OCT 華僑城亚洲

Overseas Chinese Town (Asia) Holdings Limited
華僑城（亞洲）控股有限公司

(Formerly known as Huali Holdings (Group) Limited 華力控股（集團）有限公司)
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3366

Annual Report 2007

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Corporate Information

Board of Directors	**Executive Directors** Mr. Zheng Fan *(Chairman)* Mr. Ni Zheng Ms. Xie Mei Mr. Zhou Guangneng
	Independent non-executive Directors Ms. Wong Wai Ling Mr. Chen Xiangdong Mr. Xiao Yongping
Audit Committee	Ms. Wong Wai Ling *(chairman)* Mr. Chen Xiangdong Mr. Xiao Yongping
Remuneration Committee	Ms. Wong Wai Ling *(chairman)* Mr. Chen Xiangdong Mr. Xiao Yongping
Head Office and Principal Place of Business	Suite 3203-3204, Tower 6 The Gateway Harbour City Canton Road Tsim Sha Tsui Kowloon Hong Kong
Registered Office	Clifton House PO Box 1350 GT 75 Fort Street Grand Cayman Cayman Islands
Company Secretary and Qualified Accountant	Mr. Fong Fuk Wai *(FCPA, FCCA, ACA)*
Auditors	KPMG Certified Public Accountants
Hong Kong Legal Adviser	Loong & Yeung
Principal Bankers	China Merchants Bank Hong Kong Branch Standard Chartered Bank (HK) Ltd.

Corporate Information

Principal Share Registrar and Transfer Office	Appleby Corporate Services (Cayman) Limited Clifton House PO Box 1350 GT 75 Fort Street Grand Cayman Cayman Islands
Hong Kong Branch Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shops 1712-16, 17/F Hopewell Centre 183 Queen's Road East Hong Kong
Stock Information	Stock Code: 3366 Stock Short Name: OCT (ASIA)
Company's Website	http://www.oct-asia.com
Authorised Representatives	Mr. Ni Zheng Mr. Fong Fuk Wai

Financial Highlights

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(Expressed in Renminbi)

	2007 RMB'000	2006 RMB'000
Turnover	**739,907**	695,503
Cost of sales	**(654,846)**	(608,381)
Gross profit	**85,061**	87,122
Other revenue	**28,276**	22,544
Other net loss	**(3,836)**	(3,394)
Distribution costs	**(30,799)**	(32,562)
Administrative expenses	**(28,378)**	(30,125)
Other operating expenses	**(4,214)**	(756)
Profit from operations	**46,110**	42,829
Finance costs	**(4,381)**	(3,552)
Share of losses from associates	**(484)**	–
Profit before taxation	**41,245**	39,277
Income tax	**(2,826)**	(5,970)
Profit for the year	**38,419**	33,307
Attributable to:		
Equity shareholders of the Company	**38,361**	32,999
Minority interests	**58**	308
Profit for the year	**38,419**	33,307
Dividends payable to equity shareholders of the Company attributable to the year:		
Final dividend proposed after the balance sheet date	**12,809**	12,675
Earnings per share (RMB)		
Basic	**0.18**	0.16
Diluted	**0.17**	0.16

I am pleased, on behalf of Overseas Chinese Town (Asia) Holdings Limited ("the Company") and its subsidiaries ("the Group"), to present to all shareholders the operating results and Annual Report of the Group for the year ended 31 December 2007, and would like to express my sincere gratitude to all shareholders and all the staff.

BUSINESS REVIEW

For the year ended 31 December 2007, the Group's turnover was RMB740 million, representing an increase of 6.4% over 2006. Total assets amounted to RMB820 million, and total equity amounted to RMB511 million.

During the reporting period, raw material prices were continuously increasing. Energy prices such as oil, water and electricity further increased in the period under review. Labour costs and interest rates have also been continuously rising to different extents. All of the above contributed in an increase in the production cost of the Group. The above factors together with the intense market competition presented different challenges to the Group's operation.

During the reporting period, the Group strived to explore new customers and the potential of existing customers, adjust product structure and provide more value-added services for its customers to improve sales performance. The Group increased the proportion of high value-added products such as colour-printed materials, and the large format offset colour printing press purchased by the Group from Germany was officially put into operation in August 2007. The Group centralized the purchase of raw materials to enhance its bargaining power and continued to strengthen its internal management so as to reduce the operation cost of the Company. The Group further improved the Enterprise Resources Planning ("ERP") system in the reporting period which provided more accurate and efficient information support to the management's strategic decision. Besides, the Group promoted the concept of environmental protection and hi-tech innovation, and continuously utilized the innovated technology to save energy and reduce emissions. Shenzhen Huali Packing & Trading Co., Ltd. ("Shenzhen Huali"), a subsidiary of the Company, was awarded the "Leading Enterprise of Circular Economy Award" (循環經濟領軍企業獎) and "Development of New Product, Technology and Workmanship Award" (新產品、新技術、新工藝開發獎). As a result, despite the more unfavourable market conditions compared with that of 2006, the Group still managed to achieve a 6.4% increase in business growth in 2007 and laid a solid foundation for its long term development.

In 2007, the Group commissioned various acquisitions and disposals, after which there are six wholly-owned enterprises of the Company engaging in packaging business situated in the developed Pearl River Delta and Yangtze River Delta in the PRC. During the reporting period, in order to improve the efficiency of logistics and production of Shenzhen Huali, the Group established Huizhou Huali Packing Co., Ltd. ("Huizhou Huali") in Huizhou, Guangdong and planned to gradually relocate the production facilities in Shenzhen to Huizhou. As the new production base is under construction and to prepare for the subsequent relocation, the Group commissioned the sale and leaseback of the Shenzhen Huali factory buildings in

2007. With the intention to explore new potential profits sources through the expansion of the Group's business scope, through an acquisition by the Group completed in October 2007, the Group indirectly owned 12.25% equity interests in Chengdu Tianfu OCT Industry Development Co., Ltd. ("Chengdu OCT"). The development under Chengdu OCT is a major project of Overseas Chinese Town Enterprises Company ("OCT Group"), the ultimate controlling shareholder of the Company . As a result of the above acquisitions and disposals, the Group has much broader room for future development. To reflect the adjustment of the Group's business, the Company changed its name to Overseas Chinese Town (Asia) Holdings Limited (stock short name: OCT (ASIA)) in October 2007.

PROSPECTS

As at the date of this report, there is a rising pace in the surge in raw material prices. Looking ahead in 2008, we expect that the continuous rise in operation cost and the increasingly intense market competition will present more challenges to the packaging industry. The Group will use its best endeavours in improving its products and marketing in order to cope with the possible difficulties and maintain its competitive edge. Apart from enhancing the bonding of valued customers, the Group will also explore new customer base, increase the proportion of high margin products such as colour packaging products, strengthen the innovation of production technology, satisfy customers' needs and continuously enlarge its market share. In addition, Huizhou Huali, a subsidiary of the Company, is expected to complete the construction of factories and installation of basic production facilities by the end of 2008, and production facilities of Shenzhen Huali will be gradually relocated to the new production base in Huizhou in the coming years.

With the growth of the economy and the increase in the consumption power in the PRC, the prospect for packaging industry is still optimistic. The management of the Company believe that by relying on its high quality product and services, its expanding customer base, the management's experience in the industry and its ever-optimising strategic planning, the Group will be able to face new challenges and create better results for the Group.

APPRECIATION

I, on behalf of the board of directors, hereby express our most sincere thanks to the management team and all the staff for their efforts and contributions made in the development of the Group. I also take this opportunity to thank all shareholders and business partners for their confidence and support to the Group.

Zheng Fan
Chairman

Hong Kong, 20 March 2008

OPERATING RESULTS

As at 31 December 2007, the Group's total assets amounted to RMB820 million. Total equity amounted to RMB511 million, representing an increase of 51.2% over that as at 31 December 2006. The Group realised sales income of RMB740 million in 2007, representing an increase of 6.4% over the same period in 2006. Profits attributable to equity holders were RMB38.36 million, representing an increase of 16.2% over 2006. The basic earnings per share for the year were RMB0.18, as compared to RMB0.16 for 2006.

During the period under review, gross profit margin was approximately 11.5% (2006: approximately 12.5%), representing a decrease of 1% over the same period in 2006. The decease was mainly attributable to the increase in raw material prices, resulting in an increase in the cost of sales. Net profit margin attributable to equity holders of the Company was approximately 5.2% (2006: approximately 4.7%). Profits attributable to equity holders increased by 16.2% over 2006. Excluding the fact that the fair value of RMB4.56 million of share options granted to employees was recognised as expenses in 2006, profits attributable to equity holders increased by approximately 2.1% over the same period in 2006.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs for the year ended 31 December 2007 were approximately RMB30.80 million (2006: RMB32.56 million), representing a decrease of approximately 5.4% over the same period in 2006, mainly attributable to the fact that the transportation distance to customers was reduced after Anhui Huali Packaging Company Limited ("Anhui Huali"), a subsidiary of the Company, was put into operation, resulting in a decrease in transportation costs.

The Group's administrative expenses for the year ended 31 December 2007 were approximately RMB28.38 million (2006: approximately RMB30.13 million), representing a decrease of approximately 5.8% over the same period in 2006. Excluding the fact that the fair value of RMB4.56 million of share options granted to employees was recognised as expenses in 2006, administrative expenses increased by approximately RMB2.81 million over the same period in 2006, mainly attributable to the increase of operating activities and the increase in rental and labour expenses.

INTEREST EXPENSES

The interest expenses of the Group were RMB4.38 million for the year ended 31 December 2007, as compared to RMB3.55 million for the year ended 31 December 2006. The increase was mainly attributable to the increase in average outstanding bank loans and the rise of loan interest rates in the year.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK5.7 cents per share for the year ended 31 December 2007 (2006: HK6.4 cents per share).

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

For the year ended 31 December 2007, the Group's inventory turnover increased to 51 days, longer as compared to 38 days for the year ended 31 December 2006, mainly attributable to the increase of inventories by the Group in order to take precautions against the increase in raw material prices. The Group's debtors' turnover days were 79 days for the year ended 31 December 2007, longer as compared to 69 days for the year ended 31 December 2006, mainly attributable to the corresponding increase of debtors following the increase in sales income of the Group. The Group's creditors' turnover days were 127 days for the year ended 31 December 2007, as compared to 102 days for the year ended 31 December 2006, mainly attributable to the increase of creditors as a result of the increase of inventories. The Group settles most of its creditor balances with surplus cash.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total equity of the Group as at 31 December 2007 was RMB511 million (31 December 2006: RMB338 million). As at 31 December 2007, the Group had current assets of RMB434 million (31 December 2006: RMB372 million) and current liabilities of RMB297 million (31 December 2006: RMB256 million). The liquidity ratio was 1.46 as at 31 December 2007 as compared to 1.45 as at 31 December 2006. The Group generally finances its operations with internally generated funds and credit facilities provided by banks.

As at 31 December 2007, the Group had outstanding bank loans of RMB44.72 million of which RMB20.00 million were fixed-rate loans (31 December 2006: outstanding bank loans of RMB70.19 million of which RMB15.00 million were fixed-rate loans). As at 31 December 2007, the bank loan interest rates of the Group ranged from 4.132% to 6.561% per annum (For the year ended 31 December 2006, the bank loan interest rates of the Group ranged from 4.96% to 7.07% per annum). Some of those bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's gearing ratio (being the total borrowings including bills payable and bank loans divided by total assets) decreased from approximately 27% as at 31 December 2006 to approximately 21% as at 31 December 2007.

As at 31 December 2007, approximately 45% of the total amount of outstanding bank loans of the Group was in Renminbi (31 December 2006: 43%) and approximately 55% in Hong Kong Dollars (31 December 2006: 57%). As at 31 December 2007, approximately 44% of the total amount of cash and cash equivalents of the Group was in Renminbi (31 December 2006: 39%), approximately 44% of its cash and cash equivalents was in Hong Kong Dollars (31 December 2006: 55%) and approximately 12% of its cash and cash equivalents was in US Dollars (31 December 2006: 6%).

The Group's liquidity position remains stable and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion. The Group's transactions and monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2007. During the year ended 31 December 2007, the Group did not employ any material financial instrument for hedging purposes.

In September 2007, the Company completed the issue of a total of 20,000,000 shares at a placing price of HK$3.40 per share. Net proceeds were approximately HK$65,830,000, which were mostly used for the acquisition of 49% of the equity interest and the corresponding portion of the shareholder's loans of OCT Investments Limited. OCT Investments Limited holds 25% equity interest in Chengdu OCT.

In October 2007, the Company issued 26,000,000 shares to Pacific Climax Limited at an issuing price of HK$3.40 per share, as part of the consideration for the acquisition of 49% equity interest and the corresponding portion of the shareholder's loans of OCT Investments Limited.

As a result of the above, the Company's total issued share capital increased to 246,000,000 Shares as at 31 December 2007.

ACQUISITION AND DISPOSAL

Acquisition of a piece of land in Huizhou – On 19 March 2007, Huizhou Huali, a wholly-owned subsidiary of the Company, acquired the land use rights of a piece of land in Huizhou at a consideration of RMB62,313,000 (equivalent to approximately HK$62,835,000). A new Huizhou production base of the Group would be built on the land and the Company also considered relocating the Group's operation in Shenzhen to the new production base gradually in a few years. It is expected that the production capacity of the Group will be enhanced accordingly.

