Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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 since 1 January 2005, rather than from 29 July 2005. The results of the Group for the year ended 31 December 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 since 1 January 2005. 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.

(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)"), at a cash consideration of HK$8,457,000 (RMB8,796,000 equivalent) (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), engages in the manufacture and sale of paper boxes and products in the People's Republic of China (the "PRC").

1 COMPANY BACKGROUND AND BASIS OF PRESENTATION *(continued)*

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

Anhui Huali was established on 9 June 2004 with a capital injection of HK$9,000,000 (RMB9,387,000 equivalent) from OCT(HK) via Grand Signal on 23 August 2005.

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 consolidated 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 consolidated 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 year ended 31 December 2006.

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

	The Group (without the Acquired Group) RMB'000	The Acquired Group RMB'000	Combined RMB'000
Results of operations for the year ended 31 December 2005:			
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 and diluted (in RMB)	0.26	(0.01)	0.25
Financial condition as at 31 December 2005:			
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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2006 comprise the company and its subsidiaries (together referred to as the "Group").

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 33.

(c) Subsidiaries and minority interests

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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.

(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.

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 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.

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Impairment of other assets

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

– property, plant and equipment;

– construction in progress

– lease prepayments;

– investments in subsidiaries; and

– goodwill.

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

– Calculation of recoverable amount

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

– Recognition of impairment losses

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(h) Impairment of assets *(continued)*

(ii) Impairment of other assets (continued)

– Reversals of impairment losses

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

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

(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.

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)).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(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 the amount initially recognised and redemption value being recognised in profit or loss over the period of borrowings, together with any interest and fee payable, using the effective interest method.

(l) Trade and other payables

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

(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 retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Share based payments

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

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Employee benefits *(continued)*

(ii) Share based payments (continued)

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

(iii) Termination benefits

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

(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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax *(continued)*

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

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

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

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

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(o) Income tax *(continued)*

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

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

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

  – the same taxable entity; or

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

(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 grants

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

(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 us or sale are interrupted or complete.

(t) Related parties

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

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

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

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

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

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

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

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

(u) Segment reporting

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

3 NEW AND REVISED HKFRSs

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 34).

4 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.

5 OTHER REVENUE AND NET LOSS

(a) Other revenue

	2006	2005
	RMB'000	RMB'000
Interest income	**2,935**	1,443
Sale of scrap paper	**17,851**	18,615
Sale of materials	**1,307**	516
Government grants (note i)	**–**	732
Others	**451**	213
	22,544	21,519

Note: (i) Subsidies were received from local government on loan interest incurred for purchase of property, plant and equipment in 2005.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

5 OTHER REVENUE AND NET LOSS *(continued)*

(b) Other net loss

	2006 **RMB'000**	2005 RMB'000
(Loss)/gain on disposal of property, plant and equipment	**(6)**	122
Exchange loss	**(3,400)**	(1,576)
Others	**12**	30
	(3,394)	(1,424)

6 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

	2006 **RMB'000**	2005 (restated) RMB'000
(a) Finance costs:		
Interest on bank loans	**3,552**	2,480
(b) Staff costs:		
Salaries, wages and other benefits	**51,847**	47,092
Contributions to defined contribution retirement schemes (note 23)	**3,579**	2,903
Equity-settled share-based payment expenses	**4,558**	–
	59,984	49,995

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

6 PROFIT BEFORE TAXATION *(continued)*

(c) Other items:

	2006	2005 (restated)
	RMB'000	RMB'000
Amortisation of lease prepayments#	**579**	579
Depreciation of property, plant and equipment#	**26,714**	26,102
Impairment losses on trade and other receivables	**516**	961
Auditors' remuneration		
– audit services	**1,770**	1,565
– tax services	**8**	26
Operating lease charges in respect of land and properties#	**7,749**	6,409
Exchange loss	**3,400**	1,576
Cost of inventories#	**608,548**	583,255

Cost of inventories included RMB68,122,000 (2005: RMB62,510,000) 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 6(b) and 6(c) for each of these types of expenses.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

7 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

	2006	2005
	RMB'000	RMB'000
Current tax – Provision for PRC income tax		
Provision for the year	**6,488**	6,349
Over-provision in respect of prior years	**–**	(61)
	6,488	6,288
Deferred tax		
Origination and reversal of temporary differences (note 25(b))	**(518)**	(848)
	5,970	5,440

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% (2005: 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 (2005: Nil).

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profits subject to Hong Kong Profits Tax during the year (2005: Nil).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

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

	2006	2005 (restated)
	RMB'000	RMB'000
Profit before taxation	**39,277**	45,814
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	**6,436**	7,872
Tax effect of non-deductible expenses	**451**	577
Tax effect of non-taxable income	**(443)**	(175)
Tax effect of prior year's unrecognised tax losses utilised	**–**	(1,357)
Tax effect of unused tax losses not recognised	**3,042**	268
Over-provision in prior years	**–**	(61)
Effect of tax concessions	**(3,516)**	(1,684)
Actual tax expense	**5,970**	5,440

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION

Directors' remuneration is as follows:

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

	Directors' fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement schemes contributions	2005 Total
	RMB'000	RMB'000	RMB'000	RMB'000	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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

8 DIRECTORS' REMUNERATION *(continued)*

Note: These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of theses share options is measured according to the Group's accounting policies for share-based payment transactions as set out in note 2(n)(ii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "share options scheme" in the directors' report and note 24.

