsidiaries held for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (Continued)

### (i) Directors' interests in shares (Continued)

#### (B) Long position in the underlying shares of the Company through share options or equity derivatives

Share options are granted to the directors under the Share Option Scheme adopted by the Company on 27 December 1996 (the "Old Scheme"). Details of the share options outstanding as at 30 September 2005 under the Old Scheme are as follows:

Name of director	Nature of interest	Number of share options held	Date of grant of share options	Exercise price of share options HK\$	Exercisable period
Mr. Lui Shing Chung, Victor	Family (Note)	625,000	31 December 1999	0.2240	31 December 1999 to 26 December 2006

*Note:* 625,000 share options are owned by the spouse of Mr. Lui Shing Chung, Victor.

The share options are exercisable up to 26 December 2006 and were granted at nil cash consideration. The above share option prices and the corresponding number of share options held by the above directors were adjusted as a result of bonus issue on 31 August 2001.

Save as disclosed herein, as at 30 September 2005, none of the directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any associated corporation or any interests which are required to be entered into the register 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.

### (ii) Directors' rights to acquire shares or debentures

Save as disclosed herein, at no time during the period were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company granted to any directors or their respective spouse or children under 18 years of age, 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 or their associates to acquire such rights in the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, the following persons (other than a director or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO or as otherwise notified to the Company:

Name of shareholder	Long/short position	Capacity	Number of ordinary shares/ underlying shares held	Percentage of issued capital
Madam Ng Sze Mui	Long	Founder of a discretionary trust	239,541,029 (Note 1)	49.22%
Madam Ng Shuk Fong, Aman	Long	Beneficial owner and interest of spouse	243,916,029 (Note 2)	50.12%
Harmony Link Corporation	Long	Beneficial owner	239,541,029	49.22%
The Lui Family Company Limited	Long	Trustee	239,541,029 (Note 3)	49.22%
Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited")	Long	Trustee	239,541,029 (Note 3)	49.22%

### Notes:

- (1) Interests in these shares represent interests held by Madam Ng Sze Mui by virtue of her being a founder of a discretionary trust which has interests in 239,541,029 shares, details of the trust have also been disclosed in Note (1) under the section "Directors' interests in shares – Long position in the shares of the Company" above.
- (2) Interests in these shares include interests in 625,000 shares and options to subscribe for 625,000 shares both held by Madam Ng Shuk Fong, Aman personally and interests in 242,666,029 shares through interest of her spouse, Mr. Lui Shing Chung, Victor as disclosed in Note (2) under the section "Directors' interest in shares - Long position in the shares of the Company" above.
- (3) The two references to 239,541,029 shares relate to the same block of shares in the Company. Each of The Lui Family Company Limited as trustee of The Lui Unit Trust and Trident Corporate Services (B.V.I.) Limited (formerly known as "Ansbacher (BVI) Limited") as trustee of a discretionary trust is taken to have a duty of disclosure in relation to the interests of Harmony Link Corporation in the said shares of the Company as described in Note (2) under the section "Directors' interests in shares – Long position in the shares of the Company" above.

**SUBSTANTIAL SHAREHOLDERS (Continued)**

Save as disclosed herein, as at 30 September 2005, the Company has not been notified by any other person or corporation, other than the directors of the Company whose interests are set out above, having interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the SFO, or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

**PARTICULARS OF DIRECTORS OF THE COMPANY WHO WERE DIRECTORS/EMPLOYEES OF SUBSTANTIAL SHAREHOLDERS**

Messrs. Lui Chi, Lui Shing Ming Brian, Lui Shing Cheong and Lui Shing Chung Victor are directors of Harmony Link Corporation and The Lui Family Company Limited.

**SHARE OPTION SCHEMES**

On 5 September 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted. The details of the New Scheme were disclosed in the 2004 Annual Report. There were no changes in any terms of the New Scheme during the six months ended 30 September 2005. Upon termination of the Old Scheme, no further share options will be granted thereunder but all outstanding share options granted under the Old Scheme will not be affected by the New Scheme. As at 30 September 2005, the number of shares in respect of which share options had been granted and outstanding under the Old Scheme was 1,125,000. No share options were granted under the New Scheme since its adoption on 5 September 2002.