Disposal of 100% equity interest in Mission Holdings Services Limited ("Mission Holdings") – On 8 May 2007, the Group entered into an equity transfer agreement to dispose 100% equity interest in Mission Holdings at a consideration of HK$9,920,000 (equivalent to approximately RMB9,780,000) and Mission Holdings ceased to be a subsidiary of the Company after completion of the transaction. The sole business of Mission Holdings is to hold 85% interest in Mudanjiang Huali Packaging Company Limited ("Mudanjiang Huali"). Since Mudanjiang Huali is situated at a relatively remote location, and the Group is planning to focus its business on more economically-developed cities in the PRC, the Directors consider it is in the Group's long term interest in disposing Mission Holdings at a premium.

Disposal of properties – On 11 July 2007, Shenzhen Huali, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Overseas Chinese Town Real Estate Company Limited ("OCT Properties"), pursuant to which Shenzhen Huali sold its properties consisting of 2 factory buildings to OCT Properties at an aggregate consideration of RMB50,600,000. OCT Properties is a non-wholly owned subsidiary of OCT Group, which is the ultimate controlling shareholder of the Company. The properties are now used for the production and operation by Shenzhen Huali. Both parties also entered into a tenancy agreement on the same date, pursuant to which the properties would be leased back to Shenzhen Huali at a monthly rental of approximately RMB263,824 commencing from the date OCT Properties having obtained the title of the properties and ending on 31 December 2009. The annual caps for each of the financial years ended 2008 and 2009 are approximately RMB3,166,000 and RMB3,166,000 respectively. As a result, the Group can still maintain the production in its premises in Shenzhen before the production facilities of Shenzhen Huali are relocated to the production base in Huizhou. As at 31 December 2007, the procedure of transferring title of the properties was in process and the tenancy agreement would commence when the real estate title certificate concerning the properties being issued in the name of OCT Properties.

Acquisition of 49% equity interest in OCT Investments Limited ("OCT Investments") – On 21 August 2007, the Company entered into a share transfer agreement with Overseas Chinese Town (HK) Company Limited ("OCT (HK)"), pursuant to which the Company acquired 49% equity interest in OCT Investments, a wholly-owned subsidiary of OCT (HK), and the corresponding portion of shareholder's loans owed by OCT Investments to OCT (HK) at an aggregate consideration of HK$140,000,000, out of which HK$88,400,000 had been satisfied by the Company to issue and allot a total of 26,000,000 shares at an issue price of HK$3.40 per share to Pacific Climax Limited, a controlling shareholder of the Company and a wholly owned subsidiary of OCT (HK). Upon completion, the Company holds 49% interest in OCT Investments, which in turn holds 25% equity interest in Chengdu OCT. The Company considers that the acquisition will facilitate the Group to expand its business scope and explore potential profits sources, which is beneficial to the Company's long term development.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2007, the Group employed approximately 1,860 full-time staff members. The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance, and equal opportunities will be offered to all staff. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for many years.

The Group adopted a share option scheme at the time of its initial public offering. As at the date of this report, the Company granted a total of 19,300,000 share options under the scheme.

CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2007.

DIRECTORS

Executive Directors

Mr. Zheng Fan, aged 52, is the Chairman of the Company and also the chairman of the board of directors of OCT (HK), the intermediate holding company of the Company. He had been a director of Shenzhen Huali from April 2002 to July 2006. Currently, Mr. Zheng is the Vice president of OCT Group, the ultimate controlling shareholder of the Company, and a director of Shenzhen Overseas Chinese Town Holding Company, a company whose shares are listed on the Shenzhen Stock Exchange and Shenzhen OCT East Co. Ltd. Since 1994, Mr. Zheng has held various senior positions at OCT Group and its subsidiaries.

Mr. Ni Zheng, aged 40, is the Chief Executive Officer of the Company. He has been a director of Shenzhen Huali since 1999. Mr. Ni is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company (except Huali Holdings Company Limited) and the following PRC incorporated subsidiaries of the Company: Shenzhen Huali, Shanghai Huali, Huizhou Huali and Shenzhen Huayou Packaging Co., Ltd ("Shenzhen Huayou"). Mr. Ni is a director of Pacific Climax Limited, the immediate holding company of the Company, and a director of OCT (HK), the intermediate holding company of the Company. Mr. Ni is also a director of various subsidiaries of OCT (HK), and a director of Chengdu OCT, a subsidiary of OCT Group and a company in which the Company indirectly holds 12.25% interest. He had been the deputy general manager and general manager of investment department of OCT Group. Mr. Ni graduated from the department of Applied Physics of Chongqing University and obtained a bachelor's degree in Science and a master degree in Engineering in 1988 and 1991, respectively.

Ms. Xie Mei, aged 40, joined the Group in December 2004. Ms. Xie is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company and the following PRC incorporated subsidiaries of the Company: Shenzhen Huali, Huizhou Huali and Shenzhen Huayou. Ms. Xie has been a vice-supervisor and supervisor of the strategic development department of OCT Group. Ms. Xie is currently a director of Inter Continental, Shenzhen, a subsidiary of OCT Group. Ms. Xie graduated from the Department of Electrical Engineering of Xi' an Jiaotong University and obtained a bachelor's degree in Engineering in1989. She also obtained a master degree in Economics from the People's University of the PRC in 1999. Ms. Xie was appointed as a non-executive Director in September 2005 and was re-designated as an executive Director in August 2007.

Mr. Zhou Guangneng, aged 56, has participated in the Group's management since January 2002. Currently, Mr. Zhou is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company and Zhongshan Huali Packaging Co., Ltd, a PRC incorporated subsidiary of the Company. He is also a director of various subsidiaries of OCT (HK). Mr. Zhou is also the deputy general manager of OCT (HK) and a director of Pacific Climax Limited, the immediate holding company of the Company. Mr. Zhou graduated from the Department of Physics of Nanjing University in 1978, and obtained a master degree in Science in 1982. Mr. Zhou has 20 years of experience in corporate management and has held various senior positions in subsidiaries of Shenzhen Electronics Group Co., Ltd.

Independent Non-Executive Directors

Ms. Wong Wai Ling, aged 47, joined the Group in April 2007. She received a bachelor degree of Arts from The University of Hong Kong and a postgraduate diploma in Accounting and Finance from the London School of Economics and Political Science, University of London, in the United Kingdom. Ms. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She has 20 years of rich experience in accounting, taxation and auditing. She had worked for more than seven years in major international accounting firms and major local accounting firms before she set up her own accounting firm in Hong Kong in 1994. Since then, she has been practicing as a Certified Public Accountant. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies - Galaxy Semi-Conductor Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Chen Xiangdong, aged 48, joined the Group in September 2005. Mr. Chen is the general manager of China Printing (Group) Corporation. He joined China National Packaging Corporation in 1988 and has over 20 years of experience in the packaging industry. Mr. Chen graduated from the Department of Automated Control of Northeast China Institute of Heavy Machinery (now known as Yanshan University) and obtained a bachelor's degree in Engineering in 1983. He also obtained a master degree in Engineering majoring in Industrial Management Engineering at Harbin Institute of Technology in 1986.

Mr. Xiao Yongping, aged 42, joined the Group in September 2005. He is an arbitrator of China International Economic and Trade Arbitration Commission, and the vice chairman of China International Private Law Association. Mr. Xiao obtained a doctoral degree in Law at Wuhan University in 1993. At present, he is the dean of the Law School of Wuhan University and a professor in the Law Faculty at Northwest University of Political Science & Law.

SENIOR MANAGEMENT

Mr. Zhang Xiaojun, aged 38, has been with the Group since 1993, and is currently the deputy general manager of the Company. Mr. Zhang supervised the daily operation of Shenzhen Huali from 2002 to June 2007. He is currently a director of various subsidiaries of the Company. Mr. Zhang graduated from Zhuzhou Institute of Technology of Hunan (now known as Hunan University of Technology) majoring in Printing Technology where he obtained his bachelor's degree in Engineering.

Mr. Fong Fuk Wai, aged 45, is the chief financial officer, company secretary and qualified accountant of the Company, and also serves as a director of Huali Holdings Company Limited ("Hong Kong Huali"), a wholly-owned subsidiary of the Company. He joined the Group in January 2005. Mr. Fong graduated from the Hong Kong Polytechnic University and obtained his bachelor's degree in Accountancy in 1994, and obtained a master degree in business administration at the Chinese University of Hong Kong in 1999. Prior to joining the Group, he had been a manager of a group member of a public listed company in Hong Kong, providing group audit and management services. Mr. Fong is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and is also an associate member of the Institute of Chartered Accountants in England and Wales.

The Company believes that good corporate governance and strictly compliance with the Code on Corporate Governance Practices are very important in maintaining and enhancing the investors' confidence and the return to the shareholders, and can also increase long-term share value. Therefore, the Company is committed to implementing a high standard of corporate governance and emphasises good communication with shareholders and investors with a view to continuously improving the Company's transparency. This includes timely, comprehensive and accurate disclosure of information to safeguard the shareholders' interest and to raise long-term share value.

During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

BOARD OF DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company manages the Company's affairs on behalf of shareholders and is responsible for the leadership and governance of the Company. The Board is also responsible for the Company's business, financial performance and preparation of financial statements. The Board formulates the strategy, policy and business plan of the Group, controls corporate risks, monitors the operation and financial performance of the Company. The Board is directly responsible to shareholders and delegates powers and responsibilities to the management led by the Chief Executive Officer of the Company to carry out the daily management and operation of the Group. The Board comprises seven members, including four Executive Directors and three Independent Non-Executive Directors.

The Company has a separate Chairman and Chief Executive Officer. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Zheng Fan, the Chairman, is responsible for the operation of the Board and the formulation of the Company's strategies and policies. Mr. Ni Zheng, the Chief Executive Officer, with the assistance of other members of the Board and senior management, is responsible for the management of the Company's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation.

Independent Non-Executive Directors comprise experienced professionals and businessmen. They have profound expertise and experience in the legal, accounting, financial, industrial and commercial aspects. They ensure the Board has attained the strict standards in the financial and other statutory reporting areas and they provide sufficient balance to safeguard the interests of the shareholders and the Company as a whole.

In order to assist the Directors to carry out their duties, the Board has set out terms of reference, enabling the Directors to seek independent professional advice upon reasonable request under appropriate circumstances and the fees are payable by the Company.

Corporate Governance Report

As at the date of this report, the Directors of the Company are as follows:

Executive Directors

Mr. Zheng Fan, the Chairman of the Board

Mr. Ni Zheng, the Chief Executive Officer of the Company

Ms. Xie Mei

Mr. Zhou Guangneng

The above executive Directors have entered into service agreements with the Company with a term of three years starting from the listing date, subject to termination provisions therein. Ms. Xie Mei has been re-designated from a non-executive Director to an executive Director with effect from 20 August 2007. During her service as a non-executive Director, Ms. Xie had entered into a service agreement with the Company for a term of three years commencing from 2 November 2005, subject to early termination pursuant to the termination provisions therein. Ms. Xie serves as an executive Director for the remaining term of services.

Independent Non-Executive Directors

Ms. Wong Wai Ling

Mr. Chen Xiangdong

Mr. Xiao Yongping

The above independent non-executive Directors have entered into service agreements with the Company with a term beginning from 26 April 2007 and ending at the conclusion of the 2007 annual general meeting to be held in 2008, subject to termination provisions therein. Among the independent non-executive Directors, Ms. Wong Wai Ling, chairman of the Audit Committee and the Remuneration Committee, is a fellow member of Hong Kong Institute of Certified Public Accountants and has more than 20 years' experience in accounting and finance.

The biographies of all Directors are set out in the Annual Report on pages 11 to 12.

The Company has not established a Nomination Committee. The Board will evaluate the independence of all independent non-executive Directors each year and make sure that they comply with the independence requirement of the Listing Rules. All members of the Board are not related to one another in all aspects, including finance, family and business.

THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a Nomination Committee. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

At the annual general meeting held on 26 April 2007, Ms. Wong Wai Ling was appointed as an independent non-executive Director and Mr. Chen Xiangdong and Mr. Xiao Yongping were re-elected as independent non-executive Directors. At a board meeting held on 20 August in the same year, the Board accepted the resignation of Mr. Liu Danlin as an executive Director of the Company, and re-designated Ms. Xie Mei from a non-executive Director to an executive Director and Mr. Chen Xiangdong acted as a member of the Audit Committee and the Remuneration Committee in place of Ms. Xie Mei.

In accordance with the articles of association of the Company, every Director should be subject to retirement by rotation at least once every three years. According to the service contracts entered into by each of the independent non-executive Directors with the Company, the term of service of each of the independent non-executive Directors commenced from 26 April 2007 (being the date of the 2006 annual general meeting of the Company) and shall expire on the date of the forthcoming annual general meeting of the Company, and, being eligible, can offer themselves for re-election. Accordingly, all the Directors of the current Board will retire from office at the 2007 annual general meeting and, being eligible, will offer themselves to be re-elected.

PROCEDURES OF BOARD MEETINGS

The Board has established meeting procedures and has complied with the code provisions of the Code. The procedures of board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. Directors can express different opinions at board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of board meetings and other committee meeting will be drafted by the Company Secretary and will be sent to all members for their comment and record respectively. Directors are entitled to inspect the minutes at any time.

NUMBER OF BOARD MEETINGS HELD AND THE ATTENDANCE OF DIRECTORS

The Board convened nine meetings in the year ended 31 December 2007. The attendances of the meetings of the Board, the Audit Committee and the Remuneration Committee are as follows:

	Number of meetings attended		
Name of Directors	**The Board**	**Audit Committee**	**Remuneration Committee***
Zheng Fan	8/9	N/A	N/A
Ni Zheng	9/9	N/A	N/A
Xie Mei	8/9	1/2	1/1
Zhou Guangneng	9/9	N/A	N/A
Liu Danlin	7/9 *(Note 1)*	N/A	N/A
Wong Wai Ling	5/9 *(Note 2)*	1/2	0/1
Chen Xiangdong	8/9	1/2	0/1
Xiao Yongping	8/9	2/2	1/1
Lee Kit Wah	3/9 *(Note 3)*	1/2	1/1

Note 1: Mr. Liu Danlin resigned as an executive Director on 20 August 2007. Prior to that date, seven Board meetings had been held and Mr. Liu had attended all the meetings.

