

# 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)

2006

INTERIM REPORT

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## **CORPORATE INFORMATION**

### **Registered Office**

Clifton House, 75 Fort Street  
PO Box 1350 GT, George Town  
Grand Cayman, Cayman Islands

### **Head Office and**

#### **Principal Place of Business**

Suite 3203 – 3204, Tower 6  
The Gateway, Harbour City  
Canton Road, Tsim Sha Tsui  
Kowloon, Hong Kong

### **Board of Directors**

#### *Executive Directors*

Mr. Zheng Fan

*(the Chairman of the Company)*

Mr. Ni Zheng

*(the Chief Executive Officer of the Company)*

Mr. Liu Danlin

Mr. Zhou Guangneng

#### *Non-executive Director*

Ms. Xie Mei

#### *Independent Non-executive Directors*

Mr. Lee Kit Wah

Mr. Chen Xiangdong

Mr. Xiao Yongping

### **Qualified Accountant and Company Secretary**

Mr. Fong Fuk Wai *(FCPA, FCCA)*

### **Compliance Adviser**

Taifook Capital Limited  
25/F New World Tower  
16-18 Queen's Road Central  
Hong Kong

### **Auditors**

KPMG

Certified Public Accountants

8/F Prince's Building

10 Chater Road

Central, Hong Kong

### **Hong Kong Legal Adviser**

Loong & Yeung

in association with Rodyk & Davidson

Suites 2911-12, 29/F

Two International Finance Centre

No.8 Finance Street, Central

Hong Kong

### **Principal Share Registrar and Transfer Office**

Appleby Corporate Services (Cayman) Limited

Clifton House, 75 Fort Street

PO Box 1350 GT

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

### **Principal Bankers**

China Merchants Bank Hong Kong Branch

Standard Chartered Bank (HK) Ltd.

### **Stock Information**

Listing Date: 2 November 2005

Stock Code: 3366

Total shares issued: 200,000,000 shares

Nominal Value: HK\$0.10 per share

Stock Name: Huali Holdings

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW AND PROSPECTS

#### Operating results

For the six months ended 30 June 2006, the Group recorded a turnover of approximately RMB316 million, representing an increase of approximately 0.8% over the same period for last year; the gross profit margin was approximately 13.5%, representing an increase of 2.1% over the same period of 2005, which was mainly attributable to the lower cost of sales due to the strengthened management of raw materials procurement; profits attributable to shareholders were approximately RMB16.04 million, representing a decrease of approximately 15.4% over the same period for last year, which was mainly due to the fact that the Group had recognised the fair value of the share options of RMB4.56 million granted to the employees in the first half year of 2006 as an expense.

The Group acquired 100% interest in Grand Signal Limited (“Grand Signal”) and its wholly-owned subsidiary located in Chuzhou City, Anhui Province during the first half year of 2006. This acquisition helps the Group increase its production capacity, expand the scope of product services and enhance competitiveness. Meanwhile, the Group provided more comprehensive and better quality products and services through stringent quality control and increased product mix.

During the period under review, facing the intensifying competitive market environment, the Group centralised the procurement of major raw materials and major equipment. The Group’s procurement size was enhanced through such centralised management, which resulted in stronger bargaining power and more effective cost control.

#### Outlook

It was expected that China’s economy will maintain its steady growth, with consumption power continue to grow, bringing along the demands for corrugated paper packaging, which will create potential for the Group’s development. At the same time, the intensifying competition in the paper packaging industry poses challenges for the Group.

In the second half of 2006, the Group would expand its production capacity in Anhui by adding more production equipment and would continue to optimise its production procedures. Meanwhile, the Group will put more efforts in identifying a location for its new Shenzhen Base. The aforesaid projects will be funded by bank loans and internal resources of the Group.

### APPOINTMENT OF DIRECTOR

At the 2005 Annual General Meeting of the Company held on 11 May 2006, a resolution was passed in respect of the appointment of Mr. Liu Danlin as an Executive Director of the Company for a term of 3 years.

## **EMPLOYEES AND REMUNERATION POLICY**

As at 30 June 2006, the Group employed nearly 1,800 full-time staff members. The basic remunerations of the employees are mainly determined with reference to the industrial remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually. Apart from the basic remunerations and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual staff's performance. The Group has adopted a share option scheme with a view to attracting and retaining high calibre personnel.

