1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(a) Reorganisation

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.

Pursuant to a reorganisation (the "Reorganisation") of the Company and its subsidiaries (the "Group") which was completed on 29 July 2005 to rationalise the Group's structure in preparation for the public listing of its shares on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the Company became the holding company of the subsidiaries comprising the Group.

The Company's shares were listed on the Stock Exchange on 2 November 2005.

(b) Basis of presentation

The Group is regarded as a continuing entity resulting from the Reorganisation. In accordance with Accounting Guideline 5 ("AG 5") "Merger Accounting for Common Control Combination" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the consolidated financial statements have been prepared on the basis that the Company was the holding company of the Group for both years presented, rather than from 29 July 2005. The results of the Group for the years ended 31 December 2004 and 2005 include the results of the Company and its subsidiaries with effect from their respective dates of incorporation, whichever is a shorter period as if the current group structure had been in existence throughout the two years presented. Pursuant to AG 5, remaining goodwill of RMB24,937,000 arising on the original acquisition of the subsidiaries as recorded in the controlling party's financial statements has been recognised in these financial statements. In the opinion of the directors, the consolidated financial statements prepared on this basis present fairly the results of operations and state of affairs of the Group as a whole.

As the Company was incorporated on 28 February 2005, no comparative figures are presented in respect of the Company's balance sheet.

2 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 HKICPA, accounting principles generally accepted in Hong Kong and the disclosure 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. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005. These new and revised HKFRSs have been early adopted at the beginning of the year ended 31 December 2002.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Statement of compliance *(continued)*

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period (see note 33).

(b) Basis of preparation of the financial statements

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.

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 32.

(c) Subsidiaries

Subsidiaries are those entities controlled by the Group. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. An investment in a controlled 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 at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity 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 equity shareholders of the Company.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Subsidiaries *(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 2(h)).

(d) 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 2(h)).

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.

(e) 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 2(h)). 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

(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 2(h)). Cost comprises all direct and indirect costs, including interest changes (see note 2(s)) 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.

(f) 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.

(g) Lease prepayments

Lease prepayments represent amounts paid for land use rights in the People's Republic of China (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 30 to 50 years.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) 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 receivables that are 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. Impairment losses for the receivables are reversed if in a subsequent period the amount of the impairment loss decreases.

— For 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).

— 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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

— 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.

— 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.

(i) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Inventories *(continued)*

When the inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. 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.

(j) 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 2(h)), except where the receivables are interest-free advances 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 2(h)).

(k) 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 cost and redemption value being recognised in profit or loss over the period of borrowings using the effective interest method.

(l) Trade and other payables

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

(m) 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.

(n) Employee benefits

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

Salaries, annual bonuses, paid annual leave, contributions to defined contribution 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Employee benefits *(continued)*

(ii) 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.

(o) 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.

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 period 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 effect 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax *(continued)*

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. And 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.

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.

(p) 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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(q) 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.

(ii) Interest income

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

(iii) Government subsidies

Government subsidies are recognised in the balance sheet initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the condition attaching to them. Subsidies 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. Subsidies that compensate the Group for the cost of an asset are recognised in profit or loss as revenue on a systematic basis over the useful life of the asset.

(r) 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.

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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(s) 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 use or sale are interrupted or complete.

(t) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(u) Segment reporting

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

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

	2005 RMB'000	2004 RMB'000
Interest income	**1,443**	239
Sale of scrap paper	**18,615**	14,556
Sale of materials	**516**	475
Government subsidies *(note (i))*	**732**	997
Others	**213**	226
	21,519	16,493

Note:

(i) Subsidies were received from local government on loan interest incurred for purchase of property, plant and equipment.