Note 2: Ms. Wong Wai Ling has been appointed as an independent non-executive Director of the Company starting from 26 April 2007. Thereafter, six Board meetings had been held for the year ended 31 December 2007 and Ms. Wong had attended five out of the six meetings.

Note 3: Mr. Lee Kit Wah resigned as an independent non-executive Director of the Company on 26 April 2007. Prior to that date, three Board meetings, one Audit Committee meeting and one Remuneration Committee meeting had been held and Mr. Lee had attended all the meetings.

* The Remuneration Committee had held one meeting before 31 December 2007 and the members then comprised Mr. Lee Kit Wah, Ms. Xie Mei and Mr. Xiao Yongping.

SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

The Board has established the following committees and formulated their terms of reference.

AUDIT COMMITTEE

The Audit Committee consists of three members, including three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping, with Ms. Wong Wai Ling being the chairman of the Audit Committee.

The main areas of responsibilities of the Audit Committee are as follows:

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment or removal of the external auditors, and to approve remuneration and terms of engagement of the external auditors;

2. Reviewing of internal control and monitoring the work of internal audit department;

3. Reviewing the financial reporting statements of the Company, the Company's annual reports and accounts, interim reports and quarterly reports (if any);

4. Examining financial statements and reporting to the Board for any significant opinions in relation to financial reporting;

5. Conferring with the auditors on any problems or matters of doubt arising from the audit process, as well as other issues the auditors may like to discuss (if necessary, such discussions could be undertaken in the absence of the management);

6. Reviewing correspondences addressed to the management by the auditors and responses from the management.

The Audit Committee held two meetings during the year ended 31 December 2007, at which the Audit Committee reviewed and discussed the financial results and reports, compliance procedures, the internal audit department's report regarding the reviewing and procedures of the internal control and risk management of the Company, and the re-appointment of the external auditor.

The Audit Committee has reviewed this annual report, and confirms that it is complete and accurate and complies with the Listing Rules.

REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, including three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping, with Ms. Wong Wai Ling being the chairman of the Remuneration Committee.

The main areas of responsibilities of the Remuneration Committee are as follows:

1. The Committee should consult Chairman of the Board on remuneration recommendations concerning other executive Directors;

2. The Committee should put forward recommendations to the Board on matters relating to the overall remuneration policy and structure for the Directors and senior managerial staff of the Company, as well as finalizing a formal and transparent remuneration policy;

3. With authority delegated by the Board, the Committee should finalise the compensation packages for all the executive Directors and senior managerial staff and put forward recommendations to the Board on remuneration for non-executive Directors;

4. Reviewing and approving compensations paid to executive Directors and senior managerial staff, who have their service contracts terminated or whose contracts are not renewed, in order to ensure that the compensations are paid in accordance with relevant contractual terms.

The Remuneration Committee held one meeting during the year ended 31 December 2007, at which the Remuneration Committee reviewed and discussed the remuneration policy and structure of the Company and the remuneration of the executive Directors in the year under review.

INTERNAL CONTROL

The Company has an internal audit department which is independent of other departments. The internal audit department has the authority to inspect the Group's risk management network, and the control and governance processes in order to assess the relevant situations. The department conducts a review on every subsidiary once a year, and reports and makes recommendation to the management of the Company in respect of the review. Besides, the department also regularly reviews all the businesses, the supporting teams and matters relating to work approach, procedure, expenses and internal control measures of the Company's subsidiaries. The department will also conduct ad hoc reviews and investigations when necessary. The internal audit department reports directly to the Audit Committee.

During the year under review, the Board examined the effectiveness of the internal control system of the Company through the Audit Committee.

FINANCIAL REPORTING

The Directors are responsible for overseeing the preparation of the financial statements, to ensure the annual report giving a true and fair view of the Group's state of affairs, the results and cash flow for the year. In preparing the financial statements for the year ended 31 December 2007, the Directors have:

- selected suitable accounting policies and applied them consistently; and
- made judgements and estimates that are prudent and reasonable.

The Company recognises that high quality corporate reporting is very important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. In order to have timely and effective communications between the Company and its Shareholders, the annual results of the Company are announced in a timely manner within the limit of 4 months after the financial year end.

The auditors' responsibilities are set out in the Auditors' Report on page 35.

Through the Audit Committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The Audit Committee considers that the Company and its subsidiaries have established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Company's operations. The Board considers that the Company has complied with the code provisions on internal control of the Code.

DIRECTORS' REMUNERATION

The Group paid total Directors' remuneration amounts of approximately RMB621,000, RMB120,000, RMB421,500, RMB78,000, RMB1 and RMB117,000 to Mr. Ni Zheng, Ms. Xie Mei, Mr. Zhou Guangneng, Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping respectively for the year ended 31 December 2007. Mr. Lee Kit Wah, who resigned as an independent non-executive Director on 26 April 2007, had received remuneration of approximately RMB39,000 for his services during the period from 1 January 2007 up to 26 April 2007. Mr. Liu Danlin, who resigned as an executive Director on 20 August 2007, had received remuneration of approximately RMB272,000 for his services during the period from 1 January 2007 up to 20 August 2007. Mr. Zheng Fan did not receive any basic remuneration from the Group for the year ended 31 December 2007.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2007, there was no arrangement in which Directors waived their remuneration.

SECURITIES TRADING BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules ("Model Code"). The Board confirms that, having made detailed enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code by the Company.

FINANCIAL OFFICER

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Officer will review the control of financial risks of the Group and provide advices thereon to the Board.

COMPANY SECRETARY

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long-term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's investor relationship.

EXTERNAL AUDITORS

The Group's external auditors are KPMG. The remuneration paid to the external auditors in 2007 comprised fees for audit services of RMB1.90 million and fees for tax compliance and advisory work of RMB90,000.

The responsibilities of the auditors to the shareholders are set out on page 35 in this annual report.

INVESTORS RELATIONSHIP

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels, such as press conference and seminars, to communicate with the media, analysts and fund managers. Designated senior management staff holds dialogue with analysts, fund managers and investors, who are also arranged to visit the Company from time to time, so as to keep them abreast of the Group's latest developments. In addition, investors can also visit the Company's website at www.oct-asia.com for the most updated information and the status of the business development of the Group.

COMMUNICATION WITH SHAREHOLDERS

The Board and senior management recognise the responsibility of safeguarding the interest of shareholders of the Company. The Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Group's website. The Company acknowledges that it is very important to have good communication with shareholders. The annual general meetings are an appropriate forum for direct communication between the Board and shareholders. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings. In addition, the Company welcomes shareholders to give their valuable opinions and suggestions to the Company, and the Group has designated staff responsible for maintaining the communication between the Board and shareholders.

Directors' Report

The Board has pleasure in submitting the Annual Report together with the audited financial statements for the year ended 31 December 2007.

PRINCIPAL PLACE OF BUSINESS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 February 2005. Its registered office and principal place of business are at Clifton House, 75 Fort street, PO Box 1350 GT, George Town, Grand Cayman, Cayman Islands and Rooms 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsimshatsui, Kowloon, Hong Kong respectively.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are design and manufacture of quality paper-based packaging materials and containers, including corrugated paperboard and printed cartons.

RESULTS AND DISTRIBUTIONS

The results of the Group for the year are set out in the consolidated income statement on page 37.

The Directors consider that dividends to be declared during the year or declarable in future by the Group will be decided by the Board in discretion. The factors that the Board will take into consideration include (among others) distributable profits, the Group's profits, financial position, capital requirements and other factors which the Directors may deem relevant at the time. Undistributed profits will be used to provide funds for the Group's continued growth and business expansion. Subject to the above, the Directors propose distribution of a dividend of HK5.7 cents per share for the year ended 31 December 2007 (2006: HK6.4 cents per share).

MAJOR ACQUISITION

In March 2007, Huizhou Huali, an indirect wholly-owned subsidiary of the Company, entered into a transfer agreement with Guangdong Yonghe Pharmaceuticals Development Limited, an independent third party, to acquire the land use rights of a piece of land in Huizhou at a final consideration of RMB62,313,000 (equivalent to approximately HK$62,835,000).

In October 2007, the Company acquired 49% equity interest in OCT Investments, a wholly-owned subsidiary of OCT (HK), and corresponding portion of shareholder's loans owed by OCT Investments to OCT (HK) at an aggregate consideration of HK$140,000,000. OCT Investments in turn holds 25% equity interest in Chengdu OCT. Therefore, after completion of the said acquisition, the Company indirectly holds 12.25% equity interest in Chengdu OCT, and OCT Investments became an associated company of the Company.

FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2007 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 37 to 102.

PROPOSED FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK5.7 cents per share for shareholders whose names appear on the Register of Members of the Company on 23 April 2008. The Register of Member will be closed from 23 April 2008 to 25 April 2008, both days inclusive, and the proposed final dividend is expected to be paid on 26 June 2008. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on 25 April 2008. In order to be qualified for attending the Annual General Meeting and the proposed dividend, shareholders should deliver share certificates together with transfer documents to the Company's branch share registrar for registration not later than 4:30 pm on 22 April 2008.

CHARITABLE DONATIONS

No charitable donations were made by the Group during the year.

TRANSFERS TO RESERVES

Profits attributable to shareholders before dividends of RMB38.36 million (2006: RMB33.00 million) have been transferred to reserves. Other movements in the reserves are set out in note 27 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group invested approximately RMB32 million for the acquisitions of property, plant and equipment (including construction in progress). Details of the movements of property, plant and equipment, and construction in progress are set out in notes 12 and 13 to the financial statements.

SHARE CAPITAL

In September 2007, the Company issued a total of 20,000,000 shares at a placing price of HK$3.40 per share. Net proceeds were approximately HK$65,830,000, which were mostly used for the acquisition of the equity interest and the corresponding portion of shareholders' loan in OCT Investments.

In October 2007, the Company issued 26,000,000 Shares to Pacific Climax Limited at an issuing price of HK$3.40 per share as part of the consideration for the acquisition of 49% equity interest and the corresponding portion of shareholders' loan in OCT Investments.

As a result of the above, the Company's total issued share capital increased to 246,000,000 shares as at 31 December 2007.

Details of the movements in share capital of the Company during the year are set out in note 27 to the financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2007 amounted to RMB488 million.

PRE-EMPTIVE RIGHTS

There was no provision in respect of pre-emptive rights in the articles of association of the Company, nor any requirement in the laws of the Cayman Islands requiring the Company to issue new shares to the existing shareholders proportionately.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not purchased its own listed shares during the reporting period. During the period, save as disclosed in this Annual Report, the Company or any of its subsidiaries has not purchased or sold or redeemed any of the listed shares in the Company.

MATERIAL CONTRACTS

Save as disclosed in this Annual Report, no contract of significance has been entered into during the reporting period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

SERVICE CONTRACTS

No Director has an unexpired service contract which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

DIRECTORS

The Directors of the Company during the year were as follows:

Executive Directors:

Mr. Zheng Fan *(Chairman)*	
Mr. Ni Zheng	
Ms. Xie Mei	(re-designated from a non-executive director to an executive director on 20 August 2007)
Mr. Zhou Guangneng	
Mr. Liu Danlin	(resigned on 20 August 2007)

Independent non-executive Directors:

Ms. Wong Wai Ling	(appointed on 26 April 2007)
Mr. Chen Xiangdong	
Mr. Xiao Yongping	
Mr. Lee Kit Wah	(resigned on 26 April 2007)

In accordance with the articles of association of the Company and the service contracts entered into by the non-executive Directors with the Company, Mr. Zheng Fan, Mr. Ni Zheng, Ms. Xie Mei, Mr. Zhou Guangneng, Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping shall retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Annual Report, no contract of significance in relation to the Group's business to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

PERSONAL BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Personal biographies of Directors and senior management are set out on pages 11 to 12.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the 2007 financial year up to and including the date of this report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

Long position in Ordinary Shares of the Company

Name	Capacity/Nature	No. of shares involved	Approximate shareholding percentage
Ni Zheng	Beneficial owner	2,000,000	0.81%
Zhou Guangneng	Beneficial owner	1,700,000	0.69%

Note: Ni Zheng and Zhou Guangneng are interested as grantees of options to subscribe for 2,000,000 Shares and 1,700,000 Shares, respectively, under the Share Option Scheme of the Company.

Save as disclosed above, as at 31 December 2007, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2007, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

Long Position in Ordinary Shares of the Company

Name	Capacity/Nature	No. of shares held	Approximate shareholding percentage
Substantial Shareholders			
Pacific Climax Limited	Beneficial owner	160,370,000	65.19%
Overseas Chinese Town (HK) Company Limited ("OCT (HK)")	Interest of a controlled corporation *(Note 1)*	160,370,000	65.19%
Overseas Chinese Town Enterprises Company ("OCT Group")	Interest of a controlled corporation *(Note 2)*	160,370,000	65.19%
Others			
Polyfairz Group Limited (formerly known as Polyfair Limited)	Beneficial owner	15,630,000	6.35%
Zhang Zhilin	Interest of a controlled corporation *(Note 3)*	15,630,000	6.35%
Tang Qinmei	Interest of spouse *(Note 4)*	15,630,000	6.35%

Notes:

(1) OCT (HK) is the beneficial owner of all the issued share capital in Pacific Climax Limited. Therefore, OCT (HK) is deemed, or taken to be interested in these shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO.