## **FINANCIAL REVIEW**

As at 30 June 2006, the Group's total assets were approximately RMB569 million. Total equity amounted to approximately RMB321 million. The Group's turnover was approximately RMB316 million for the six months ended 30 June 2006, representing an increase of approximately 0.8% over the same period of 2005; gross profit margin was approximately 13.5% (same period in 2005: 11.4%), the increase in gross profit margin was attributable to the enhanced purchase management of raw material, which reduced the cost of sale; profits attributable to shareholders were approximately RMB16.04 million, representing a decrease of approximately 15.4% over the same period for 2005. This was mainly due to the fact that the Group had recognised the fair value of the share options granted to the employees in the first half year of 2006 as an expense.

### **Distribution Costs and Administrative Expenses**

Distribution costs for the six months ended 30 June 2006 were approximately RMB15.07 million (same period in 2005: RMB13.91 million), representing an increase of approximately 8.3% over the corresponding period in 2005. This was mainly attributable to the substantial increase in the fuel price in China which gave rise an increase in transportation costs during the period.

The Group's administrative expenses for the six months ended 30 June 2006 were approximately RMB14.82 million (same period in 2005: approximately RMB7.68 million), representing an increase of approximately 92.9% for the same period in 2005, which was mainly due to the adoption of accounting policy in respect of share based payment in accordance with HKFRS 2 "Share-based payment", which the Group had recognised the fair value of the share options granted to the employees on 7 February 2006 as an expense in the income statement. Further, the corporate governance of the Group has been strengthened after the listing, thus the administrative expense increased accordingly.

### **Interest Expenses**

The interest expenses of the Group were approximately RMB1.25 million for the six months ended 30 June 2006, the same as that for the period ended 30 June 2005.

### **Dividends**

The Board did not recommend the payment of interim dividend for the six months ended 30 June 2006.

**Inventories, Debtors' and Creditors' Turnover**

The inventory turnover of the Group was 45 days for the six months ended 30 June 2006 as compared to 46 days for the year ended 31 December 2005. The Group's inventory turnover days were maintained at the same level as compared to 2005. The Group's debtors' turnover days were 69 days for the six months ended 30 June 2006 as compared to 77 days for the year ended 31 December 2005. The above debtors' turnover days are substantially the same as that normally granted by the Group to its customers. In the first half of 2006, the Group enhanced its risks control and the recoverability of its account receivables, resulting in a decrease in debtors' turnover days. The Group's creditors' turnover days were 86 days for the six months ended 30 June 2006 as compared to 90 days for the year ended 31 December 2005.

**Liquidity, Financial Resources and Capital Structure**

The total equity of the Group as at 30 June 2006 was approximately RMB321 million (31 December 2005: RMB326 million). As at 30 June 2006, the Group had current assets of approximately RMB338 million (31 December 2005: RMB314 million) and current liabilities of RMB214 million (31 December 2005: RMB229 million). The liquidity ratio was 1.58 as at 30 June 2006 as compared to 1.37 as at 31 December 2005. The Group generally finances its operations with internally generated cash flow and credit facilities provided by banks. During the six months ended 30 June 2006, the Group borrowed a long term bank loan of HK\$40 million with maturities through 2 June 2009. As at 30 June 2006, the Group had outstanding bank loans of approximately RMB83.63 million of which approximately RMB42.03 million were fixed-rate loans (31 December 2005: outstanding bank loans were RMB38.47 million of which RMB36.3 million were fixed-rate loans). The interest rates of bank loans of the Group ranged from 4.96% per annum to 7.07% per annum for the six months ended 30 June 2006 and from 2.58% per annum to 6.11% per annum for the year ended 31 December 2005. These 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) increased from approximately 22% as at 31 December 2005 to approximately 26% as at 30 June 2006.

As at 30 June 2006, approximately 49% of the total amount of outstanding bank loans of the Group was in Renminbi (31 December 2005: 94%), approximately 50% of its bank loans was in Hong Kong Dollars (31 December 2005: nil) and approximately 1% of bank loans was in US Dollars (31 December 2005: 6%). At 30 June 2006, approximately 78% of the total amount of cash and cash equivalents of the Group was in Hong Kong Dollars (31 December 2005: 42%), approximately 17% of its cash and cash equivalents was in Renminbi (31 December 2005: 41%) and approximately 5% of its cash and cash equivalents was in US Dollars (31 December 2005: 17%).

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 for the period up to 30 June 2006. As at 30 June 2006, the Group did not employ any financial instrument for hedging purposes.