(b) Other net loss

	2005 RMB'000	2004 RMB'000
Gain on disposal of property, plant and equipment	**122**	74
Exchange loss	**(1,576)**	(644)
Gain on disposal of a subsidiary	**—**	69
Others	**30**	—
	(1,424)	(501)

5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

		2005	2004
		RMB'000	RMB'000
(a)	Finance costs:		
	Interest on bank loans	**2,480**	3,633
(b)	Staff costs:		
	Salaries, wages and other benefits	**46,948**	41,589
	Contributions to defined contribution retirement schemes *(note 23)*	**2,892**	3,505
		49,840	45,094
(c)	Other items:		
	Amortisation of lease prepayments #	**437**	332
	Depreciation of property, plant and equipment #	**26,005**	33,438
	Impairment losses on trade and other receivables	**961**	479
	Bad debt written off	**—**	519
	Auditors' remuneration		
	- audit services	**1,565**	340
	- tax services	**26**	—
	Operating lease charges in respect of land and properties #	**6,409**	5,757
	Exchange loss	**1,576**	644
	Cost of inventories sold #	**583,646**	531,817

Cost of inventories sold included RMB62,510,000 (2004: RMB67,650,000) 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:

	2005 RMB'000	2004 RMB'000
Current tax - Provision for PRC income tax		
Provision for the year	**6,349**	7,383
(Over)/under-provision in respect of prior years	**(61)**	44
	6,288	7,427
Deferred tax		
Origination and reversal of temporary differences *(note 24(b))*	**(848)**	(1,485)
	5,440	5,942

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax during the year (2004: Nil).

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% (2004: 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.

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 (2004: Nil).

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

	2005 RMB'000	2004 RMB'000
Profit before taxation	**46,628**	38,084
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**8,140**	5,929
Tax effect of non-deductible expenses	**577**	682
Tax effect of non-taxable income	**(175)**	(272)
Tax effect of prior year's unrecognised tax losses utilised	**(1,357)**	(441)
(Over)/under-provision in prior years	**(61)**	44
Effect of tax concessions	**(1,684)**	—
Actual tax expense	**5,440**	5,942

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	2005 Total RMB'000
Executive directors:					
- Zheng Fan	—	—	—	—	—
- Ni Zheng	—	150	—	15	165
- Zhou Guangneng	—	150	—	12	162
Non-executive directors:					
- Xie Mei	—	—	—	—	—
Independent non-executive directors:					
- Lee Kit Wah	21	—	—	—	21
- Chen Xiangdong	—	—	—	—	—
- Xiao Yongping	21	—	—	—	21
	42	300	—	27	369

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement schemes contributions RMB'000	2004 Total RMB'000
Executive directors:					
- Zheng Fan	—	—	—	—	—
- Ni Zheng	—	120	—	14	134
- Zhou Guangneng	—	—	—	—	—
Non-executive directors:					
- Xie Mei	—	—	—	—	—
Independent non-executive directors:					
- Lee Kit Wah	—	—	—	—	—
- Chen Xiangdong	—	—	—	—	—
- Xiao Yongping	—	—	—	—	—
	—	120	—	14	134

8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

The aggregate of the emoluments in respect of the five (2004: five) individuals with the highest emoluments are as follows. None (2004: None) of them are directors.

	2005	2004
	RMB'000	RMB'000
Salaries and other emoluments	**702**	694
Discretionary bonuses	**353**	427
Retirement schemes contributions	**129**	51
	1,184	1,172

The emoluments of the five (2004: five) individuals with the highest emoluments are within the band from HK$Nil to HK$1,000,000.

9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDER OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB4,427,000 which has been dealt with in the financial statements of the Company.

10 DIVIDENDS

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

	2005	2004
	RMB'000	RMB'000
Special dividend declared during the year	**—**	20,356
Special dividend proposed after balance sheet date	**—**	50,057
Final dividend proposed after the balance sheet date of HK$7.8 cents per share (equivalent RMB8.112 cents per share) (2004: Nil)	**16,224**	—
	16,224	70,413

Special dividend of RMB33,926,000 was declared by a subsidiary in 2004 to the then equity holders before the Reorganisation, out of which the amount attributable to equity shareholders of the Company was RMB 20,356,000.

Special dividend of RMB50,057,000 was declared by the Company on 2 September 2005 to the then shareholders in respect of the profit of the Group generated prior to the Reorganisation. It was distributed from the contributed surplus account of the Company.