(2) OCT Group is the beneficial owner of all the issued shares in OCT (HK) (OCT Group holds 454,999,998 shares in OCT (HK) in its own name. Mr. Zheng Fan, an Executive Director, and Mr. Guo Yubin hold one share each in OCT (HK) on trust for OCT Group) and which is in turn the beneficial owner of all the issued share capital in Pacific Climax Limited and therefore OCT Group is deemed, or taken to be, interested in the 160,370,000 shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO.

(3) Polyfairz Group Limited (formerly known as Polyfair Limited) is beneficially owned as to 90% by Mr. Zhang Zhilin and thus a controlled corporation of Mr. Zhang Zhilin, and Mr. Zhang Zhilin is deemed, or taken to be, interested in the 15,630,000 shares which are beneficially owned by Polyfairz Group Limited for the purpose of the SFO.

(4) Ms. Tang Qinmei is the spouse of Mr. Zhang Zhilin. Therefore, Ms. Tang Qinmei is deemed, or taken to be, interested in all the shares in which Mr. Zhang Zhilin is interested for the purpose of the SFO.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	10%	
Five largest customers in aggregate	32%	
The largest supplier		13%
Five largest suppliers in aggregate		41%

Other than OCT Group, the ultimate controlling company of the Company which indirectly owns 65.19% of the total issued shares of the Company, owns a 15.94% stake in Konka Group Co., Ltd., the largest customer of the Group in 2007, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers or customers.

CONNECTED TRANSACTIONS

During the year, the following continuing connected transactions (the "Connected Transactions") have been entered into by the Group to which the Stock Exchange has granted waiver to the Company from strict compliance with the announcement and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules:

1. On 26 April 2005, OCT Properties (as lessor) entered into a tenancy agreement with Shenzhen Huali (as lessee), a wholly-owned subsidiary of the Company, for a term from 26 April 2005 to 31 December 2007.

   OCT Properties is a non-wholly owned subsidiary of OCT Group, the ultimate controlling shareholder of the Company. OCT Properties is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements under the above tenancy agreement constitute continuing connected transactions.

2. Shenzhen Huali purchases printed instruction manuals, brochures or similar publications from Panyu Huali Youde Offset Printing & Packaging Company Limited ("Panyu Huali"). On 9 September 2005, a sale and purchase agreement was entered into between Shenzhen Huali and Panyu Huali for a period commencing from the date of agreement to 31 December 2007.

   OCT Group, the ultimate shareholder of OCT (HK), holds 80% equity interest in Shenzhen OCT International Hotel Management Co., Ltd. (formerly known as Shenzhen OCT Xinqiao Industry Development Co., Ltd.), which in turn directly holds 51% equity interest in Panyu Huali and directly holds 90% equity interest in Shenzhen OCT City Inn Company Limited, a company holding 49% equity interest in Panyu Huali. As such, Panyu Huali is a connected person within the meaning of the Listing Rules. Accordingly, the above purchase arrangements constitute continuing connected transactions.

3. On 25 April 2005, Shenzhen Overseas Chinese Town Water and Electricity Company ("OCT Electricity") and Shenzhen Huali entered into a utilities agreement for a term commencing from the date of agreement to 31 December 2007. Under the agreement, Shenzhen Huali has agreed to pay the water (including sewage charges) and electricity charges incurred for the premises owned or rented by Shenzhen Huali located in Huaqiaocheng, Shenzhen. The calculation of the electricity and water charges are based on meter reading of separate meters installed by Shenzhen Huali. The water, sewage and electricity tariffs charged by OCT Electricity follow the standard charges set by the government authorities.

   OCT Electricity is a state-owned enterprise and OCT Group, the ultimate shareholder of OCT (HK), is directly interested in 100% of the registered capital of OCT Electricity. OCT Electricity is a connected person within the meaning of the Listing Rules. Accordingly, the arrangements under the utilities agreement constitute continuing connected transactions.

4. The Group, in particular Shenzhen Huali, sells cartons to OCT Group and a number of its associated companies (being such companies in the equity capital of which OCT Group is directly or indirectly interested so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or to control the composition of a majority of the board of directors). A sale and purchase agreement was entered into between Shenzhen Huali and OCT Group on 9 September 2005 for an initial period commencing from the date of the agreement to 31 December 2007.

   OCT Group is the ultimate shareholder of OCT (HK), which is the immediate holding company of the Company. Pursuant to the Listing Rules, each of OCT Group and its associated companies is a connected person to the Company. Accordingly, the arrangements under the above sales and purchase agreement constitute continuing connected transactions under the Listing Rules.

5. Shanghai Huali sells cartons to Shanghai Meiling Center Air Conditioner Co., Ltd. ("Meiling Air Conditioner"). A sales and purchase agreement was entered into between Shanghai Huali and Meiling Air Conditioner on 9 September 2005 for an initial period commencing from the date of the agreement to 31 December 2007.

Mr. Zhang Zhi Lin, a director of Shanghai Huali, a subsidiary of the Company, owns 79.08% equity interest in Shanghai Huiyang Industry Co., Ltd., which in turn owns 50% equity interest in Meiling Air Conditioner. Pursuant to the Listing Rules, Meiling Air Conditioner is a connected person to the Company. Accordingly, the sale arrangements stated above constitute continuing connected transactions under the Listing Rules.

6. Mudanjiang Huali Packaging Company Limited ("Mudanjiang Huali") was a subsidiary of the Company prior to the disposal of the entire interest in Mission Holdings by the Group pursuant to an equity transfer agreement dated 8 May 2007. Mudanjiang Huali purchased paper from Mudanjiang Nanhua Hesheng Paper Co., Ltd. ("Mudanjiang Nanhua"). On 9 September 2005, a sale and purchase agreement was entered into between Mudanjiang Huali and Mudanjiang Nanhua for a period commencing from the date of agreement to 31 December 2007.

   Mudanjiang Nanhua owned a 15% stake in Mudanjiang Huali. Pursuant to the Listing Rules, the above purchasing arrangement constituted a continuing connected transaction as long as Mudanjiang Huali remained as a subsidiary of the Company.

   After completion of the disposal of the entire interest in Mission Holdings by the Group, Mudanjiang Huali ceased to be a subsidiary of the Company, and the above transaction was no longer a connected transaction of the Company under the Listing Rules.

The particulars of the connected transactions are as follows:

Particulars of the connected transactions	**Transaction amount for the year ended 31 December 2007** (RMB'000)	**Cap amount for the year ended 31 December 2007** (RMB'000)
Tenancy agreement between OCT Properties (as lessor) and Shenzhen Huali (as lessee)	1,701	1,713
Purchase of booklets by Shenzhen Huali from Panyu Huali	663	3,000
Electricity supply arrangement between OCT Electricity and Shenzhen Huali	3,603	5,500
Sales of cartons by the Group to OCT Group and its associated companies	952	1,850
Sales of cartons by Shanghai Huali to Meiling Air Conditioner	8,370	12,000
Purchase of paper by Mudanjiang Huali from Mudanjiang Nanhua (up to 20 May 2007, being the date of completion of the disposal of the entire interest in Mission Holdings held by the Group)	547	5,000

The Directors confirm that the Company complied with the disclosure requirements in Chapter 14A of the Listing Rules.

The following continuing connected transaction has also been entered into by the Group, which involved an aggregate annual consideration of below HK$1.00 million and hence falls within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. Therefore, the following agreement is not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

On 18 April 2005, Shanghai Pudong Xiamei Plastics Co., Ltd. (as lessor) and Shanghai Huali (as lessee) entered into a tenancy agreement, pursuant to which Shanghai Huali agreed to lease from Shanghai Pudong Xiamei Plastics Co., Ltd., an office premise for a term effective from 1 April 2005 to 31 December 2008 at an annual rent of RMB180,000 (exclusive of water and electricity charges). Mr. Zhang Zhi Lin, the director of Shanghai Huali, owns 79.08% equity interest in Shanghai Huiyang Industry Co., Ltd. Shanghai Huiyang Industry Co., Ltd. owns 50% equity interest in Shanghai Pudong Xiamei Plastics Co., Ltd. Accordingly, Shanghai Pudong Xiamei Plastics Co., Ltd. is a connected person within the meaning of the Listing Rules, and the arrangements under the above tenancy agreement constitute continuing connected transactions under the Listing Rules.

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirm:

(1) the above transactions are in the ordinary course of business of the Company;

(2) the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favourable than that available from or provided by independent third parties (as the case may be); and

(3) the above transactions are entered into under the terms of the agreement in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

In addition, the Company's auditors have confirmed in writing to the Board, the above connected transactions:

(1) have received the approval of the Board;

(2) nothing had come to their attention which caused them to believe that:

- the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;

- the connected transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involve provision of goods by the Group; and

- the transaction amount occurred in 2007 for each of the connected transactions was not within the respective cap amount as disclosed in the Company's prospectus dated 24 October 2005.

The related party transactions are set out in note 30 to the financial statements. Apart from the Connected Transactions disclosed above, all the other related party transactions did not fall under the scope of "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In 2007, the Group (1) sold to OCT Properties, a connected person, its properties located at Chinese Overseas Town, Shenzhen, consisting of 2 factories and on the same date entered into a tenancy agreement with OCT Properties to lease back the properties; (2) acquired from OCT (HK), a connected person, 49% equity interest and shareholder's loans in OCT Investments. Details of the disposal, the lease back and acquisition are set out in the paragraph headed "Acquisition and Disposal" under the section headed "Management Discussion and Analysis" of this annual report, and were stated in the Company's announcement dated 13 July and 24 August 2007 in compliance with the requirements under Chapter 14A of the Listing Rules.

The Company entered into (and announced) the following continuing connected transactions ("Connected Transactions") in December 2007 in compliance with the requirements of Chapter 14A of the Listing Rules.

1. On 27 December 2007, OCT Porperties (as lessor) and Shenzhen Huali (as lessee) entered into a new tenancy agreement for a term from 1 January 2008 to 31 December 2010 at a monthly rental of RMB143,040 (exclusive of water and electricity charges, sanitary fees and property management fees) for various properties with a total area of 12,791 square meters;

2. On 27 December 2007, Shenzhen Huali and Panyu Huali entered into a new sale and purchase agreement for purchases of booklets by Shenzhen Huali from Panyu Huali, for a term of three years from 1 January 2008 to 31 December 2010 with an annual cap of RMB3,000,000 for each of the three years ending 31 December 2010;

3. On 27 December 2007, OCT Electricity and Shenzhen Huali entered into a new utilities agreement for a term of three years from 1 January 2008 to 31 December 2010 with an annual cap of RMB5,500,000 for each of the three years ending 31 December 2010;

4. On 27 December 2007, Shenzhen Huali and OCT Group entered into a new sales and purchase agreement for sales of cartons by the Shenzhen Huali to OCT Group and its associates, for a term of three years with effect from 1 January 2008 and ending on 31 December 2010 with an annual cap of RMB3,000,000, RMB3,000,000 and RMB3,140,000 for the three years ending 31 December 2010; and

5. On 27 December 2007, Shanghai Huali and Meiling Air Conditioner entered into a new sales and purchase agreement for sales of cartons by Shanghai Huali to Meiling Air Conditioner with an annual cap of RMB9,000,000 for each of the three years ending 31 December 2010.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2007 are set out in note 23 to the financial statements.

FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Company for the last five years is set out on pages 103 and 104 of the Annual Report.

RETIREMENT SCHEMES

The Group participates in two defined contribution retirement schemes which cover the Group's full-time employees. Particulars of these retirement schemes are set out in note 24 to the financial statements.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties.

AUDITORS

KPMG were first appointed as the auditors of the Company in 2005.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 12 October 2005 whereby the Directors are authorised, at their absolute discretion and on such terms as they may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe for shares of the Company. The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to the employees (full-time and part-time), directors, consultants and advisers of the Group and to promote the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 11 October 2015, unless terminated earlier by shareholders of the Company at general meeting.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

The subscription price of a share in respect of any particular option granted under the share option scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the share option scheme does not exceed 10% of the shares in issue at the date of approval of the share option scheme. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of securities available for issue under the share option scheme as at the date of this report was 19,300,000 shares which represented 7.85% of the issued share capital of the Company as at the date of this report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the share option scheme, in any 12-month period up to the date of grant shall not exceed 1% of the shares in issue.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The status of the share options granted up to 31 December 2007 are as follows:

Name and category of participants	Number of unlisted share options (physically settled equity derivatives) As at 1 January 2007	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	As at 31 December 2007	Date of grant of share options*	Exercise period of share options	Exercise price of share options** HK$	Share price of the Company as at the date of grant of share options*** HK$
Directors									
Ni Zheng	2,000,000	–	–	–	2,000,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Zhou Guangneng	1,700,000	–	–	–	1,700,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Liu Danlin (Note)	1,700,000	–	–	–	1,700,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
	5,400,000	–	–	–	5,400,000				
Other employees	13,900,000	–	–	–	13,900,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Total	19,300,000	–	–	–	19,300,000				

* Under the Company's share option scheme, there is no vesting period of the share options.

** The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options.

Note: Liu Danlin resigned as an executive Director on 20 August 2007.