### Use of Proceeds from the Initial Public Offering

Approximately HK\$45 million out of the net proceeds of approximately HK\$48 million from the Initial Public Offering which was completed in November 2005, was earmarked for the acquisition of a piece of land for the construction of a new factory. Due to the state's macro-control policies, the control of land has been tightened. As at 30 June 2006, the Group is still in the process of identifying a suitable land for acquisition purpose and the above net proceeds were placed as bank deposits for future acquisition of land.

### Contingent Liabilities

The Group has no contingent liabilities as at 30 June 2006.

## DIRECTORS' INTERESTS

As at 30 June 2006, 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 Positions in Ordinary Shares of the Company*

Name	Capacity/Nature	No. of options held	Approximate shareholding percentage
Ni Zheng ( <i>Note 1</i> )	Beneficial owner	2,000,000	1.00%
Liu Danlin ( <i>Note 2</i> )	Beneficial owner	1,700,000	0.85%
Zhou Guangneng ( <i>Note 3</i> )	Beneficial owner	1,700,000	0.85%

#### *Notes:*

1. Ni Zheng is taken to be interested as a grantee of options to subscribe for 2,000,000 Shares under the Share Option Scheme of the Company.
2. Liu Danlin is taken to be interested as a grantee of options to subscribe for 1,700,000 Shares under the Share Option Scheme of the Company.
3. Zhou Guangneng is taken to be interested as a grantee of options to subscribe for 1,700,000 Shares under the Share Option Scheme of the Company.

Save as disclosed above, as at 30 June 2006, 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' INTERESTS

As at 30 June 2006, 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 the Ordinary Shares of the Company

Name	Capacity/Nature	No. of Shares of interest	Approximate shareholding percentage
<b>Substantial Shareholders</b>			
Pacific Climax Limited	Beneficial owner	134,370,000	67.185%
Overseas Chinese Town (HK) Company Limited ("OCT (HK)")	Interest of a controlled corporation ( <i>Note 1</i> )	134,370,000	67.185%
Overseas Chinese Town Enterprises Co. ("OCT Group")	Interest of a controlled corporation ( <i>Note 2</i> )	134,370,000	67.185%
<b>Others</b>			
Polyfairz Group Limited (formerly known as Polyfair Limited)	Beneficial owner	15,630,000	7.815%
Zhang Zhilin	Interest of a controlled corporation ( <i>Note 3</i> )	15,630,000	7.815%
Tang Qinmei	Interest of spouse ( <i>Note 4</i> )	15,630,000	7.815%
Noor Financial Investment Company KSC	Beneficial owner	11,778,000	5.89%

#### Notes:

- 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.
- 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 134,370,000 shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO.
- 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.
- 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.



## **SHARE OPTION SCHEME**

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 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 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 in general meetings.

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 each grantee of options to the Company on acceptance of the offer for the grant of options 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 options; (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 options; and (iii) the nominal value of the shares on the date of grant of the options.

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 the issuance 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 9.65% 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 Company's 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 30 June 2006 are as follows:

Name and category of participants	Number of unlisted share options (physically settled equity derivatives)					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\$
	As at 1 January 2006	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	As at 30 June 2006				
<b>Directors</b>									
Ni Zheng	—	2,000,000	—	—	2,000,000	7 February 2006	7 February 2006 to 6 February 2016	1.41	1.41
Liu Danlin	—	1,700,000	—	—	1,700,000	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
	—	5,400,000	—	—	5,400,000				
<b>Other Employees</b>	—	13,900,000	—	—	13,900,000				
<b>Total</b>	—	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.

In accordance with the requirements under Hong Kong Financial Reporting Standards 2 "Share-based Payment", the cost of approximately RMB4.56 million in respect of the share options granted by the Company during the period was recognised in the consolidated income statement of the Group. Upon exercise of the share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Share options which lapse or are cancelled prior to the expiration of their exercise dates are deleted from the register of outstanding share options.

The details of the model and significant assumptions used to estimate the fair value of the share options granted by the Company to the eligible participants during the period are set out under Note 14 on the interim financial report.

Apart from the foregoing, at no time during the period prior to the date of this interim report was the Company, any of its holding companies, 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.

## CORPORATE GOVERNANCE

For the six months ended 30 June 2006, the Company has complied with all the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange (the “Listing Rules”).

### Securities Trading by Directors

The Company 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 specific enquiry of all Directors, the Directors have complied with the required standards set out in the Model Code regarding the 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.

### Audit Committee

The audit committee of the Company and the management have reviewed the unaudited interim financial statements of the Group for the six months ended 30 June 2006 and have discussed the internal control, accounting principles and practices adopted by the Group.