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

10 DIVIDENDS *(continued)*

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

	2005 RMB'000	2004 RMB'000
Special dividend in respect of the previous financial year, approved and paid during the year	**50,057**	—

11 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity shareholders of the Company of RMB40,903,000 (2004: RMB28,651,000) and the weighted average of 158,219,178 (2004: 150,000,000) shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2005 No. of shares
Ordinary shares issued at 1 January *(note 25(a))*	**—**
Issuance new shares *(note 25(a)(iii))*	**10,000**
Capitalisation issue *(note 25(a)(iv))*	**149,990,000**
Effect of issuance of shares for placing and public offering *(note 25(a)(v))*	**8,219,178**
Weighted average number of shares at 31 December	**158,219,178**

The weighted average number of shares in issue for the year ended 31 December 2004 represents the 150,000,000 shares in issue before the listing of the Company's shares on the Stock Exchange, as if such shares have been outstanding for the above entire year.

There were no dilutive potential ordinary shares in issue during the year ended 31 December 2005 (2004: Nil).

12 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	**Plant and machinery**	**Motor vehicles**	**Other property, plant and equipment**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
At 1 January 2004	43,778	221,902	18,306	12,968	296,954
Additions	—	188	1,672	2,632	4,492
Transfer from construction in progress *(note 13)*	27,329	39,337	1,292	2,110	70,068
Disposals	—	(5,263)	(1,825)	(343)	(7,431)
At 31 December 2004	71,107	256,164	19,445	17,367	364,083
At 1 January 2005	71,107	256,164	19,445	17,367	364,083
Additions	437	591	1,201	1,757	3,986
Transfer from construction in progress *(note 13)*	505	3,240	—	600	4,345
Disposals	(301)	—	(984)	(159)	(1,444)
At 31 December 2005	71,748	259,995	19,662	19,565	370,970

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 2004	17,449	96,355	13,620	7,093	134,517
Charge for the year	3,093	24,793	2,708	2,844	33,438
Written back on Disposal	—	(2,519)	(1,572)	(267)	(4,358)
At 31 December 2004	20,542	118,629	14,756	9,670	163,597
At 1 January 2005	20,542	118,629	14,756	9,670	163,597
Charge for the year	3,558	18,027	1,483	2,937	26,005
Written back on disposal	(162)	—	(984)	(144)	(1,290)
At 31 December 2005	23,938	136,656	15,255	12,463	188,312
Net book value:					
At 31 December 2005	47,810	123,339	4,407	7,102	182,658
At 31 December 2004	50,565	137,535	4,689	7,697	200,486

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

13 CONSTRUCTION IN PROGRESS

	The Group	
	2005	2004
	RMB'000	RMB'000
Cost:		
At 1 January	**766**	46,304
Additions	**3,668**	24,530
Transfer to property, plant and equipment *(note 12)*	**(4,345)**	(70,068)
At 31 December	**89**	766

14 GOODWILL

	The Group
	RMB'000
Cost:	
At 1 January 2004, 31 December 2004 and 31 December 2005 *(note 1)*	**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:

	2005	2004
	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-used calculations:

	2005	2004
	%	%
Gross margin	**12**	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 2005, the remaining lease terms of these pieces of land range from 22 to 48 years.

16 INVESTMENTS IN SUBSIDIARIES

	The Company
	2005
	RMB'000
Unlisted shares, at cost	**248,970**

Details of the subsidiaries at 31 December 2005 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**
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

(Expressed in Renminbi Yuan unless otherwise indicated)

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

			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**
Miracle Stone Development Limited	BVI	1 share of US$1 each	100%	—	100%	Investment holding
Mission Holdings Services 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
Shenzhen Huali Packing & Trading Co., Ltd. ("Shenzhen Huali") *(note 1)*	PRC	Paid-up capital of HK$40,000,000	100%	—	100%	Manufacture and sale of paper boxes and products
Mudanjiang Huali Packaging Co., Ltd. ("Mudanjiang Huali") *(note 2)*	PRC	Paid-up capital of RMB 10,000,000	85%	—	85%	Manufacture and sale of paper boxes and products
Shanghai Huali Packaging Co., Ltd. ("Shanghai Huali") *(notes 1 and 3)*	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 1)*	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 4)*	PRC	Paid-up capital of RMB 3,000,000	90%	—	90%	Manufacture and sale of paper boxes and products

