Management Discussion and Analysis

Financial figures for 2005 have been restated. Please refer to note 1(c) of the Notes to the Financial Statements for details.

OPERATING RESULTS

As at 31 December 2006, the Group's total assets amounted to RMB620 million. Total equity amounted to RMB338 million, representing an increase of 3.8% over that as at 31 December 2005. The Group realized sales income of RMB696 million in 2006, representing an increase of 5.0% over the same period in 2005. Profits attributable to equity shareholders were RMB33 million, representing a decrease of 17.7% over 2005. The basic earnings per share for the year were RMB0.16, as compared to RMB0.25 for 2005.

During the period under review, gross profit margin was approximately 12.5% (2005: approximately 11.9%). Net profit margin attributable to shareholders was approximately 4.7% (2005: approximately 6.1%). Profits attributable to equity shareholders decreased by 17.7% over 2005, mainly attributable to the fact that the Group has recognised the fair value of RMB4.56 million of the share options granted to the employees in 2006 as an expense.

DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs for the year ended 31 December 2006 were approximately RMB32.56 million (2005: RMB30.34 million), representing an increase of approximately 7.3% over the same period in 2005, mainly attributable to the increase in transportation costs resulting from the rising of oil prices in mainland China.

The Group's administrative expenses for the year ended 31 December 2006 were approximately RMB30.13 million (2005: approximately RMB19.30 million), representing an increase of approximately 56.1% over the same period in 2005. The fair value of RMB4.56 million of the share options granted to the employees in 2006 was recognised by the Group as expenses in the income statement, and the Group strengthened its corporate governance after listing, resulting in an increase in the administrative expenses.

INTEREST EXPENSES

The interest expenses of the Group were RMB3.55 million for the year ended 31 December 2006, as compared to RMB2.48 million for the year ended 31 December 2005. The increase was mainly attributable to the increase in borrowings for the construction of Anhui Huali's plant and purchase of equipment.

DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK$6.4 cents per share for the year ended 31 December 2006 (2005: HK$7.8 cents per share).

Management Discussion and Analysis

INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

Due to the enhancement of internal management, the Group reduced the inventory turnover to 38 days for the year ended 31 December 2006, much lower from 46 days for the year ended 31 December 2005. The Group's debtors' turnover days were 69 days for the year ended 31 December 2006, as compared to 77 days for the year ended 31 December 2005. The above debtors' turnover days are substantially the same as the credit period that normally granted by the Group to its customers. In 2006, the Group enhanced its risks control and the recoverability of its account receivables, resulting in a reduction of the debtor's turnover. The Group's creditors' turnover days were 102 days for the year ended 31 December 2006, as compared to 90 days for the year ended 31 December 2005. The Group settles most of its creditor balances with surplus cash.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The total equity of the Group as at 31 December 2006 was RMB338 million (31 December 2005: RMB326 million). As at 31 December 2006, the Group had current assets of RMB372 million (31 December 2005: RMB314 million) and current liabilities of RMB256 million (31 December 2005: RMB229 million). The liquidity ratio was 1.45 as at 31 December 2006 as compared to 1.37 as at 31 December 2005. The Group generally finances its operations with internally generated funds and credit facilities provided by banks. As at 31 December 2006, the Group had outstanding bank loans of RMB70.19 million of which RMB15 million were fixed-rate loans (31 December 2005: outstanding bank loans of RMB38.47 million of which RMB15 million were fixed-rate loans). Some of those bank loans were secured by corporate guarantees provided by certain subsidiaries of the Company. The Group's gearing ratio (being the total borrowings including bills payable and bank loans divided by total assets) increased from approximately 22% as at 31 December 2005 to approximately 27% as at 31 December 2006.

The Group's liquidity position remains stable and the Group possesses sufficient cash and available banking facilities to meet its commitments, working capital requirements and future investments for expansion. The Group's transactions and monetary assets are principally denominated in Renminbi, Hong Kong dollars or United States dollars. The Group has not experienced any material difficulties or effects on its operations or liquidity as a result of fluctuations in currency exchange rates during the year ended 31 December 2006. During the year ended 31 December 2006, the Group did not employ any financial instrument for hedging purposes.

Management Discussion and Analysis

ACQUISITION

On 20 January 2006, the Group acquired 100% equity interest in Grand Signal Limited ("Grand Signal") and its wholly-owned subsidiary, Anhui Huali Packaging Company Limited ("Anhui Huali"), located at Chuzhou, Anhui Province. In 2006, Anhui Huali completed its factory construction and purchased manufacturing equipment such as paperboard production lines and printing press. The acquisition helped the Group to increase its production capacity, broaden its sales network geographically, strengthen its market share in Eastern China and enhance the competitiveness of the Group.

On 20 January 2006, the Group acquired 10% equity interest in Shenzhen Huayou Packaging Company Limited ("Shenzhen Huayou"). Shenzhen Huayou became the Group's wholly-owned subsidiary and commenced operation in the second half of the year 2006.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group employed approximately 1,800 full-time staff members. The basic remunerations of the employees are determined with reference to the industry's remuneration benchmark, the employees' experience and their performance. Salaries of employees are maintained at a competitive level and are reviewed annually, with close reference to the relevant labour market and economic situation. Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each director. Apart from the basic remuneration and statutory benefits required by laws, the Group also provides discretionary bonuses based upon the Group's results and the individual performance of the staff.

The Group has not experienced any significant problems with its employees or disruption to its operations due to labour disputes nor has it experienced any difficulty in the recruitment and retention of experienced staff. The Group maintains a good relationship with its employees. Most members of senior management have been working for the Group for more than 10 years.

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

CONTINGENT LIABILITIES

The Company had no contingent liabilities as at 31 December 2006.