### Purchase, Sale or Redemption of Shares

The Company or any of its subsidiaries has not redeemed any of its shares during the six months ended 30 June 2006. During the same period, neither the Company nor any of its subsidiaries has purchased or sold any of the shares of the Company.

By order of the Board  
**Zheng Fan**  
*Chairman*

Hong Kong, 14 September 2006

## INTERIM FINANCIAL REPORT

### CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006 (unaudited)  
(Expressed in Renminbi)

		Six months ended 30 June	
	Note	2006	2005
			(restated)
			(Note 1(c))
		RMB'000	RMB'000
<b>Turnover</b>	5	<b>316,254</b>	313,628
Cost of sales		(273,661)	(277,804)
<b>Gross profit</b>		<b>42,593</b>	35,824
Other revenue		9,493	9,602
Other net loss		(774)	(92)
Distribution costs		(15,065)	(13,913)
Administrative expenses		(14,822)	(7,683)
Other operating expenses		(561)	(508)
<b>Profit from operations</b>		<b>20,864</b>	23,230
Finance costs	6	(1,250)	(1,251)
<b>Profit before taxation</b>	6	<b>19,614</b>	21,979
Income tax	7	(3,547)	(2,925)
<b>Profit for the period</b>		<b>16,067</b>	19,054
<b>Attributable to:</b>			
Equity shareholders of the Company		16,044	18,969
Minority interests		23	85
<b>Profit for the period</b>		<b>16,067</b>	19,054
<b>Earnings per share</b>	9		
Basic		<b>RMB0.080</b>	RMB0.126
Diluted		<b>RMB0.077</b>	RMB0.126

The notes on pages 17 to 32 form part of this interim financial report.

## CONSOLIDATED BALANCE SHEET

At 30 June 2006 (unaudited)

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2006  RMB'000	At 31 December 2005  (restated) (Note 1(c)) RMB'000
<b>Non-current assets</b>			
Property, plant and equipment		180,721	183,006
Construction in progress		2,769	9,506
Goodwill		24,937	24,937
Lease prepayments		20,370	20,589
Deferred tax assets		2,360	2,360
		<u>231,157</u>	<u>240,398</u>
<b>Current assets</b>			
Inventories		67,766	73,181
Trade and other receivables	10	124,208	143,124
Cash and cash equivalents	11	145,892	97,951
		<u>337,866</u>	<u>314,256</u>
<b>Current liabilities</b>			
Trade and other payables	12	162,913	186,562
Bank loans		49,100	38,474
Current taxation		1,693	3,970
		<u>213,706</u>	<u>229,006</u>
<b>Net current assets</b>		<u>124,160</u>	<u>85,250</u>
<b>Total assets less current liabilities</b>		<u>355,317</u>	<u>325,648</u>

The notes on pages 17 to 32 form part of this interim financial report.

**CONSOLIDATED BALANCE SHEET** (CONTINUED)

At 30 June 2006 (unaudited)

(Expressed in Renminbi)

	<i>Note</i>	At 30 June 2006  <i>RMB'000</i>	At 31 December 2005  <i>(restated)</i> <i>(Note 1(c))</i> <i>RMB'000</i>
<b>Non-current liabilities</b>			
Bank loans		34,528	—
<b>NET ASSETS</b>		<b>320,789</b>	325,648
<b>CAPITAL AND RESERVES</b>			
Share capital		20,800	20,800
Reserves		298,575	303,157
<b>Total equity attributable to equity shareholders of the Company</b>		<b>319,375</b>	323,957
<b>Minority interests</b>		<b>1,414</b>	1,691
<b>TOTAL EQUITY</b>		<b>320,789</b>	325,648

Approved and authorised for issue by the board of directors on 14 September 2006.

Zheng Fan	)	
	)	
	)	<i>Directors</i>
Ni Zheng	)	
	)	

The notes on pages 17 to 32 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 (unaudited)

(Expressed in Renminbi)