16 INVESTMENTS IN SUBSIDIARIES *(continued)*

Notes:

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

(2) Mudanjiang Huali is an equity joint venture established in the PRC. With effect from 1 October 2004, the Group has acquired an additional 15% equity interest in Mudanjiang Huali from a minority equity holder to increase its equity interest from 70% to 85%.

(3) As part of the Reorganisation, the Group acquired the remaining 40% equity interest in Shanghai Huali with effect from 1 October 2004.

(4) Shenzhen Huayou is an equity joint venture established in the PRC.

17 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2005	2004
	RMB'000	RMB'000
Raw materials	**64,211**	57,250
Work-in-progress	**2,081**	2,077
Finished goods	**6,470**	8,918
Spare parts	**419**	694
	73,181	68,939

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

	The Group	
	2005	2004
	RMB'000	RMB'000
Cost of inventories sold	**583,646**	531,817
Write down of inventories	**215**	275
Reversal of write-down inventories	**(606)**	(237)
	583,255	531,855

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.

18 TRADE AND OTHER RECEIVABLES

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Amounts due from subsidiaries	**—**	—	**14,230**
Trade receivables	**108,979**	124,877	**—**
Bills receivable	**30,202**	33,983	**—**
Prepayment, deposits and other receivables	**3,338**	4,304	**411**
Amount due from the intermediate holding company *(note 29(a))*	**—**	20,010	**—**
	142,519	183,174	**14,641**

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

All of the trade and other receivables (including the amounts due from subsidiaries), net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

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

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Within 3 months	**125,717**	145,214	**—**
Within 6 months but more than 3 months	**13,224**	13,496	**—**
Within 12 months but more than 6 months	**240**	119	**—**
Over 12 months	**—**	31	**—**
	139,181	158,860	**—**

The Group's credit policy is set out in note 27(a).

18 TRADE AND OTHER RECEIVABLES *(continued)*

Included in trade and other receivables are following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company
	2005	2004	**2005**
	'000	'000	**'000**
Hong Kong Dollars	**HKD37,900**	HKD46,017	**HKD —**
United States Dollars	**USD2,003**	USD826	**USD —**

19 PLEDGED BANK DEPOSITS

Pledged bank deposits as at 31 December 2004 were denominated in Renminbi and are used to secure bank facilities granted to the Group.

20 CASH AND CASH EQUIVALENTS

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Cash at bank and in hand	**95,283**	59,595	**41,761**

Included in cash and cash equivalents in the balance sheet are the following amounts denominated in a currency other than the functional currency of the entity to which they relate:

	The Group		The Company
	2005	2004	**2005**
	'000	'000	**'000**
Hong Kong Dollars	**HKD59,464**	HKD19,180	**HKD —**
United States Dollars	**USD566**	USD613	**USD —**

21 TRADE AND OTHER PAYABLES

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Trade payables	**58,251**	58,760	**—**
Bills payable	**85,693**	94,676	**—**
Other payables	**26,327**	29,935	**1,211**
Amount due to the intermediate holding company *(note 29(a))*	**—**	22,674	**—**
Amount due to a related party *(note 29(a))*	**9,118**	39,159	**—**
	179,389	245,204	**1,211**

All of the trade and other payables are expected to be settled within one year.

At 31 December 2005, no bills payable (2004: RMB45,769,000) were guaranteed by the then intermediate holding company.

At 31 December 2005, no bills payable (2004: RMB48,907,000) were secured by pledged deposits.