Apart from the foregoing, at no time during the period prior to the date of the Annual Report was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

By order of the Board
Zheng Fan
Chairman

Hong Kong, 20 March 2008

Independent auditor's report to the shareholders of
Overseas Chinese Town (Asia) Holdings Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of Overseas Chinese Town (Asia) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 102, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
20 March 2008

Consolidated Income Statement

for the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Turnover	3	**739,907**	695,503
Cost of sales		**(654,846)**	(608,381)
Gross profit		**85,061**	87,122
Other revenue	4(a)	**28,276**	22,544
Other net loss	4(b)	**(3,836)**	(3,394)
Distribution costs		**(30,799)**	(32,562)
Administrative expenses		**(28,378)**	(30,125)
Other operating expenses		**(4,214)**	(756)
Profit from operations		**46,110**	42,829
Finance costs	5(a)	**(4,381)**	(3,552)
Share of losses from associates		**(484)**	–
Profit before taxation	5	**41,245**	39,277
Income tax	6	**(2,826)**	(5,970)
Profit for the year		**38,419**	33,307
Attributable to:			
Equity shareholders of the Company		**38,361**	32,999
Minority interests		**58**	308
Profit for the year		**38,419**	33,307
Dividends payable to equity shareholders of the Company attributable to the year:	10		
Final dividend proposed after the balance sheet date		**12,809**	12,675
Earnings per share (RMB)	11		
Basic		**0.18**	0.16
Diluted		**0.17**	0.16

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	12	**191,468**	179,884
Construction in progress	13	**921**	20,438
Goodwill	14	**24,937**	24,937
Lease prepayments	15	**72,169**	20,010
Interest in associate	17	**89,907**	–
Deferred tax assets	26(b)	**6,444**	2,878
		385,846	248,147
Current assets			
Non-current assets held for sale	18	**12,361**	–
Inventories	19	**91,866**	63,775
Trade and other receivables	20	**210,296**	135,858
Cash and cash equivalents	21	**119,292**	172,160
		433,815	371,793
Current liabilities			
Trade and other payables	22	**259,789**	207,009
Bank loans	23	**32,735**	43,664
Current taxation	26(a)	**4,333**	4,882
		296,857	255,555
Net current assets		**136,958**	116,238
Total assets less current liabilities		**522,804**	364,385
Non-current liabilities			
Bank loans	23	**11,986**	26,524
NET ASSETS		**510,818**	337,861

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Balance Sheet

at 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	27(a)	**25,260**	20,800
Reserves		**485,558**	315,362
Total equity attributable to equity shareholders of the Company	27	**510,818**	336,162
Minority interests		**–**	1,699
TOTAL EQUITY		**510,818**	337,861

Approved and authorised for issue by the board of directors on 20 March 2008.

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) Directors
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The notes on pages 45 to 102 form part of these financial statements.

Balance Sheet

at 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Non-current assets			
Investments in subsidiaries	16	**248,970**	248,970
Investment in associate	17	**90,391**	–
Property, plant and equipment	12	**22**	122
		339,383	249,092
Current assets			
Trade and other receivables	20	**202,702**	53,891
Cash and cash equivalents	21	**10,524**	51,981
		213,226	105,872
Current liabilities			
Trade and other payables	22	**14,713**	3,754
Bank loans	23	**12,735**	13,664
		27,448	17,418
Net current assets		**185,778**	88,454
Total assets less current liabilities		**525,161**	337,546
Non-current liabilities			
Bank loans	23	**11,986**	26,524
NET ASSETS		**513,175**	311,022
CAPITAL AND RESERVES			
Share capital	27(a)	**25,260**	20,800
Reserves	27(g)	**487,915**	290,222
TOTAL EQUITY		**513,175**	311,022

Approved and authorised for issue by the board of directors on 20 March 2008.

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)
) Directors
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The notes on pages 45 to 102 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007
(Expressed in Renminbi)

		Attributable to equity shareholders of the Company											
	Note	Registered/ issued capital RMB'000 (note 27(a))	Share premium RMB'000 (note 27(b))	Contributed surplus RMB'000 (note 27(b))	Merger reserve RMB'000 (note 27(c))	Capital reserve RMB'000 (note 27(d))	Exchange reserve RMB'000	General reserve fund RMB'000 (note 27(e))	Enterprise expansion Fund RMB'000 (note 27(f))	Retained Profits RMB'000	Total RMB'000	Minority Interests RMB'000	Total RMB'000
At 1 January 2006		20,800	29,964	156,507	24,757	20,828	(958)	28,701	5,366	37,992	323,957	1,691	325,648
Profit for the year		–	–	–	–	–	–	–	–	32,999	32,999	308	33,307
Transfer to reserves		–	–	–	–	–	–	2,430	–	(2,430)	–	–	–
Equity settled share-based transaction	25	–	–	–	–	4,558	–	–	–	–	4,558	–	4,558
Exchange differences on translation of financial statements		–	–	–	–	–	(332)	–	–	–	(332)	–	(332)
Dividend approved in respect of previous year	10(b)	–	–	–	–	–	–	–	–	(16,224)	(16,224)	–	(16,224)
Acquisition of minority interest of a subsidiary		–	–	–	–	–	–	–	–	–	–	(300)	(300)
Consideration of the acquisition		–	–	(8,796)	–	–	–	–	–	–	(8,796)	–	(8,796)
At 31 December 2006		20,800	29,964	147,711	24,757	25,386	(1,290)	31,131	5,366	52,337	336,162	1,699	337,861
At 1 January 2007		**20,800**	**29,964**	**147,711**	**24,757**	**25,386**	**(1,290)**	**31,131**	**5,366**	**52,337**	**336,162**	**1,699**	**337,861**
Issuance of shares	27(a)	**4,460**	**144,996**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**149,456**	**–**	**149,456**
Profit for the year		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**38,361**	**38,361**	**58**	**38,419**
Transfer to reserves		**–**	**–**	**–**	**–**	**–**	**–**	**2,566**	**–**	**(2,566)**	**–**	**–**	**–**
Exchange differences on translation of financial statements		**–**	**–**	**–**	**–**	**–**	**(486)**	**–**	**–**	**–**	**(486)**	**–**	**(486)**
Dividend approved in respect of previous year	10(b)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(12,675)**	**(12,675)**	**–**	**(12,675)**
Decrease of minority interest upon disposal		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,757)**	**(1,757)**
At 31 December 2007		**25,260**	**174,960**	**147,711**	**24,757**	**25,386**	**(1,776)**	**33,697**	**5,366**	**75,457**	**510,818**	**–**	**510,818**

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi)

	2007 RMB'000	2006 RMB'000
Operating activities		
Profit before taxation	**41,245**	39,277
Adjustments for:		
– Depreciation and amortisation	**30,769**	27,293
– Interest income	**(2,511)**	(2,935)
– Loss on disposal of property, plant and equipment	**41**	6
– Equity settled share-based payment expenses	**–**	4,558
– Impairment on property, plant and equipment	**3,707**	–
– Interest expense	**4,381**	3,552
– Gain on disposal of a subsidiary	**(696)**	–
Operating profit before changes in working capital	**76,936**	71,751
(Increase)/decrease in inventories	**(28,091)**	9,406
(Increase)/decrease in trade and other receivables	**(30,727)**	7,603
Increase in trade and other payables	**55,302**	30,893
Cash generated from operations	**73,420**	119,653
PRC tax paid	**(9,614)**	(5,576)
Interest paid	**(4,279)**	(3,552)
Net cash generated from operating activities	**59,527**	110,525

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi)

	Note	2007 RMB'000	2006 RMB'000
Investing activities			
Payment for purchase of property, plant and equipment		**(4,329)**	(4,909)
Payment for acquisition of associate		**(50,857)**	–
Proceeds from disposal of property, plant and equipment		**34**	21
Proceeds from disposal of a subsidiary (Note)		**7,578**	–
Payment for construction in progress		**(26,251)**	(30,970)
Interest received		**2,511**	2,935
Consideration for the acquisition of a subsidiary		**–**	(8,796)
Lease prepayments		**(62,313)**	(9,118)
Acquisition of minority interest of a subsidiary		**–**	(300)
Net cash used in investing activities		**(133,627)**	(51,137)
Financing activities			
Net proceeds from issuance of shares		**65,953**	–
Proceeds from new bank loans		**81,000**	77,600
Dividends paid to the equity shareholders of the Company		**(12,675)**	(16,224)
Repayment of bank loans		**(106,467)**	(44,474)
Net cash generated from financing activities		**27,811**	16,902
Net (decrease)/increase in cash and cash equivalents		**(46,289)**	76,290
Cash and cash equivalents at 1 January		**172,160**	97,951
Effect of foreign exchange rate changes		**(6,579)**	(2,081)
Cash and cash equivalents at 31 December	21	**119,292**	172,160

The notes on pages 45 to 102 form part of these financial statements.

Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Renminbi)

Note:

Proceeds from disposal of a subsidiary

On 20 May 2007, the Group disposed of 100% equity interest in its subsidiary, Mission Holdings Services Limited ("Mission Holdings") to an independent third party. Mission Holdings is an investment holding company which holds 85% interest in its sole subsidiary, Mudanjiang Huali Packaging Co., Ltd. ("Mudanjiang Huali").

The value of assets disposed of and liabilities assumed were as follows:

Net assets disposed of:

	RMB'000
Property, plant and equipment	3,169
Trade and other receivable	2,952
Inventories	5,096
Cash	2,202
Trade and other payables	(2,578)
Minority interest	(1,757)
	9,084
Gain on disposal of subsidiaries	696
Satisfied by:	
Cash	9,780

Analysis of the net inflow of cash and cash equivalent in respect of the disposal of subsidiary

Cash consideration	9,780
Cash disposal of	2,202
Net inflow of cash and cash equivalents in respect of disposal of subsidiary	7,578

The notes on pages 45 to 102 form part of these financial statements.

The Company was incorporated in the Cayman Islands on 28 February 2005 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies applied in these financial statements for the periods presented (see note 2).

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is primarily involved in the manufacture and sale of paper cartons and products.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of preparation of the financial statements of the Company *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 34.

(c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries and minority interests *(continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 1(i)).

(d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the associate's, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates recognised for the year (see notes 1(i)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Associates *(continued)*

Unrealised profits and losses resulting from transactions between the group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(e) Goodwill

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 1(i)).

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of business combination is recognised immediately in profit or loss.

On disposal of a cash generating unit, any attributable amount of purchased goodwill is included in the calculation of profit or loss on disposal.

(f) Property, plant and equipment

(i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 1(i)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use, the cost of borrowed funds used during the year of construction and, when relevant, the costs of dismantling and removing the items and restoring the site on which they are located, and changes in the measurement of existing liabilities recognised for these costs resulting from changes in the timing or outflow of resources required to settle the obligation or from changes in the discount rate.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Property, plant and equipment *(continued)*

(ii) The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

(iii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	10 to 40 years
Plant and machinery	5 to 10 years
Motor vehicles	3 years
Other property, plant and equipment	3 to 5 years

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(v) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated in the balance sheet at cost less impairment losses (see note 1(i)). Cost comprises all direct and indirect costs, including interest charges (see note 1(t)) related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to the property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress until it is substantially complete and ready for its intended use.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Operating lease charges

Leases of assets under which the lessor has not transferred all the risks and benefits of ownership to the Group are classified as operating leases.

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(h) Lease prepayments

Lease prepayments represent amounts paid for land use rights in the PRC. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights which range from 20 to 47 years, and impairment losses (see note 1(i)).

(i) Impairment of assets

(i) Impairment of trade and other receivables

Trade and other receivables that are stated in the balance sheet at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows.

– For trade and other receivables carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material.

– For trade and other receivables carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit and loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– investments in subsidiaries; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units) and then, to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(j) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When the inventories are sold, the carrying amount of those inventories is realisable as an expense in the period in which the related revenue is realisable. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(k) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment loss for bad and doubtful debts (see note 1(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 1(i)).

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(l) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of borrowings, together with any interest and fee payable, using the effective interest method.

(m) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(o) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a capital reserve within equity. The fair value is measured at grant date using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Employee benefits *(continued)*

(ii) Share based payments (continued)

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's share. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Income tax *(continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(q) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises, which is taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(b) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iii) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same period in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted in arriving at the carrying amount of the asset and consequently are recognised in profit or loss over the useful life of the asset.

(s) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into Renminbi at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Renminbi at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) Translation of foreign currencies *(continued)*

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended us or sale are interrupted or complete.

(u) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties.

These assets, even if for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venture;

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

(w) Segment reporting

The directors consider the Group operates within a single business and geographical segment. Accordingly, no segment information is provided.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

2 CHANGES IN ACCOUNTING POLICIES *(continued)*

There have been no significant changes to the accounting policies applied in these financial statements for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to HKAS 1, Presentation of financial statements: Capital disclosures, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in note 28.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in note 27(i).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 35).

3 TURNOVER

The principal activity of the Group is the manufacture and sale of paper boxes and products. Turnover represents the sales value of goods supplied to customers, net of value-added tax.

4 OTHER REVENUE AND NET LOSS

(a) Other revenue

	2007	2006
	RMB'000	RMB'000
Interest income	**2,511**	2,935
Sale of scrap paper	**20,856**	17,851
Sale of materials	**761**	1,307
Government grants	**220**	160
Tax refund for dividend re-investment	**3,900**	–
Others	**28**	291
	28,276	22,544

4 OTHER REVENUE AND NET LOSS *(continued)*

(b) Other net loss

	2007	2006
	RMB'000	RMB'000
Gain on disposal of a subsidiary (note 16)	**696**	–
Net loss on disposal of property, plant and equipment	**(41)**	(6)
Exchange loss	**(4,502)**	(3,400)
Others	**11**	12
	(3,836)	(3,394)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2007	2006
	RMB'000	RMB'000
(a) Finance costs:		
Interest on bank loans	**4,381**	3,552
(b) Staff costs:		
Salaries, wages and other benefits#	**54,562**	51,847
Contributions to defined contribution retirement schemes (note 24)#	**3,271**	3,579
Equity-settled share-based payment expenses	**–**	4,558
	57,833	59,984

5 PROFIT BEFORE TAXATION *(continued)*

	2007	2006
	RMB'000	RMB'000
(c) Other items:		
Amortisation of lease prepayments#	**1,663**	579
Depreciation of property, plant and equipment#	**29,106**	26,714
Impairment losses on trade and other receivables	**23**	516
Impairment losses on property, plant and equipment	**3,707**	–
Auditors' remuneration		
– audit services	**1,900**	1,770
– tax services	**90**	8
Operating lease charges in respect of land and properties#	**8,064**	7,749
Exchange loss	**4,502**	3,400
Cost of inventories# (note 19(b))	**655,408**	608,548

\# Cost of inventories included RMB72,084,642 (2006: RMB68,122,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, amount of which is also included in the respective total amounts disclosed separately in notes 5(b) and 5(c) for each of these types of expenses.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2007	2006
	RMB'000	RMB'000
Current tax – Provision for PRC income tax		
Provision for the year	**6,513**	6,488
Deferred tax		
Origination and reversal of temporary differences (note 26(b))	**(2,020)**	(518)
Effect of change in PRC income tax rate on deferred tax balance (note 26(b))	**(1,667)**	–
	(3,687)	(518)
	2,826	5,970

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands during the year (2006: Nil).