	Attributable to equity				
	Registered/ issued capital RMB'000	Share premium RMB'000	Contributed surplus RMB'000	Merger reserve RMB'000	Capital reserve RMB'000
At 1 January 2005, as previously reported	122,345	—	—	24,757	20,828
Adjusted for the Acquisition (Note 1(c))	—	—	9,387	—	—
Arising from the Reorganisation (Note 13(a))	(122,345)	—	197,991	—	—
Profit for the period	—	—	—	—	—
Transfer from retained profits to reserve	—	—	(269)	—	—
Transfer to reserve (Note 13(b))	—	—	—	—	—
At 30 June 2005, as restated	<u>—</u>	<u>—</u>	<u>207,109</u>	<u>24,757</u>	<u>20,828</u>
At 1 January 2006, as previously reported	20,800	29,964	147,934	24,757	20,828
Adjusted for the Acquisition (Note 1(c))	—	—	8,573	—	—
At 1 January 2006, as restated	20,800	29,964	156,507	24,757	20,828
Profit for the period	—	—	—	—	—
Equity settled share-based transaction (Note 14)	—	—	—	—	4,558
Exchange differences on translation of financial statements of foreign subsidiaries	—	—	—	—	—
Dividend approved in respect of previous year (Note 8)	—	—	—	—	—
Acquisition of minority interest of a subsidiary (Note 13(c))	—	—	—	—	—
Consideration of the Acquisition (Note 1(c))	—	—	(8,796)	—	—
<b>At 30 June 2006</b>	<b><u>20,800</u></b>	<b><u>29,964</u></b>	<b><u>147,711</u></b>	<b><u>24,757</u></b>	<b><u>25,386</u></b>

The notes on pages 17 to 32 form part of this interim financial report.

shareholders of the Company

Exchange reserve	General reserve fund	Enterprise expansion fund	Retained profits	Total	Minority interests	Total
<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
—	25,790	5,366	50,057	249,143	1,406	250,549
—	—	—	—	9,387	—	9,387
—	—	—	(50,057)	25,589	—	25,589
—	—	—	18,969	18,969	85	19,054
—	—	—	269	—	—	—
—	1,287	—	(1,287)	—	—	—
—	27,077	5,366	17,951	303,088	1,491	304,579
(958)	28,701	5,366	37,992	315,384	1,691	317,075
—	—	—	—	8,573	—	8,573
(958)	28,701	5,366	37,992	323,957	1,691	325,648
—	—	—	16,044	16,044	23	16,067
—	—	—	—	4,558	—	4,558
(164)	—	—	—	(164)	—	(164)
—	—	—	(16,224)	(16,224)	—	(16,224)
—	—	—	—	—	(300)	(300)
—	—	—	—	(8,796)	—	(8,796)
<b>(1,122)</b>	<b>28,701</b>	<b>5,366</b>	<b>37,812</b>	<b>319,375</b>	<b>1,414</b>	<b>320,789</b>



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006 (unaudited)

(Expressed in Renminbi)

	Six months ended 30 June	
	2006	2005 (restated) (Note 1(c))
	<i>RMB'000</i>	<i>RMB'000</i>
Cash generated from operations	36,576	42,621
Tax paid	(5,823)	(6,942)
Net cash infows from operating activities	<u>30,753</u>	<u>35,679</u>
Net cash used in investing activities	(2,946)	(567)
Net cash from/(used in) financing activities	<u>20,134</u>	<u>(16,955)</u>
Net increase in cash and cash equivalents	47,941	18,157
Cash and cash equivalents at 1 January	<u>97,951</u>	<u>59,595</u>
Cash and cash equivalents at 30 June	<u><u>145,892</u></u>	<u><u>77,752</u></u>

The notes on pages 17 to 32 form part of this interim financial report.

## NOTES ON THE INTERIM FINANCIAL REPORT

For the six months ended 30 June 2006 (unaudited)

(Expressed in Renminbi)

### 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 share 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 condensed consolidated interim financial statements have been prepared on the basis that the Company was the holding company of the Group since 1 January 2005, rather than from 29 July 2005. The results of the Group for the six months ended 30 June 2005 included 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 period 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 interim financial statements. In the opinion of the directors, the condensed consolidated interim financial statements prepared on this basis present fairly the results of operations and state of affairs of the Group as a whole.

#### (c) Acquisition of Grand Signal Limited

On 20 January 2006, the Group acquired 100% interest in Grand Signal Limited (“Grand Signal”) from its intermediate holding company, Overseas Chinese Town (HK) Company Limited (“OCT (HK)”) for a cash consideration of HKD8,457,000 (hereinafter referred to as the “Acquisition”). Grand Signal is an investment holding company and its sole subsidiary, Anhui Huali Packaging Company Limited (“Anhui Huali”) (formerly known as Anhui Huali Industrial Products Manufacturing Company Limited), owns a piece of land in Anhui, the People’s Republic of China (the “PRC”) and commenced its trial operations at the end of May in 2006.