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		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Within 3 months or on demand	**142,798**	115,830	**—**
Over 3 months but less than 1 year	**937**	37,176	**—**
Over 1 year	**209**	430	**—**
	143,944	153,436	**—**

Included in trade and other payables are the following amounts denominated in a currency other than the functional currency of the entity to which they related:

	The Group		The Company
	2005	2004	**2005**
	'000	'000	**'000**
Hong Kong Dollars	**HKD10,791**	HKD8,191	**HKD —**
United States Dollars	**USD215**	USD202	**USD —**

22 BANK LOANS

The Group's short-term bank loans comprise:

		The Group	
		2005	2004
		RMB'000	RMB'000
Renminbi denominated	Interest rates ranging from 4.6980% to 5.301% per annum with maturities through 11 November 2006	**36,300**	52,119
US Dollars denominated	Interest rates at LIBOR*+1.3595% per annum with maturities through 20 March 2006	**2,174**	—
		38,474	52,119

* London Interbank Offered Rate

At 31 December 2005, no bank loans (2004: RMB52,119,000) were guaranteed by OCT (HK), the intermediate holding company.

23 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, Shanghai and Mudanjiang whereby the Group is required to make contributions to the Schemes at a rate ranging from 8% to 25% of the eligible employees' salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees.

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.

24 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2005	2004
	RMB'000	RMB'000
Provision for PRC income tax	**3,970**	4,988

(b) Deferred tax assets and liabilities recognised:

The Group

The components of deferred tax assets recognised in the consolidated balance sheets 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 2004	—	—	27	—	27
Credited to profit or loss	1,158	215	112	—	1,485
At 31 December 2004	1,158	215	139	—	1,512
At 1 January 2005	1,158	215	139	—	1,512
Credited to profit or loss	557	65	13	213	848
At 31 December 2005	1,715	280	152	213	2,360

25 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

(a) Share capital

	2005	
	No. of shares	
	'000	**HK$'000**
Authorised:		
Ordinary shares of HK$0.1 each (note (i))	200,000	20,000

Ordinary shares, issued and fully paid:	**No. of shares '000**	**RMB'000**
At 1 January	—	—
Issuance of shares upon formation and the Reorganisation *(notes (i) and (iii))*	10	1
Capitalisation issue *(note (iv))*	149,990	15,599
Issuance of shares for placing and public offering *(note (v))*	50,000	5,200
At 31 December	200,000	20,800

Notes:

(i) Issuance of shares upon formation of the Company

The Company was incorporated on 28 February 2005 with an authorised share capital of HK$390,000 divided into 3,900,000 shares of HK$0.1 each.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

On the formation of the Company, 1 nil paid ordinary share was issued to Pacific Climax Limited ("Pacific Climax"), its then sole shareholder.

(ii) Increase in authorised share capital

At an extraordinary shareholders' meeting held on 12 October 2005, the Company's authorised share capital was increased from HK$390,000 to HK$200,000,000 by the creation of an additional 1,996,100,000 ordinary shares of HK$0.1 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

25 EQUITY ATTRIBUTABLE TO EQUITY SHARE HOLDERS OF THE COMPANY *(continued)*

(a) Share capital *(continued)*

(iii) Issuance of shares upon Reorganisation

As part of the Reorganisation and as consideration for the acquisition of the entire share capital of Max Surplus, which owns and controls all the operating subsidiaries, the Company (i) allotted and issued, credited as fully paid, a total of 9,999 ordinary shares of HK$0.1 each to Pacific Climax on 29 July 2005; and (ii) credited as fully paid at par the 1 nil paid share which was held by Pacific Climax.

(iv) Capitalisation issue

On 2 November 2005, an amount of HK$14,999,000 standing to the credit of the share premium account was applied in paying up in full 149,990,000 ordinary shares of HK$0.1 each. The shares were allotted and distributed as fully paid to the then shareholders in the proportion of 14,999 for every 1 ordinary share held.

(v) Issuance of shares for placing and public offering

On 2 November 2005, an aggregate of 50,000,000 ordinary shares of HK$0.1 each were issued and offered for subscription at a price of HK$1.30 per share upon the listing of the Company's shares on the Stock Exchange. The Group raised approximately HK$48,811,000 net of related expenses from the share offer.

(vi) Share capital at 31 December 2004

Share capital at 31 December 2004 represented the aggregate amount of the Group's share of the nominal value of the paid up capital of the companies comprising the Group as at 31 December 2004.