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year (2006: Nil).

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008-09 and a one-off reduction of 75% of the tax payable for the 2007-08 assessment subject to a ceiling of $25,000. In accordance with the group's accounting policy set out in note 1(p), no adjustments have been made to these financial statements as a result of this announcement.

The directors estimate that these proposed changes will have no material impact on the opening balances of the Group and the Company as at 1 January 2008.

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC, which range between 15%-33% (2006: 15%-33%). Certain subsidiaries are entitled to a tax concession period in which it is fully exempted from PRC income tax for 2 years starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next 3 years.

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which takes effect on 1 January 2008. Thereafter, the State Council passed Circular 39 on 26 December 2007, to clarify the grandfathering treating for existing enterprises that are entitled to preferential tax treatments. As a result of new tax law and Circular 39, the income tax rate of certain PRC subsidiaries are reduced from 33% to 25% from 1 January 2008; the tax rate of certain PRC subsidiaries in Shenzhen area gradually increases from 15% to 25% over a five-year transitional period (being 18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter).

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. On 22 February 2008, Caishui (2008) No.1 was promulgated by the tax authorities to specify that dividends declared and remitted out of the PRC from the retained earnings as at 31 December 2007 are exempted from withholding tax.

6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**41,245**	39,277
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**5,605**	6,436
Tax effect of non-deductible expenses	**1,878**	451
Tax effect of non-taxable income	**(591)**	(443)
Tax effect of prior year's unrecognised tax losses utilised	**(247)**	–
Tax effect of unused tax losses not recognised	**1,909**	3,042
Effect of tax concessions	**(3,740)**	(3,516)
Effect of income tax rates changes in respect of current year temporary differences	**(321)**	–
Effect of income tax rates changes in respect of brought forward temporary differences	**(1,667)**	–
Actual tax expense	**2,826**	5,970

7 DIRECTORS' REMUNERATION

Directors' remuneration is as follows:

	Directors' fees RMB'000	**Salaries, allowances and benefits in kind** RMB'000	**Discretionary bonuses** RMB'000	**Retirement schemes contributions** RMB'000	**2007 Total** RMB'000
Executive directors:					
– Zheng Fan	–	–	–	–	–
– Ni Zheng	–	381	229	11	621
– Zhou Guangneng	–	280	130	12	422
– Xie Mei	–	114	–	6	120
– Liu Danlin	–	133	133	6	272
Independent non-executive directors:					
– Wong Wai Ling	78	–	–	–	78
– Chen Xiangdong	–	–	–	–	–
– Xiao Yongping	117	–	–	–	117
– Lee Kit Wah	39	–	–	–	39
	234	908	492	35	1,669

7 DIRECTORS' REMUNERATION *(continued)*

	Directors' fees	Salaries, allowances and benefits in kind	Retirement schemes contributions	Sub-total	Share-based payments (note)	2006 Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:						
– Zheng Fan	–	–	–	–	–	–
– Ni Zheng	–	329	17	346	473	819
– Zhou Guangneng	–	294	12	306	401	707
– Liu Danlin	–	117	12	129	401	530
Non-executive director:						
– Xie Mei	–	–	–	–	–	–
Independent non-executive directors:						
– Lee Kit Wah	122	–	–	122	–	122
– Chen Xiangdong	–	–	–	–	–	–
– Xiao Yongping	122	–	–	122	–	122
	244	740	41	1,025	1,275	2,300

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of theses share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 1(o)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed in note 25.

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2006: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2006: three) individuals are as follows:

	2007	2006
	RMB'000	RMB'000
Salaries and other emoluments	**1,006**	1,051
Discretionary bonuses	**429**	396
Share-based payments	**–**	992
Retirement schemes contributions	**34**	62
	1,469	2,501

The emoluments of the three (2006: three) individuals with the highest emoluments are within the band from HK$Nil to HK$1,000,000.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB11,758,000 (2006: RMB15,072,000) which has been dealt with in the financial statements of the Company.

Reconciliation of the above amount to the Company's profit for the year:

	2007	2006
	RMB'000	RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the company's financial statements	**(11,758)**	(15,072)
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**77,130**	33,599
Company's profit for the year (note 27(g))	**65,372**	18,527

10 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2007 RMB'000	2006 RMB'000
Final dividend proposed after the balance sheet date of HK$5.70 cents per share (equivalent RMB5.207 cents per share) (2006: HK$6.40 cents per share (equivalent RMB6.337 cents per share))	**12,809**	12,675

Final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends payables to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2007 RMB'000	2006 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$6.40 cents per share (equivalent RMB6.337 cents per share) (2006: HK$7.8 cents per share (equivalent RMB8.112 cents per share))	**12,675**	16,224

(Expressed in Renminbi unless otherwise indicated)

11 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB38,361,000 (2006: RMB32,999,000) and the weighted average of 216,761,644 (2006: 200,000,000) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2007 No. of shares	2006 No. of shares
Ordinary shares issued at 1 January (note 27(a))	**200,000,000**	200,000,000
Issuance of new shares (note 27(a))	**16,761,644**	–
Weighted average number of shares at 31 December	**216,761,644**	200,000,000

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB38,361,000 (2006: RMB32,999,000) and the weighted average of 228,460,247 (2006: 208,252,699) ordinary shares (diluted), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2007	2006
Weighted average number of ordinary shares at 31 December	**216,761,644**	200,000,000
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 25)	**11,698,603**	8,252,699
Weighted average number of ordinary shares (diluted) at 31 December	**228,460,247**	208,252,699

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Cost:					
At 1 January 2006	71,748	259,995	20,077	19,595	371,415
Additions	–	3,558	911	2,492	6,961
Transfer from construction in progress (note 13)	11,073	4,428	596	573	16,670
Disposals	–	(111)	(795)	(519)	(1,425)
At 31 December 2006	82,821	267,870	20,789	22,141	393,621
At 1 January 2007	82,821	267,870	20,789	22,141	393,621
Exchange adjustment	–	–	–	(3)	(3)
Additions	26	2,931	1,053	1,735	5,745
Transfer from construction in progress (note 13)	3,904	41,453	411	–	45,768
Disposals	–	(168)	(495)	(157)	(820)
Disposal of a subsidiary	(1,672)	(7,494)	(488)	(2,780)	(12,434)
Transfer to held for sale (note 18)	(18,754)	–	–	–	(18,754)
At 31 December 2007	**66,325**	**304,592**	**21,270**	**20,936**	**413,123**

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Accumulated depreciation and impairment loss:					
At 1 January 2006	23,938	136,656	15,344	12,471	188,409
Charge for the year	4,045	18,549	1,594	2,526	26,714
Written back on disposal	–	(111)	(791)	(484)	(1,386)
At 31 December 2006	27,983	155,094	16,147	14,513	213,737
At 1 January 2007	27,983	155,094	16,147	14,513	213,737
Exchange adjustments	–	–	–	(1)	(1)
Charge for the year	4,561	20,101	1,784	2,660	29,106
Impairment loss	–	3,539	–	168	3,707
Written back on disposal	–	(102)	(495)	(148)	(745)
Written back on disposal of a subsidiary	(1,388)	(4,740)	(445)	(2,692)	(9,265)
Transfer to held for sale (note 18)	(14,884)	–	–	–	(14,884)
At 31 December 2007	**16,272**	**173,892**	**16,991**	**14,500**	**221,655**
Net book value:					
At 31 December 2007	**50,053**	**130,700**	**4,279**	**6,436**	**191,468**
At 31 December 2006	54,838	112,776	4,642	7,628	179,884

All of the Group's buildings are located in the PRC.

12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Other property, plant and equipment RMB'000
Cost:	
As at 1 January 2006	–
Addition	147
As at 31 December 2006	147
As at 1 January 2007	147
Exchange adjustment	(2)
Disposals	(106)
As at 31 December 2007	**39**
Accumulated depreciation	
As at 1 January 2006	–
Charge for the year	25
As at 31 December 2006	25
As at 1 January 2007	25
Exchange adjustment	(1)
Charge for the year	14
Disposals	(21)
As at 31 December 2007	**17**
Net book value	
As at 31 December 2007	**22**
As at 31 December 2006	122

13 CONSTRUCTION IN PROGRESS

	The Group	
	2007	2006
	RMB'000	RMB'000
Cost:		
At 1 January	**20,438**	9,506
Additions	**26,251**	27,602
Transfer to property, plant and equipment (note 12)	**(45,768)**	(16,670)
At 31 December	**921**	20,438

Construction in progress at 31 December 2007 mainly represented the construction and development of production facilities at Anhui Huali and Huali Holding Company Limited.

14 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2006, 31 December 2006 and 31 December 2007	24,937

Impairment test for cash-generating units containing goodwill

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to the manufacturing base as follows:

	2007	2006
	RMB'000	RMB'000
Shanghai	**1,012**	1,012
Shenzhen	**23,925**	23,925
	24,937	24,937

The recoverable amount of the above CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimate rates stated below. The growth rate does not exceed the long-term average growth rate for the business in which the CGU operates.

14 GOODWILL *(continued)*

Key assumptions used for value-in-use calculations:

	2007	2006
	%	%
Gross margin	**11**	12
Growth rate	**8**	8
Discount rate	**5**	5

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the paper packaging industry.

15 LEASE PREPAYMENTS

Leasehold land of the Group is held in the PRC. At 31 December 2007, the remaining lease terms of these pieces of land range from 20 to 47 years.

16 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	RMB'000	RMB'000
Unlisted shares , at cost	**248,970**	248,970

(Expressed in Renminbi unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Details of major subsidiaries at 31 December 2007 are as follows. The class of shares held is ordinary.

			Proportion of ownership interest			
Name of company	**Place of incorporation/ establishment**	**Particular of registered/ issued capital**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activities**
Shenzhen Huali Packing & Trading. Co., Ltd. ("Shenzhen Huali") (note (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Shanghai Huali Packaging Co., Ltd. ("Shanghai Huali") (note (i))	PRC	Paid-up capital of RMB 55,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Zhongshan Huali Packaging Co., Ltd. ("Zhongshan Huali") (note (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Anhui Huali Packaging Co., Ltd. ("Anhui Huali) (note (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Shenzhen Huayou Packaging Co., Ltd. ("Shenzhen Huayou") (note (ii))	PRC	Paid-up capital of RMB3,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Huizhou Huali Packaging Co., Ltd. ("Huizhou Huali") ((note (i) and note (iii))	PRC	Issued capital of HK$90,000,000 Paid-up capital of HK$54,070,000	100%	–	100%	Manufacture and sale of paper boxes and products
Max Surplus Limited ("Max Surplus")	British Virgin Islands ("BVI")	1 share of US$1 each	100%	100%	–	Investment holding
Forever Galaxies Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
Fortune Crown International Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
Miracle Stone Development Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
Grand Signal Limited	BVI	1 share of US$1 each	100%	–	100%	Investment holding
Huali Holdings Company Limited	Hong Kong	1,000,000 share of HK$1 each	100%	–	100%	Investment holding

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

(i) These companies are wholly foreign-owned enterprises established in the PRC.

(ii) The company is a limited company established in the PRC.

(iii) During the year, the Group established a wholly owned subsidiary, Huizhou Huali.

(iv) On 20 May 2007, the Group disposed of 100% equity interest in its subsidiary, Mission Holdings to an independent third party. Mission Holdings is an investment holding company which holds 85% interest in its sole subsidiary, Mudanjiang Huali.

17 INTEREST IN ASSOCIATE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted shares at cost	**–**	–	**90,391**	–
Share of net assets	**89,907**	–	**–**	–
	89,907	–	**90,391**	–

Details of the associate, which is an unlisted corporate entity, are as follows:

				Proportion of ownership interest			
Name of associate	Form of business structure	Registered	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
OCT Investments Limited ("OCT Investments")	Incorporated	BVI	100 shares of US$1 each	49%	49%	–	Investment holding

On 21 August 2007, the Company signed an agreement to acquire 49% equity interest in OCT Investments, together with a shareholder's loan of HK$46,995,000 (RMB45,675,000 equivalent) at an aggregate consideration of HK$140,000,000 (RMB136,066,000 equivalent), from Overseas Chinese Town (HK) Company Limited ("OCTHK"), its intermediate holding company. OCT Investments holds 25% equity interest in Chengdu Tianfu OCT Industry Development Company Limited ("Chengdu OCT"), which has not commenced operation in October 2007. The principal activities of Chengdu OCT are the provision of the development and operation of travel facilities. The transaction was completed in October 2007.