## 1 COMPANY BACKGROUND AND BASIS OF PRESENTATION

(continued)

### (c) Acquisition of Grand Signal Limited (continued)

As the Group, Grand Signal and Anhui Huali (the “Acquired Group”) have been under the common control of OCT(HK), the Acquisition is reflected in the condensed consolidated interim financial statements using the principles of merger accounting under AG 5. Accordingly, the assets and liabilities of the Acquired Group have been accounted for at historical amounts and the condensed consolidated interim financial statements of the Company prior to the Acquisition have been restated to include the result of operations and assets and liabilities of the Acquired Group on a combined basis. 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 period ended 30 June 2006.

Grand Signal is incorporated in the British Virgin Islands. OCT(HK) injected capital of RMB9,387,000 to Anhui Huali via Grand Signal during the six months ended 30 June 2005. Grand Signal and Anhui Huali had not commenced operation and incurred pre-operating expenses of RMB269,000 for the six months ended 30 June 2005.

The financial condition and results of operations previously reported by the Group as at 31 December 2005 and for the period/year ended 30 June 2005/31 December 2005 have been restated to include the results of the Acquired Group as set out below:

	<b>The Group (without the Acquired Group)</b> <i>RMB'000</i>	<b>The Acquired Group</b> <i>RMB'000</i>	<b>Combined</b> <i>RMB'000</i>
<b>Results of operations for the six months ended 30 June 2005:</b>			
Turnover	313,628	—	313,628
Profit/(loss) from operations	23,499	(269)	23,230
Profit/(loss) for the period	19,323	(269)	19,054
Earnings/(loss) per share			
Basic (in RMB)	0.128	(0.002)	0.126
<b>Results of operations for the year ended 31 December 2005:</b>			
Turnover	662,243	—	662,243
Profit/(loss) from operations	49,108	(814)	48,294
Profit/(loss) for the year	41,188	(814)	40,374
Earnings/(loss) per share			
Basic (in RMB)	0.259	(0.006)	0.253
<b>Financial condition as at 31 December 2005:</b>			
Current assets	310,983	3,273	314,256
Total assets	538,908	15,746	554,654
Total liabilities	221,833	7,173	229,006
Net assets	317,075	8,573	325,648

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”, issued by the HKICPA.

The interim financial report has been prepared in accordance with substantially the same accounting policies adopted by the Group in the preparation of the financial statements for the year ended 31 December 2005. Please refer to Note 3 for the discussion of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) adopted by the Group in 2006. In addition, following the grant of share options on 7 February 2006, the Company has adopted an accounting policy in respect of share based payment for the accounting period commencing from 1 January 2006 in accordance with HKFRS 2 “Share-based payment”. Please refer to Note 4 for details.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements for the year ended 31 December 2005.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements for the year ended 31 December 2005. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs which collective term includes all applicable individual Hong Kong Financial Reporting Standards, HKASs and Interpretations.

The interim financial report is unaudited and not reviewed by the auditors, but has been reviewed by the Audit Committee of the Company. It was authorised for issuance on 14 September 2006.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements and has been restated with respect to the common control combination (Note 1(c)). Statutory financial statements for the year ended 31 December 2005 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 April 2006.

### 3 NEW AND REVISED HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2006. The Board of Directors has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006, on the basis of HKFRSs currently in issue.

The HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

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.

### 4 ACCOUNTING POLICY FOR SHARE BASED PAYMENTS

The group has adopted the following accounting policy in respect of 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 share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

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 share 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).

### 5 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.

## 6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
(a) Finance costs:		
Interest on bank loans	1,250	1,251
(b) Staff costs:		
Salaries, wages and other benefits	22,009	21,030
Contribution to defined contribution retirement schemes	1,682	1,253
Equity-settled share-based payment expenses (Note 14)	4,558	—
	<u>28,249</u>	<u>22,283</u>
(c) Other items:		
Amortisation of lease prepayments	219	219
Depreciation of property, plant and equipment	13,093	12,575
Impairment losses on trade and other receivables	507	410
Inventory write-down and losses	—	61
	<u>—</u>	<u>61</u>

## 7 INCOME TAX

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
<b>Current tax – Provision for PRC income tax</b>		
Provision for the year	3,547	3,535
Overprovision in respect of prior years	—	(61)
	<u>3,547</u>	<u>3,474</u>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	—	(549)
	<u>3,547</u>	<u>2,925</u>

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 six months ended 30 June 2006 (2005: Nil).