The following share options were outstanding under the Old Scheme during the six months ended 30 September 2005:

Number of share options								Adjusted exercise price of share options** HK\$	Price of Company's shares***	
Name or category of participant	As at 1 April 2005	Exercised during the period	Cancelled during the period	Lapsed during the period	As at 30 September 2005	Date of grant of share options	Exercise period of share options		At grant date of options HK\$	At exercise date of options HK\$
Other employees										
In aggregate	625,000	-	-	-	625,000 *	31 December 1999	31 December 1999 to 26 December 2006	0.2240	0.2900	NA
	250,000	-	-	-	250,000	8 July 2000	8 January 2001 to 26 December 2006	1.0960	1.6500	NA
	250,000	-	-	-	250,000	5 September 2000	5 September 2001 to 26 December 2006	1.4048	2.2000	NA
	1,125,000	-	-	-	1,125,000					

## SHARE OPTION SCHEMES (Continued)

Notes:

- \* The share options to subscribe for 625,000 ordinary shares at HK\$0.2240 per share in the Company that were granted to the spouse of Mr. Lui Shing Chung, Victor have been included in the "Other employees" category above and remained outstanding as at 30 September 2005.
- \*\* The exercise price is subject to adjustment in the case of any future rights or bonus issues, or other similar changes in the Company's share capital.
- \*\*\* The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange's closing price of the Company as at the date of the grant of the share options.

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the period.

## DIRECTORS' INTERESTS IN COMPETING BUSINESSES

None of the directors, the management shareholders of the substantial shareholders of the Company, or any of their respective associates, has engaged in any business that competes or may compete with the business of the Group, or has any other conflict of interest with the Group.

## CORPORATE GOVERNANCE

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange throughout the six months ended 30 September 2005, except for certain deviations.

The major areas of deviation are as follows:

- Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election. The independent non-executive directors of the Company are not appointed for specific terms. However, pursuant to the amendment to the Bye-laws that was passed in the 2005 annual general meeting of the Company held on 9 September 2005, at each annual general meeting of the Company, one-third of the directors, including executive and independent non-executive directors, shall retire from office by rotation, and every director shall be subject to retirement at least once every three years. As such, the Company considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are no less exacting than those in the CG Code.
- Code provision B.1.1 stipulates the establishment of a remuneration committee with specific written terms of reference as set out in the provision. On 1 December 2005, a remuneration committee was established with written terms of reference no less exacting terms than code provision B.1.3. The remuneration committee comprises three independent non-executive directors, namely Dr. Lam Chun Kong, Mr. Lo Wing Man, Dr. Ng Lai Man Carman and one executive director, Mr. Lui Shing Ming Brian.
- Code provision E.1.2 provides that the chairman of the Board should attend the annual general meeting of the Company. However, due to unexpected commitment, Mr. Lui Chi, the chairman of the Board, was unable to attend the annual general meeting of the Company held on 9 September 2005, but, in his absence, all the other directors of the Board, including the chairman of the audit committee, were present. The Company considers that the members of the Board and the audit committee who attended the annual general meeting were already of sufficient caliber and number available for answering questions at the meeting.

## PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

For the six months ended 30 September 2005, the Company has not redeemed any of its listed securities. Neither the Company, nor any of its subsidiaries purchased or sold any of the Company's listed securities during the period.

## EXCHANGE RATE EXPOSURE

Most of the transactions of the Group were made in Hong Kong dollars, Renminbi and US dollars. During the six months ended 30 September 2005, the Group was not exposed to any material exchange risk as the exchange rate of Hong Kong dollars, Renminbi and US dollars were relatively stable and no hedging for foreign currency transactions has been carried out.



## EMPLOYMENT AND REMUNERATION POLICIES

During the period under review, the Group had an average available workforce of approximately 4,320 of which approximately 4,140 were based in the People's Republic of China.

Remuneration packages are generally structured by reference to market terms and individual merits. Salaries are normally reviewed on an annual basis and bonuses paid, if any, will also be based on performance appraisals and other relevant factors. Staff benefit plans maintained by the Group include mandatory provident fund scheme, share option scheme and medical insurance.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors have confirmed, following a specific enquiry by the Company, that they have fully complied with the required standard as set out in the Model Code throughout the period under review.

## REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 September 2005 have been reviewed by the Audit Committee of the Company and the Group's auditors, Messrs. Grant Thornton, Certified Public Accountants.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim results for the six months ended 30 September 2005.

By Order of the Board

**Lui Chi**

*Chairman*

Hong Kong, 23 December 2005

*As at the date of this report, the executive directors of the Company are Mr. Lui Chi, Mr. Lui Shing Ming Brian, Mr. Lui Shing Cheong, Mr. Lui Shing Chung Victor and Mr. Lung Wai Kee, the independent non-executive directors of the Company are Dr. Lam Chun Kong, Mr. Lo Wing Man and Dr. Ng Lai Man Carmen.*