(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.

As part of the Reorganisation, OCT (HK), the then immediate holding company, transferred its equity interests in Shenzhen Huali, Mudanjiang Huali, Shanghai Huali and Zhongshan Huali to Max Surplus Limited, its wholly-owned subsidiary, on 16 February 2005, 28 January 2005, 4 February 2005 and 14 March 2005 respectively. A contributed surplus of RMB122,345,000 was resulted from these transfers.

As part of the Reorganisation, a shareholder's loan of RMB25,589,000 was waived by Pacific Climax on 30 May 2005. A contributed surplus of an equivalent amount was resulted accordingly.

As part of the Reorganisation, retained profits as at 31 December 2004 amounted to RMB50,057,000 were transferred to the contributed surplus.

25 EQUITY ATTRIBUTABLE TO EQUITY SHARE HOLDERS OF THE COMPANY *(continued)*

(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.

During the year ended 31 December 2004, the Group acquired an additional 15% equity interest in Mudanjiang Huali from a minority equity holder. As Mudanjiang Huali was a subsidiary controlled by the Company before the acquisition of the additional interest, the excess of consideration paid by the Group over the Group's additional interest in the net fair value of Mudanjiang Huali's identifiable assets, liabilities and contingent liabilities, being RMB180,000, was charged to the merger reserve.

(d) Capital reserve

The capital reserve represented the difference between the total amount of registered capital and the amount of contributions from the equity holders.

(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.

(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.

25 EQUITY ATTRIBUTABLE TO EQUITY SHARE HOLDERS OF THE COMPANY *(continued)*

(g) Distributable reserves of the Company

	Note	**Share premium RMB'000**	**Contributed surplus RMB'000**	**Retained profits RMB'000**	**Total RMB'000**
Arising from the Reorganisation	(i)	—	299,027	—	299,027
Special dividend declared in respect of previous year	10	—	(50,057)	—	(50,057)
Capitalisation issue	25(a)(iv)	(15,599)	—	—	(15,599)
Issuance of shares for placing and public offering	25(a)(v)	62,400	—	—	62,400
Share issuing costs		(16,837)	—	—	(16,837)
Profit for the period		—	—	4,427	4,427
At 31 December 2005		29,964	248,970	4,427	283,361

Note:

(i) The excess of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange under the Reorganisation was transferred to contributed surplus in the Company's financial statements.

At 31 December 2005, the aggregate amount of reserves available for distribution to equity shareholders of the Company is RMB283,361,000.

26 DISPOSAL OF A SUBSIDIARY

On 30 September 2004, the Group disposed of 100% interest in Panyu Huali for a cash consideration of RMB5,761,000.

	2004
	RMB'000
Net assets disposed of:	
Investment	300
Property, plant and equipment	2,915
Inventories	730
Trade and other receivables	4,034
Cash at bank and in hand	669
Trade and other payables	(2,828)
Income tax payable	(128)
Net identifiable assets and liabilities	5,692
Gain on disposal	69
Total consideration	5,761
Less: Cash of the subsidiary disposed of	(669)
Net cash inflow in respect of the disposal of a subsidiary	5,092

27 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. Customers are normally granted credit terms of one to three months depending on the Group's assessment of the credit worthiness of individual customers. Subject to negotiation, extended credit terms are available for certain customers with established trading records. 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.

27 FINANCIAL INSTRUMENTS *(continued)*

(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 1.14% per annum (2004: 1.13% per annum). All bank loans are short-term and their effective interest rate is 5.18% per annum (2004: 4.82% per annum).

(d) Foreign 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) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

(e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2005 and 2004 due to their short-term nature.

28 COMMITMENTS

(a) Capital commitments, outstanding at 31 December 2005 not provided for in the financial statements were as follows:

	The Group		The Company
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Contracted for	**218**	344	**—**
Authorised but not contracted for	**3,702**	450	**—**
	3,920	794	**—**

28 COMMITMENTS *(continued)*

(b) At 31 December 2005, 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
	2005	2004	**2005**
	RMB'000	RMB'000	**RMB'000**
Within 1 year	**3,875**	3,794	**—**
After 1 year but within 5 years	**6,467**	4,892	**—**
After 5 years	**—**	1,887	**—**
	10,342	10,573	**—**

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.