## 7 INCOME TAX *(continued)*

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% to 33% (2005: 15% to 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 period (2005: Nil).

## 8 DIVIDENDS

Dividends attributable to the previous financial year, approved and paid during the interim period:

	Six months ended 30 June	
	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the financial year ended 31 December 2005, approved and paid during the interim period, of HKD7.8 cents per share (equivalent RMB8.112 cents per share) (year ended 31 December 2004: Nil)	<b>16,224</b>	—

The directors do not propose the payment of an interim dividend for the six months ended 30 June 2006 (2005: Nil).

## 9 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity shareholders of the Company of RMB16,044,000 (2005: RMB18,969,000) and the weighted average of 200,000,000 (2005: 150,000,000) shares in issue during the six months ended 30 June 2006.

The weighted average number of shares in issue for the six months ended 30 June 2005 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 period.

### (b) Diluted earnings per share

The calculation of diluted earnings per share for the six months ended 30 June 2006 is based on the profit attributable to equity shareholders of the Company of RMB16,044,000 (2005: RMB18,969,000) and the weighted average of 207,481,925 (2005: 150,000,000) shares in issue during the six months ended 30 June 2006, calculated as follows:

Weighted average number of ordinary shares (diluted)

	<b>2006</b>
Weighted average number of ordinary shares at 30 June	<b>200,000,000</b>
Effect of deemed issue of shares under the Company's share option scheme ( <i>Note 14</i> )	<b>7,481,925</b>
Weighted average number of ordinary shares (diluted) at 30 June	<b><u>207,481,925</u></b>

There were no dilutive potential ordinary shares in issue during the six months ended 30 June 2005.



## 10 TRADE AND OTHER RECEIVABLES

	At 30 June 2006 <i>RMB'000</i>	At 31 December 2005 (restated) <i>RMB'000</i>
Trade receivables	112,174	108,979
Bills receivable	7,678	30,202
Prepayment, deposits and other receivables	4,356	3,943
	<u>124,208</u>	<u>143,124</u>

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:

	At 30 June 2006 <i>RMB'000</i>	At 31 December 2005 <i>RMB'000</i>
Within 3 months	119,770	125,717
Within 6 months but more than 3 months	82	13,224
Within 12 months but more than 6 months	—	240
	<u>119,852</u>	<u>139,181</u>

The Group normally allows a credit period ranging from 30 days to 90 days to its customers. Subject to negotiation, extended credit terms are available for certain customers with established trading records.

## 11 CASH AND CASH EQUIVALENTS

	At 30 June 2006 <i>RMB'000</i>	At 31 December 2005 (restated) <i>RMB'000</i>
Cash at bank and in hand	<u>145,892</u>	<u>97,951</u>

## 12 TRADE AND OTHER PAYABLES

	At 30 June 2006 <i>RMB'000</i>	At 31 December 2005 (restated) <i>RMB'000</i>
Trade payables	61,836	58,251
Bills payable	66,582	85,693
Other payables	25,377	33,500
Amount due to a related party ( <i>Note 16</i> )	9,118	9,118
	<u>162,913</u>	<u>186,562</u>

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

	At 30 June 2006 <i>RMB'000</i>	At 31 December 2005 <i>RMB'000</i>
Within 3 months or on demand	91,358	142,798
Over 3 months but less than 1 year	37,008	937
Over 1 year	52	209
	<u>128,418</u>	<u>143,944</u>

## 13 RESERVES

### (a) Arising from the Reorganisation

As part of the Reorganisation, OCT (HK), the then immediate holding company, transferred its equity interests in Shenzhen Huali Packing & Trading Co., Ltd., Mudanjiang Huali Packaging Co., Ltd., Shanghai Huali Packaging Co., Ltd. and Zhongshan Huali Packaging Co., Ltd. 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 Limited 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.

### 13 RESERVES *(continued)*

#### (b) Transfer to reserve

Transfers from retained profits 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.

#### (c) Acquisition of Shenzhen Huayou Packaging Co., Ltd.

On 20 January 2006, the Group acquired 10% interest in Shenzhen Huayou Packaging Co., Ltd ("SZ-Huayou") for a cash consideration of RMB300,000 from the minority shareholder. After the acquisition, SZ-Huayou has become a wholly-owned subsidiary of the Group.