17 INTEREST IN ASSOCIATE *(continued)*

Summary financial information on the associate

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	(Loss) RMB'000
2007					
100 per cent	273,293	(89,809)	183,484	–	(3,956)
Group's effective interest	133,913	(44,006)	89,907	–	(484)

18 NON-CURRENT ASSETS HELD FOR SALE

On 11 July 2007, a subsidiary of the Group, Shenzhen Huali, entered into an agreement with Shenzhen Overseas Chinese Town Real Estate Company Limited ("OCT Properties"), its fellow subsidiary, to sell the land use right of a piece of land located in Shenzhen and two factory buildings erected on the land ("the Properties"), at a cash consideration of RMB50,600,000. Shenzhen Huali also entered into a tenancy agreement with OCT Properties to lease back the Properties at a monthly rental of approximately RMB264,000. The lease term will commence from the day OCT Properties obtain the title of the Properties and end by 31 December 2009. As at 31 December 2007, the procedure of transferring title of the Properties is in process, the sales has not been completed and the rental agreement has not commenced.

19 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2007 RMB'000	2006 RMB'000
Raw materials	**78,451**	51,156
Work-in-progress	**2,929**	2,426
Finished goods	**10,215**	9,623
Spare parts	**271**	570
	91,866	63,775

19 INVENTORIES *(continued)*

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Carrying amount of inventories sold	**654,846**	608,381
Write down of inventories	**700**	385
Reversal of write-down inventories	**(138)**	(218)
	655,408	608,548

The reversal of write-down of inventories made in prior years arose due to an increase in the estimated net realisable value of certain paper cartons as a result of change in customer preference.

20 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables and bills receivable:				
Amounts due from subsidiaries	**–**	–	**158,686**	53,861
Amounts due from fellow subsidiaries (note 30(b))	**173**	174	**–**	–
Amounts due from other related companies (note 30(b))	**982**	486	**–**	–
Amounts due from third parties	**162,724**	134,833	**–**	–
Less: allowance for doubtful debt (note 20(b))	**(3,146)**	(3,513)	**–**	–
	160,733	131,980	**158,686**	53,861
Prepayment, deposits and other receivables:				
Amounts due from fellow subsidiaries (note 30(b))	**293**	293	**–**	–
Amounts due from associates (note 30(b))	**44,008**	–	**44,008**	–
Others	**5,262**	3,585	**8**	30
	210,296	135,858	**202,702**	53,891

The amounts due from subsidiaries, associates, fellow subsidiaries and other related companies are unsecured, non-interest bearing and have no fixed terms of repayment.

Apart from rental deposits of RMB604,000 (2006: RMB436,000) and amounts due from associates of RMB44,008,000 (2006: Nil) which are expected to be recovered after one year, all of the trade and other receivables, net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

20 TRADE AND OTHER RECEIVABLES *(continued)*

(a) Ageing analysis

Included in trade and other receivables are trade and bills receivable (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	RMB'000	RMB'000
Current	**146,657**	122,031
Less than 3 months past due	**13,997**	9,449
3 to 6 months past due	**79**	500
Amount past due	**14,076**	9,949
	160,733	131,980

The Group's credit policy is set out in note 28(a).

(b) Impairment of trade receivables

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	2007	2006
	RMB'000	RMB'000
At 1 January	**3,513**	3,147
Impairment loss recognised	**297**	932
Amount of reversal	**(174)**	(187)
Uncollectible amount written off	**(490)**	(379)
At 31 December	**3,146**	3,513

20 TRADE AND OTHER RECEIVABLES *(continued)*

(b) Impairment of trade receivables *(continued)*

At 31 December 2007, the Group's trade receivables of RMB545,000 (2006: RMB585,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of RMB545,000 (2006: RMB585,000) were recognised. The Group does not hold any collateral over these balances.

(c) Trade receivable and bills receivable that are not impaired

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

21 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**119,292**	172,160	**10,524**	51,981

22 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables and bills payable:				
Amounts due to fellow subsidiaries (note 30(b))	**72**	297	**–**	–
Amount due to other related companies (note 30(b))	**20**	7	**–**	–
Amount due to third parties	**227,360**	170,198	**–**	–
	227,452	170,502	**–**	–
Other payables:				
Amount due to other related companies (note 30(b))	**194**	92	**–**	–
Amount due to third parties	**32,143**	36,415	**14,713**	3,754
	259,789	207,009	**14,713**	3,754

All of the trade and other payables (including amount due to related parties) are expected to be settled within one year.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 28.

Included in trade and other payables are trade creditors and bills payable with the following ageing analysis as of the balance sheet date:

	The Group	
	2007	2006
	RMB'000	RMB'000
Due within 3 months or on demand	**166,638**	124,374
Due after 3 months but less than 1 year	**60,812**	45,934
Due after 1 year	**2**	194
	227,452	170,502

23 BANK LOANS

At 31 December 2007, the bank loans were repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**32,735**	43,664	**12,735**	13,664
After 1 year but within 2 years	**11,986**	13,664	**11,986**	13,664
After 2 years but within 5 years	**–**	12,860	**–**	12,860
	11,986	26,524	**11,986**	26,524
	44,721	70,188	**24,721**	40,188

The Group's short-term bank loans comprise:

		The Group		The Company	
		2007	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi denominated	Interest rates at 5.8780%-6.5610% per annum with maturities through 19 October 2008 (2006: 5.6304% or floating rate at 90% and 95% of PBOC*'s base lending rate)	**20,000**	30,000	**–**	–
Current portion of long-term bank loan		**12,735**	13,664	**12,735**	13,664
		32,735	43,664	**12,735**	13,664

* People's Bank of China

23 BANK LOANS *(continued)*

The Group's long-term bank loans comprise:

		The Group		The Company	
		2007	2006	**2007**	2006
		RMB'000	RMB'000	**RMB'000**	RMB'000
HK Dollars denominated	Interest rates at HIBOR* + 1.18% per annum with maturities through 2 June 2009	**24,721**	40,188	**24,721**	40,188
Less: Current portion of long-term bank loan		**(12,735)**	(13,664)	**(12,735)**	(13,664)
		11,986	26,524	**11,986**	26,524

* Hong Kong Interbank Offered Rate

The bank loans of the Group at 31 December 2007 were guaranteed by its subsidiaries, namely Shenzhen Huali, Forever Galaxies Limited, Fortune Crown International Limited and Miracle Stone Development Limited. Except for the above, the Group and the Company did not have secured or guaranteed bank loans at 31 December 2007.

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 28(b). As at 31 December 2007 none of the covenants relating to drawn down facilities had been breached (2006: RMBNil).

24 EMPLOYEE RETIREMENT BENEFITS

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "Schemes") organised by the relevant local government authorities in Shenzhen, Zhongshan, Huizhou, Shanghai, Anhui and Mudanjiang whereby the Group is required to make contributions to the Schemes at a rate ranging from 10% to 25% (2006: 8% to 25%) of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

24 EMPLOYEE RETIREMENT BENEFITS *(continued)*

The Group also operates a Mandatory Provident Fund Scheme ("the MPF scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

The Group has no other material obligation for the payment of pension benefits associated with those schemes beyond the annual contributions described above.

25 EQUITY SETTLED SHARE-BASED TRANSACTION

The Company has a share option scheme which was adopted on 12 October 2005 whereby the directors are authorised, at its absolute discretion and on such terms as it may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe for share of the Company. The share option scheme shall be valid and effective for a period of ten years ending on 11 October 2015, unless terminated earlier by shareholders of the Company in general meetings.

On 7 February 2006, 5,400,000 and 13,900,000 share options were granted to directors and employees of the Company respectively under the Company's share option scheme (no share options were granted for the year ended 31 December 2007). Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company which will be settled by physical delivery of shares. These share options vested immediately from the date of grant, and then be exercisable within a period of ten years. The exercise price is HK$1.41, as specified in the rules governing the share option scheme, being the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of the grant of the options, (ii) the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date of the grant of the options and (iii) the nominal value of the Company's share of the date of grant of the option. No option was exercised, forfeited or expired during the year. All options granted above were outstanding and exercisable at 31 December 2007 (2006: Nil) with a remaining contractual life of 8 years and 1 month.

During the year ended 31 December 2007, the Company did not recognise any amount in expenses and equity in respect of the grant of share options (2006: RMB4,558,000).

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the service received is measured based on Black-Scholes option pricing model.

25 EQUITY SETTLED SHARE-BASED TRANSACTION *(continued)*

Fair value of share options and assumptions

Fair value at measurement date (date of grant)	HK$0.2271
Share price (date of grant)	HK$1.41
Exercise price	HK$1.41
Expected volatility	28.30%
Time to maturity	10 years
Expected exercise period by the option holders	2 years
Expected dividends	2.60%
Risk-free interest rate (based on Exchange Fund Notes)	3.89%

The expected volatility is estimated by the annualised standard deviations of the continuously compounded rates of return on return on the comparable listed paper-based packaging companies in Hong Kong. Expected dividends are estimated by the management. There were no market conditions associated with the share option grants. Changes in the subjective input assumptions could materially affect the fair value estimate.

26 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2007	2006
	RMB'000	RMB'000
Provision for PRC income tax	**4,333**	4,882

26 INCOME TAX IN THE BALANCE SHEET *(continued)*

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets recognised in the consolidated balance sheet and the movements during the year are as follows:

	Accounting depreciation in excess of depreciation allowances	Provisions	Accrued expenses	Pre-operating expenses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax arising from:					
At 1 January 2006	1,715	280	152	213	2,360
Credited/(charged) to profit or loss	560	45	(39)	(48)	518
At 31 December 2006	2,275	325	113	165	2,878
At 1 January 2007	**2,275**	**325**	**113**	**165**	**2,878**
Due to disposal of Mudanjiang Huali	**(84)**	**(37)**	**–**	**–**	**(121)**
Credited to profit or loss	**2,108**	**1,199**	**23**	**357**	**3,687**
At 31 December 2007	**4,299**	**1,487**	**136**	**522**	**6,444**

(c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB2,885,000 (2006: RMB2,584,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

27 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

(a) Share capital

Authorised and issued share capital

	2007		2006	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each	**2,000,000**	**200,000**	2,000,000	200,000

Ordinary shares, issued and fully paid:

	No. of shares '000	**RMB'000**	No. of shares '000	RMB'000
At 1 January	**200,000**	**20,800**	200,000	20,800
Issuance of new shares	**46,000**	**4,460**	–	–
At 31 December	**246,000**	**25,260**	200,000	20,800

On 21 August 2007, 20,000,000 new ordinary shares of the Company at a par value of HK$0.1 were issued to the public at a price of HK$3.4 per share.

Upon the issue of the new shares above, the Company issued an additional 26,000,000 new ordinary shares at a par value of HK$0.1 to its holding company, OCTHK, at a price of HK$3.4 per share as part of the consideration for acquiring 49% shareholding of OCT Investments, a subsidiary of OCTHK.

(b) Share premium and contributed surplus

Under the Companies Law of the Cayman Islands, the funds in the contributed surplus account and share premium account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as they fall due in the ordinary course of business.

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Company.

27 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY *(continued)*

(b) Share premium and contributed surplus *(continued)*

On 20 January 2006, the Group acquired 100% interest in Grand Signal Limited ("Grand Signal") from its intermediate holding company, OCTHK, at a cash consideration of HK$8,457,000 (RMB8,796,000 equivalent) (hereinafter referred to as the "Acquisition"). The consideration paid by the Group for the Acquisition has been accounted for as an equity transaction in the consolidated statement of changes in equity for the year ended 31 December 2006.

(c) Merger reserve

Merger reserve arose from the recognition of the remaining goodwill arising on the original acquisition of the subsidiaries as recorded in the controlling party's financial statements in these financial statements.

(d) Capital reserve

Capital reserve comprises the following:

– difference between the total amount of registered capital and the amount of contributions from the equity holders of a subsidiary; and

– the fair value of the unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share based payments in note 1(o)(ii).

(e) General reserve fund

Transfers from retained earnings to general reserve fund were made in accordance with the relevant PRC rules and regulations and the articles of association of the Company's subsidiaries incorporated in the PRC and were approved by the respective boards of directors.

The subsidiaries in the PRC are required to transfer 10% of their net profits, as determined in accordance with the PRC accounting rules and regulations, to general reserve fund until the reserve balance reaches 50% of the registered capital. The transfer to this fund must be made before distribution of dividends to the equity holders.

General reserve fund can be used to make good previous years' losses, if any, and may be converted into paid up capital provided that the balance of the general reserve fund after such conversion is not less than 25% of the registered capital.

27 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY *(continued)*

(f) Enterprise expansion fund

The subsidiaries in the PRC are required to transfer a certain percentage of their net profits, as determined in accordance with the PRC accounting rules and regulations, to the enterprise expansion fund. The percentage of this appropriation is decided by the directors of the subsidiaries.

The enterprise expansion fund can be used for the subsidiaries' business development purposes and for working capital purposes. This fund can also be used to increase capital of the subsidiaries, if approved. This fund is non-distributable other than upon liquidation. Transfers to this fund must be made before distribution of dividends to the equity holders.

(g) Reserves of the Company

	Note	Share premium	Contributed surplus	Capital reserve	Retained profits	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006		29,964	248,970	–	4,427	283,361
Profit for the year		–	–	–	18,527	18,527
Dividend approved in respect of the previous year	10(b)	–	–	–	(16,224)	(16,224)
Equity settled share-based transaction	25	–	–	4,558	–	4,558
At 31 December 2006		29,964	248,970	4,558	6,730	290,222
At 1 January 2007		**29,964**	**248,970**	**4,558**	**6,730**	**290,222**
Issue of shares		**144,996**	**–**	**–**	**–**	**144,996**
Profit for the year		**–**	**–**	**–**	**65,372**	**65,372**
Dividend approved in respect of the previous year	10(b)	**–**	**–**	**–**	**(12,675)**	**(12,675)**
At 31 December 2007		**174,960**	**248,970**	**4,558**	**59,427**	**487,915**

27 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY *(continued)*

(h) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity shareholders of the Company is RMB487,915,000 (2006: RMB290,222,000).