29 MATERIAL RELATED PARTY TRANSACTIONS

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

Name of party	**Relationship with the Group**
Overseas Chinese Town Group Company ("OCT Group")	Ultimate holding company
Overseas Chinese Town (HK) Company Limited ("OCT (HK)")	Intermediate holding company
Konka Group Company Limited, its subsidiaries and associates ("Konka Group") *(Note)*	Associate of the ultimate holding company (before 28 September 2005)
Shanghai Huiyang Industry Co., Ltd. ("Shanghai Hui Yang")	79% owned by a director of a subsidiary of the Group
Shanghai Meiling Central Air Conditioner Company Limited ("Meiling Air Conditioner")	Subsidiary of Shanghai Hui Yang
Shanghai Pudong Xiamei Plastics Co., Ltd. ("Shanghai Xiamei")	Subsidiary of Shanghai Hui Yang
Mudanjiang Nanhua Hesheng Co., Ltd. ("Mudanjiang Nanhua") (Formerly known as Mudanjiang Nanhua Industrial Company Limited)	Minority equity holder of a subsidiary

Note: Due to the change in shareholding of Konka Group Company Limited, Konka Group ceased to be a related party of the Group from 28 September 2005.

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

Recurring transactions

	2005	2004
	RMB'000	RMB'000
Sales of goods to:		
Konka Group *(Note)*	**88,432**	130,234
OCT Group, its subsidiaries and associates other than Konka Group	**870**	974
Meiling Air Conditioner	**9,106**	4,421
Mudanjiang Nanhua	**168**	297
	98,576	135,926
Purchase of goods from:		
OCT Group, its subsidiaries and associates other than Konka Group	**1,658**	131
Mudanjiang Nanhua	**1,708**	400
	3,366	531
Rental paid to:		
OCT Group, its subsidiaries and associates other than Konka Group	**1,712**	1,970
Shanghai Hui Yang	**—**	160
Shanghai Xiamei	**180**	—
	1,892	2,130
Utility expenses paid to:		
OCT Group, its subsidiaries and associates other than Konka Group	**4,335**	4,111

Note: The amount for the year ended 31 December 2005 represents transactions occurred before 28 September 2005 when Konka Group was still regarded as a related party of the Group.

The directors of the Company are of the option 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.

29 MATERIAL RELATED PARTIES *(continued)*

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

Non recurring transactions

	2005	2004
	RMB'000	RMB'000
Bills payable guaranteed by OCT (HK)	**—**	45,769
Bank loans guaranteed by OCT (HK)	**—**	52,119

Balances with related parties

(i) Amounts due from related parties, other than intermediate holding company, are as follows:

	2005	2004
	RMB'000	RMB'000
Trade receivable	**2,947**	33,374
Trade payable	**475**	—

The trade receivables balance is unsecured, non-interest bearing and is expected to be recovered within six months. These refer to receivables in respect of sales of paper cartons and paper boxes to related parties.

The trade payable balance are unsecured non-interest bearing and are expected to be settled within two months. These refer to payables in respect of purchases of raw materials from related payables.

(ii) Amounts due from/(to) intermediate holding company are as follows:

	2005	2004
	RMB'000	RMB'000
Other receivables *(note 18)*	**—**	20,010
Other payables *(note 21)*	**—**	(22,674)
Net position	**—**	(2,664)

The amounts were due from/(to) OCT (HK) which were unsecured, non-interest bearing and repayable on demand.

Other receivables were advances to OCT (HK) for investments. Other payables were advances from OCT (HK) and dividends and management fees payable to OCT (HK).