### 14 EQUITY SETTLED SHARE-BASED TRANSACTIONS

On 7 February 2006, 19,300,000 share options were granted to directors and employees of the Company under the Company's share option scheme (no share options were granted for the six months ended 30 June 2005). Each option gives the holder the right to subscribe for one ordinary share of HKD0.1 each of the Company. These share options vested immediately from the date of grant, and then be exercisable within a period of ten years. The exercise price is HKD1.41, 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.

During the six months ended 30 June 2006, the Company recognised RMB4,558,000 in respect of the grant of share options in expenses and equity (2005:Nil).

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.

**14 EQUITY SETTLED SHARE-BASED TRANSACTIONS** (continued)**Fair value of share options and assumptions**

Fair value at measurement date (date of grant)	HK\$0.2271
Share price	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 the comparable listed paper-based packaging companies in Hong Kong. Expected dividends are estimated by the management. Changes in the subjective input assumptions could materially affect the fair value estimate.

**15 CAPITAL COMMITMENTS**

Capital commitments, outstanding at 30 June 2006 not provided for in the financial statements were as follows:

	<b>At 30 June 2006</b>	At 31 December 2005 (restated)
	<b>RMB'000</b>	RMB'000
Contracted for	<b>4,606</b>	3,676
Authorised but not contracted for	<b>19,540</b>	11,108
	<b>24,146</b>	14,784

## 16 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 16(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.

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:

	<b>Six months ended</b>	
	<b>30 June 2006 RMB'000</b>	30 June 2005 RMB'000
Interest income	793	158
Interest expenses	<u>1,250</u>	<u>1,251</u>

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

	<b>At 30 June 2006 RMB'000</b>	At 31 December 2005 (restated) RMB'000
Cash at bank	119,453	56,553
Bank loans – current	49,100	38,474
Bank loans – non-current	<u>34,528</u>	<u>—</u>

## 16 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 Co. ("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") <i>(Note)</i>	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 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
Mudanjiang Nanhua Hesheng Paper Company Limited ("Mudanjiang Nanhua")	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.

### Recurring transactions

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Sales of goods to:		
Konka Group <i>(Note)</i>	—	41,136
OCT Group, its subsidiaries and associate other than Konka Group	387	478
Mei Ling Air-Conditioner	4,540	5,207
Mudanjiang Nanhua	3	78
	<u>4,930</u>	<u>46,899</u>

**16 MATERIAL RELATED PARTY TRANSACTIONS** *(continued)*

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

**Recurring transactions**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Purchase of goods from:		
OCT Group, its subsidiaries and associate other than Konka Group	<b>468</b>	357
Mudanjiang Nanhua	<b>931</b>	686
	<b><u>1,399</u></b>	<u>1,043</u>
Rental paid to:		
OCT Group, its subsidiaries and associate other than Konka Group	<b>858</b>	856
Shanghai Xia Mei	<b>90</b>	90
	<b><u>948</u></b>	<u>946</u>
Utility expenses paid to:		
OCT Group, its subsidiaries and associates other than Konka Group	<b><u>2,005</u></b>	<u>2,107</u>

*Note:* The amount for the period ended 30 June 2005 represented transactions occurred before 28 September 2005 when Konka Group was still regarded as a related party of the Group.

**16 MATERIAL RELATED PARTY TRANSACTIONS** *(continued)*

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

**Balances with related parties**

- (i) Amounts due from related parties are as follows:

	<b>At 30 June 2006 RMB'000</b>	At 31 December 2005 RMB'000
Trade receivable	2,225	2,947
Trade payable	<u>185</u>	<u>475</u>

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

	<b>At 30 June 2006 RMB'000</b>	At 31 December 2005 RMB'000
Other payables <i>(Note 12)</i>	<u>9,118</u>	<u>9,118</u>

The balance referred to payable in respect of purchase of land use right from Shenzhen Land Bureau whereby the consideration was paid by OCT Group on its behalf. The balance due is unsecured, non-interest bearing and repayable on demand.



## 16 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

### (c) Key management personnel compensations

Key management personnel receive compensations in the form of fees, salaries, housing and other allowances, benefits in kind, discretionary bonuses, share options and retirement scheme contribution.

Key management personnel compensation of the Group, including amounts paid to the Company's directors and certain of the highest paid employees, is summarised as follows:

	<b>Six months ended 30 June</b>	
	<b>2006</b> <i>RMB'000</i>	2005 <i>RMB'000</i>
Short-term employee benefits	1,447	803
Post-employment benefits	61	63
Equity compensation benefits	2,787	—
	<u>4,295</u>	<u>866</u>

### (d) Contributions to post-employment benefit plans

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.