After the balance sheet date, the directors proposed a final dividend of HK$5.70 cents per ordinary share (2006: HK$6.40 cents per share), amounting to RMB12,809,000 (2006: RMB12,675,000). This dividend has not been recognised as a liability at the balance sheet date.

(i) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables, plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2007, the Group's strategy, which was unchanged from 2006, was to maintain the net debt-to-adjusted capital ratio at a level of lower than 100%. In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

28 FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below:

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, credit evaluations are performed on all customers requiring credit over a certain amount. The credit evaluations are reperformed periodically for the existing customers. The Group chases the customers to settle outstanding balances and monitors the settlement progress on an ongoing basis. Normally, the Group does not obtain collateral from customers. The impairment losses on bad and doubtful accounts are within management's expectation.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 20.

(b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Interest rate risk

The effective interest rate of cash and cash equivalents is 2.14% per annum (2006: 2.30% per annum). The effective interest rate of bank loans is 5.84% per annum (2006: 5.72% per annum). The interest rates and terms of repayment of the Group's bank loans are disclosed in note 23.

28 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk

(i) Forecast transactions

The Group is exposed to foreign currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars and Hong Kong dollars.

(ii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

28 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(ii) Exposure to currency risk (continued)

The Group

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2007 Euros '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Trade and other receivables	2,538	90,005	–	2,012	36,911
Cash and cash equivalents	1,915	55,766	4	1,418	93,660
Trade and other payables	(1,296)	(46,419)	22	(236)	(32,139)
Bank loans	–	(26,400)	–	–	(40,000)
Gross exposure arising from recognised assets and liabilities	3,157	72,952	26	3,194	58,432

The Company

	2007 United States Dollars '000	2007 Hong Kong Dollars '000	2006 United States Dollars '000	2006 Hong Kong Dollars '000
Trade and other receivables	–	216,469	–	53,642
Cash and cash equivalents	1	11,236	1	51,154
Trade and other payables	–	(15,712)	–	(3,736)
Bank loans	–	(26,400)	–	(40,000)
Gross exposure arising from recognised assets and liabilities	1	185,593	1	61,060

The Group and the Company ensure that the net exposure is kept to an acceptable level.

28 FINANCIAL INSTRUMENTS *(continued)*

(d) Currency risk *(continued)*

(iii) Sensitivity analysis

A 5 per cent weakening of the Hong Kong dollars and USD against the above Renminbi at 31 December 2007 would have decreased profit by RMB2,003,000 (2006: RMB3,667,000). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2006.

A 5 per cent strengthening of the Hong Kong dollars and USD against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007 and 2006 due to their nature of short-term maturities or floating interest rate for the long-term bank loans.

29 COMMITMENTS

(a) Capital commitments, outstanding at 31 December 2007 not provided for in the financial statements were as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted for	**5,978**	21,318	**–**	–
Authorised but not contracted for	**2,665**	3,158	**–**	–
	8,643	24,476	**–**	–

The capital commitments mainly represented the commitments in connection with the planned capital expenditure for expansion of production facilities.

29 COMMITMENTS *(continued)*

(b) At 31 December 2007, the total future minimum lease payments under non-cancellable operating leases in respect of land and properties were payable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**7,155**	5,357	**–**	–
After 1 year but within 5 years	**6,224**	3,993	**–**	–
After 5 years	**1,569**	1,675	**–**	–
	14,948	11,025	–	–

The Group leases a number of land and properties under operating leases. The leases run for period from one to twenty-six years, certain of the leases are with an option to renew when all terms are renegotiated. None of the leases includes contingent rentals.

30 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with other state-controlled entities

The Company is a state-controlled entity and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government ("state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Other than those disclosed in 30(b), transactions with other state-controlled entities include but are not limited to the following:

– Utility supplies; and

– Financial services arrangement.

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-controlled. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-controlled entities or not.

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(a) Transactions with other state-controlled entities *(continued)*

Having considered the potential for transactions to be impacted by related party relationships, the Group's pricing strategy, buying and approval processes and what information would be necessary for an understanding of the potential effect of the relationship on the financial statements, the directors are of the opinion that the following transactions with other state-controlled entities require disclosure:

(i) Transactions with other state-controlled entities in the PRC:

	2007	2006
	RMB'000	RMB'000
Interest income	**2,104**	2,007
Interest expenses	**4,248**	3,552

(ii) Balances with other state-controlled entities in the PRC:

	2007	2006
	RMB'000	RMB'000
Cash at bank	**86,281**	152,402
Bank loans	**44,721**	70,188

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties:

Name of party	*Relationship with the Group*
Overseas Chinese Town Enterprises Corporation ("OCT Group")	Ultimate holding company
Overseas Chinese Town (HK) Company Limited ("OCTHK")	Intermediate holding company
Shanghai Huiyang Industry Co., Ltd. ("Shanghai Hui Yang")	An entity majority-owned by an equity shareholder who has significant influence over the Company
Shanghai Mei Ling Central Air Conditioner Company Limited ("Mei Ling Air-Conditioner")	Subsidiary of Shanghai Hui Yang
Shanghai Pudong Xiamei Plastics Co., Ltd. ("Shanghai Xiamei")	Subsidiary of Shanghai Hui Yang
Shenzhen Overseas Chinese Town Real Estate Company Limited ("OCT Properties")	Subsidiary of OCT Group
Mudanjiang Nanhua Hesheng Co., Ltd. ("Mudanjiang Nanhua") (Note)	Minority equity holder of a subsidiary

Note: Mudanjiang Nanhua ceased to be a related party of the Group upon the disposal of Mudanjiang Huali on 20 May 2007.

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties: *(continued)*

Recurring transactions

	2007 RMB'000	2006 RMB'000
Sales of goods to:		
OCT Group, its subsidiaries and associates	**952**	912
Mei Ling Air-Conditioner	**8,370**	7,448
Mudanjiang Nanhua (Note)	**–**	33
	9,322	8,393
Purchase of goods from:		
OCT Group, its subsidiaries and associates	**663**	1,002
Mudanjiang Nanhua (Note)	**547**	2,114
	1,210	3,116
Rental paid to:		
OCT Group, its subsidiaries and associates	**1,701**	1,711
Shanghai Xia Mei	**180**	180
	1,881	1,891
Utility expenses paid to:		
OCT Group, its subsidiaries and associates	**3,603**	3,785

Note: The amount for the year ended 31 December 2007 represents transactions occurred before 20 May 2007 when Mudanjianag Nanhua was still regarded as a related party of the Group.

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties: *(continued)*

Non recurring transactions

	2007 RMB'000	2006 RMB'000
Acquisition of Grand Signal:		
OCT Group	–	8,796
Acquisition of OCT Investments:		
OCTHK	136,066	–

In October 2007, the Company acquired 49% equity interest in OCT Investments from OCTHK. OCT Investments holds 25% equity interest in Chengdu OCT, which has not commenced operation in 2007.

Disposal and leaseback of properties:

On 11 July 2007, Shenzhen Huali entered into an agreement with OCT Properties, to sell the land use right of a piece of land located in Shenzhen and two factory buildings erected on the land ("the Properties"), at a cash consideration of RMB50,600,000. Shenzhen Huali also entered into a tenancy agreement with OCT Properties to lease back the Properties at a monthly rental of approximately RMB264,000. The lease term will commence from the day OCT Properties obtain the title of the Properties and end by 31 December 2009. As at 31 December 2007, the procedure of transferring title of the Properties is in process, the sales has not been completed and the rental agreement has not commenced.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) The Group has a related party relationship with the following parties: *(continued)*

Balances with related parties

Amounts due from / (to) related parties are as follows:

	Note	2007 RMB'000	2006 RMB'000
Trade receivable from fellow subsidiaries (note 20)	(i)	**173**	174
Trade receivable from other related companies (note 20)	(i)	**982**	486
Trade payable to fellow subsidiaries (note 22)	(ii)	**(72)**	(297)
Trade payable to other related companies (note 22)	(ii)	**(20)**	(7)
Other receivables from fellow subsidiaries (note 20)	(iii)	**293**	293
Other receivables from associates (note 20)	(iii)	**44,008**	–
Other payable to other related companies (note 22)	(iii)	**(194)**	(92)

Notes:

(i) The trade receivable balances are unsecured, non-interest bearing and are expected to be recovered within six months. These refer to receivables in respect of sales of paper cartons and paper boxes to related parties.

(ii) The trade payable balances are unsecured, non-interest bearing and are expected to be settled within three months. These refer to payables in respect of purchases of raw material from related parties.

(iii) Other receivables and payables are unsecured, non-interest bearing, and repayable on demand.

30 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) The key management personnel remuneration is as follows:

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

	2007 RMB'000	2006 RMB'000
Short-term employee benefits	**3,069**	2,431
Post employment benefits	**69**	103
Equity compensation benefits	**–**	2,267
	3,138	4,801

Total remuneration is included in "staff costs" (see note 5(b)).

(d) Contributions to post-employment benefits plans

The Group participates in various defined contribution post-employment benefit plans for its employees. Further details of these plans are disclosed in note 24.

31 NON-ADJUSTING POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 10.

32 COMPARATIVE FIGURES

As a result of adopting HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in note 2.

33 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2007, the directors consider the ultimate holding company of the Group to be Overseas Chinese Town Enterprises Corporation, which is incorporated in the PRC. The directors consider the immediate holding company to be Pacific Climax Limited, which is incorporated in BVI. These entities do not produce financial statements available for public use.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 14 contains information about the assumptions relating to goodwill impairment. Other key sources of estimation uncertainty are as follows:

(i) Impairment loss for trade and other receivables

As explained in note 1(i), the Group makes impairment loss for trade and other receivables based on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) Provision for inventories

As explained in note 1(j), the Group's inventories are stated at the lower of cost and net realisable value. Based on the Group's recent experience and the nature of the inventories, the Group makes estimates of the selling prices, the costs of completion in case for work in progress, and the costs to be incurred in selling the inventories. Uncertainty exists in these estimations.

(iii) Impairment loss for property, plant and equipment

As explained in note 1(i), the Group's makes impairment loss for property, plant and equipment based on the Group's estimates of the recoverable amount. Uncertainty exists in these estimations.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2007

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2007 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of these standards is unlikely to have a significant impact on the Group's results of operations and financial position.

CONSOLIDATED INCOME STATEMENT

	2007	2006	2005	2004	2003
			(restated)		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**739,907**	695,503	662,243	605,533	504,617
Cost of sales	**(654,846)**	(608,381)	(583,646)	(531,817)	(445,252)
Gross profit	**85,061**	87,122	78,597	73,716	59,365
Other revenue	**28,276**	22,544	21,519	16,493	19,724
Other net loss	**(3,836)**	(3,394)	(1,424)	(501)	(226)
Distribution costs	**(30,799)**	(32,562)	(30,340)	(31,980)	(29,296)
Administrative expenses	**(28,378)**	(30,125)	(19,297)	(14,612)	(11,377)
Other operating expenses	**(4,214)**	(756)	(761)	(1,399)	(2,129)
Profit from operations	**46,110**	42,829	48,294	41,717	36,061
Finance costs	**(4,381)**	(3,552)	(2,480)	(3,633)	(637)
Share of losses from associates	**(484)**	–	–	–	–
Profit before taxation	**41,245**	39,277	45,814	38,084	35,424
Income tax	**(2,826)**	(5,970)	(5,440)	(5,942)	(5,145)
Profit for the year	**38,419**	33,307	40,374	32,142	30,279
Attributable to:					
Equity shareholders of the Company	**38,361**	32,999	40,089	28,651	26,027
Minority interests	**58**	308	285	3,491	4,252
Profit for the year	**38,419**	33,307	40,374	32,142	30,279
Earnings per share (RMB)					
Basic	**0.18**	0.16	0.25	0.19	0.17
Diluted	**0.17**	0.16	0.25	0.19	0.17

Five-Year Financial Summary

CONSOLIDATED BALANCE SHEET

	2007	2006	2005	2004	2003
			(restated)		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets					
Property, plant and equipment	**191,468**	179,884	183,006	200,486	162,437
Construction in progress	**921**	20,438	9,506	766	46,304
Goodwill	**24,937**	24,937	24,937	24,937	–
Lease prepayments	**72,169**	20,010	20,589	9,360	9,692
Interest in associate	**89,907**	–	–	–	–
Deferred tax assets	**6,444**	2,878	2,360	1,512	27
	385,846	248,147	240,398	237,061	218,460
Current assets					
Non-current assets held for sale	**12,361**	–	–	–	–
Inventories	**91,866**	63,775	73,181	68,939	60,103
Trade and other receivables	**210,296**	135,858	143,124	183,174	171,010
Pledged bank deposits	**–**	–	–	4,091	4,288
Cash and cash equivalents	**119,292**	172,160	97,951	59,595	45,693
	433,815	371,793	314,256	315,799	281,094
Current liabilities					
Trade and other payables	**259,789**	207,009	186,562	245,204	187,147
Bank loans	**32,735**	43,664	38,474	52,119	75,814
Current taxation	**4,333**	4,882	3,970	4,988	4,007
	296,857	255,555	229,006	302,311	266,968
Net current assets	**136,958**	116,238	85,250	13,488	14,126
Total assets less current liabilities	**522,804**	364,385	325,648	250,549	232,586
Non-current liabilities					
Bank loans	**11,986**	26,524	–	–	–
NET ASSETS	**510,818**	337,861	325,648	250,549	232,586
Total equity attributable to equity shareholders of the Company	**510,818**	336,162	323,957	249,143	194,856
Minority interests	**–**	1,699	1,691	1,406	37,730
TOTAL EQUITY	**510,818**	337,861	325,648	250,549	232,586