

CHAIRMAN'S STATEMENT

I am pleased to present to all shareholders the 2005 Annual Report of Huali Holdings (Group) Limited (“the Company”) and its subsidiaries (“the Group”) and would like to express my sincere gratitude to shareholders and all the staff on behalf of the Company.

FINANCIAL PERFORMANCE

For the year ended 31 December 2005, the Group’s annual production reached 161,000 tonnes, representing an increase of 12.6% over 2004. Total assets amounted to RMB539 million. Total shareholders’ interest amounted to RMB317 million. The Group realized sales turnover of RMB662 million in 2005, representing an increase of 9.4% over 2004. Profits attributable to shareholders amounted to RMB40.90 million, representing net profit margin of approximately 6.2% (2004: 4.7%). The increase was mainly attributable to the full year operations of the Zhongshan plant and the fact that Shanghai Huali Packaging Co., Ltd. (“Shanghai Huali”) became a wholly owned subsidiary of the Group, which led to an increase in profits attributable to shareholders.

BUSINESS REVIEW

The Company was listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 2 November 2005 (the “Listing Date”). The successful listing on the Stock Exchange marked a significant milestone to the Group’s development. On the one hand, it demonstrates that the Group’s stable and sustainable development potential was deeply recognized by investors. On the other hand, being a listed company, a solid foundation was laid to capture the momentum and enlist support needed for the Company’s long-term development. Meanwhile, a higher standard has been set for the Company. We shall leverage the favourable opportunities arising from listing and capitalize on the opportunities of market integration while tapping the resources available to us in order to render satisfactory investment returns for our shareholders.

The global economy achieved steady growth in 2005. However, prices of raw material such as crude oil and raw paper have been rising or remained at high levels, leading to higher costs for the manufacturing industry. This has presented a challenge to the Group. However, the Group managed to achieve considerable growth under the joint efforts of the staff, laying a solid foundation for the Group’s development.

In the past year, the Group exerted strict controls over costs, arranged tenders on some product transportation and purchase of large equipment, strengthened management on accounts receivable and inventory. The Group saved costs by avoiding peak hours and using electricity during lower price time zones. Moreover, the Group put efforts in market exploration, and on the basis of consolidating the existing customers, strengthened market sales. During the reporting period, the Group’s customers continued to grow, with approximately 200 newly added customers. In addition, the Group accelerated in the site selection for a new base in Shenzhen so as to expand the Group’s production capacity to satisfy the tremendous market demands and to secure better profit return.

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PROSPECTS

Looking ahead in 2006, we expect the cost of raw materials will remain high. As a result, the Group will persist in tightening up control over production process and internal monitoring as well as start centralizing gradually the procurement of major equipment and raw materials for its subsidiaries so as to maintain stable production costs. The Group will continue to enhance its corporate image and strengthen its market expansion as well as its capacity in new product development. We will also seek quality customers and capitalize on new production capacity to increase sales revenue. This year, we shall implement our stated strategy to cherish every opportunity, proactively expand our production scale and bring steady returns to our shareholders.

The Group's ability to achieve satisfactory results in the first year of its listing was attributable to the diligence of all the management team and its staff, as well as the support bestowed upon us by our broad customer base and suppliers. I, on behalf of the board of directors of the Company, hereby express our most sincere thanks to those who have made contribution to the development of the Group.

Chairman

Zheng Fan

Hong Kong, 7 April 2006