29 MATERIAL RELATED PARTIES *(continued)*

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

Balances with related parties *(continued)*

(iii) Amount due to a related party is as follows:

	2005	2004
	RMB'000	RMB'000
Other payables *(note 21)*	**9,118**	39,159

The amount due to a related party was unsecured and non-interest bearing, RMB9,118,000 (2004: RMB13,571,000) of the amount was repayable on demand. The balance as at 31 December 2005 referred to payable in respect of purchase of land use right from Shenzhen Land Bureau whereby the amount was previously paid by OCT Group.

(b) 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:

	2005	2004
	RMB'000	RMB'000
Short-term employee benefits	**1,397**	1,255
Post employment benefits	**156**	51
	1,553	1,306

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

(c) 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 23.

(d) Transactions with other state-owned entities in the PRC

The Group is ultimately owned by a state-owned entity in the PRC and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with its holding companies, the Group conducts certain business activities with entities directly or indirectly owned or controlled by the PRC Government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The directors of the Company are of the opinion that the Group has provided meaningful disclosure of related party transactions as summarised above.

(Expressed in Renminbi Yuan unless otherwise indicated)

30 NON-ADJUSTING POST BALANCE SHEET EVENTS

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

On 20 January 2006, the Group acquired 100% interest in Grand Signal Limited ("Grand Signal") for a cash consideration of HK$8,457,000 from OCT (HK). The principal activity of Grand Signal is investment holding and its sole subsidiary owns a piece of land in Anhui, the PRC.

On 20 January 2006, the Group acquired a 10% interest in Shenzhen Huayou for a cash consideration of RMB300,000 from Panyu Huali Youde Offset Printing & Packaging Company Limited. After the acquisition, Shenzhen Huayou became a wholly-owned subsidiary of the Group.

On 7 February 2006, the board resolved to issue 19,300,000 share options to certain senior management personnel pursuant to the Company's share option scheme which was adopted on 12 October 2005 whereby the directors are authorised, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up option to subscribe for shares of the Company at an exercise price which is set at the higher of (i) the closing price of the Company's share trading on the Stock Exchange at the date of grant of the option; (ii) the average of the closing prices of the Company's share of the five preceeding business days immediately before the date of grant of the option; and (iii) the nominal value of the Company's share on the date of grant of the option. The options vest immediately and are then exercisable within a period of 10 years. Each option gives the holder the right to subscribe for one ordinary share in the company. The details of the share option scheme are as follows:

	Number of instruments	Exercise price	Vesting conditions	Contractual life of options
Options granted to directors:				
- on 7 February 2006	3,700,000	HK$1.41	Immediate	Ten years
Options granted to employees:				
- on 7 February 2006	15,600,000	HK$1.41	Immediate	Ten years

31 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2005, the directors consider the ultimate holding company of the Group to be Overseas Chinese Town Group Company, which is incorporated in the PRC. The directors also consider the immediate holding company to be Pacific Climax Limited. These entities do not produce financial statements available for public use.

32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Notes 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 2(j), the Group makes impairment loss for trade and other receivables based 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 estimated at the balance sheet date.

(Expressed in Renminbi Yuan unless otherwise indicated)

32 ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

(ii) Provision for inventories

As explained in notes 2(i), 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. Uncertainly exists in these estimations.

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ending 31 December 2005 and which have not been adopted in these financial statements:

		Effective for accounting periods beginning on or after
HKFRS 6	Exploration for and evaluation of mineral resources	1 January 2006
HK(IFRIC) 4	Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6	Liabilities arising from participating in a specific market - Waste electrical and electronic equipment	1 December 2005
HK(IFRIC) 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006
Amendments to HKAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendments to HKAS 39	Financial instruments:	
	Recognition and measurement:	
	- Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
	- The fair value option	1 January 2006
	- Financial guarantee contracts	1 January 2006

(Expressed in Renminbi Yuan unless otherwise indicated)

33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005 *(continued)*

		Effective for accounting periods beginning on or after
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:		
— HKAS 1	Presentation of financial statements	1 January 2006
— HKAS 27	Consolidated and separate financial statements	1 January 2006
— HKFRS 3	Business combinations	1 January 2006
HKFRS 7	Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1	Presentation of financial statements: capital disclosures	1 January 2007

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.