9 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2005: none) are directors whose emoluments are disclosed in note 8. The aggregate of the emoluments in respect of the other three (2005: five) individuals are as follows:

	2006	2005
	RMB'000	RMB'000
Salaries and other emoluments	**1,051**	702
Discretionary bonuses	**396**	353
Share-based payments	**992**	–
Retirement schemes contributions	**62**	129
	2,501	1,184

The emoluments of the three (2005: five) individuals with the highest emoluments are within the band from HK$Nil to HK$1,000,000.

10 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB15,072,000 (2005: profit of RMB4,427,000) which has been dealt with in the financial statements of the Company.

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

	2006	2005
	RMB'000	RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the company's financial statements	**(15,072)**	4,427
Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year	**33,599**	–
Company's profit for the year (note 26(g))	**18,527**	4,427

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

11 DIVIDENDS

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

	2006 RMB'000	2005 RMB'000
Final dividend proposed after the balance sheet date of HK$6.40 cents per share (equivalent to RMB6.337 cents per share) (2005: HK$7.8 cents per share (equivalent to RMB8.112 cents per share))	**12,675**	16,224

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

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

	2006 RMB'000	2005 RMB'000
Special dividend in respect of the previous financial year, approved and paid during 2005	**–**	50,057
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$7.8 cents per share (equivalent to RMB8.112 cents per share) (2005: Nil)	**16,224**	–
	16,224	50,057

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB32,999,000 (2005 (restated): RMB40,089,000) and the weighted average of 200,000,000 (2005: 158,219,178) ordinary shares in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	2006 **No. of shares**	2005 No. of shares
Ordinary shares issued at 1 January (note 26(a))	**200,000,000**	–
Issuance of new shares (note 26(a)(iii))	**–**	10,000
Capitalisation issue (note 26(a)(iv))	**–**	149,990,000
Effect of issuance of shares for placing and public offering (note 26(a)(v))	**–**	8,219,178
Weighted average number of shares at 31 December	**200,000,000**	158,219,178

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of RMB32,999,000 (2005 (restated): RMB40,089,000) and the weighted average of 208,252,699 (2005: 158,219,178) ordinary shares (diluted), calculated as follows:

Weighted average number of ordinary shares (diluted)

	2006
Weighted average number of ordinary shares at 31 December	**200,000,000**
Effect of deemed issue of shares under the Company's share option scheme for nil consideration (note 24)	**8,252,699**
Weighted average number of ordinary shares (diluted) at 31 December	**208,252,699**

There were no dilutive potential ordinary shares in issue during the year ended 31 December 2005.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other property, plant and equipment RMB'000	Total RMB'000
Cost:					
At 1 January 2005	71,107	256,164	19,445	17,367	364,083
Additions (restated)	437	591	1,289	1,766	4,083
Transfer from construction in progress (restated) (note 14)	505	3,240	327	621	4,693
Disposals	(301)	–	(984)	(159)	(1,444)
At 31 December 2005 (restated)	71,748	259,995	20,077	19,595	371,415
At 1 January 2006 (restated)	71,748	259,995	20,077	19,595	371,415
Additions	–	3,558	911	2,492	6,961
Transfer from construction in progress (note 14)	11,073	4,428	596	573	16,670
Disposals	–	(111)	(795)	(519)	(1,425)
At 31 December 2006	**82,821**	**267,870**	**20,789**	**22,141**	**393,621**
Accumulated depreciation and impairment loss:					
At 1 January 2005	20,542	118,629	14,756	9,670	163,597
Charge for the year (restated)	3,558	18,027	1,572	2,945	26,102
Written back on disposal	(162)	–	(984)	(144)	(1,290)
At 31 December 2005 (restated)	23,938	136,656	15,344	12,471	188,409
At 1 January 2006 (restated)	23,938	136,656	15,344	12,471	188,409
Charge for the year	4,045	18,549	1,594	2,526	26,714
Written back on disposal	–	(111)	(791)	(484)	(1,386)
At 31 December 2006	**27,983**	**155,094**	**16,147**	**14,513**	**213,737**
Net book value:					
At 31 December 2006	**54,838**	**112,776**	**4,642**	**7,628**	**179,884**
At 31 December 2005 (restated)	47,810	123,339	4,733	7,124	183,006

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company

	Other property, plant and equipment RMB'000
Cost:	
As at 1 January 2006	–
Addition	147
As 31 December 2006	**147**
Accumulated depreciation:	
As at 1 January 2006	–
Charge for the year	25
As at 31 December 2006	**25**
Net book value:	
As at 31 December 2006	**122**
As at 1 January 2006	–

14 CONSTRUCTION IN PROGRESS

	The Group	
	2006	2005 (restated)
	RMB'000	RMB'000
Cost:		
At 1 January	**9,506**	766
Additions	**27,602**	13,433
Transfer to property, plant and equipment (note 13)	**(16,670)**	(4,693)
At 31 December	**20,438**	9,506

Construction in progress at 31 December 2006 mainly represented the construction and development of production facilities at Anhui Huali.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

15 GOODWILL

	The Group RMB'000
Cost:	
At 1 January 2005, 31 December 2005 and 31 December 2006 (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:

	2006 RMB'000	2005 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.

Key assumptions used for value-in-use calculations:

	2006 %	2005 %
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.

16 LEASE PREPAYMENTS

Leasehold land of the Group is held in the PRC. At 31 December 2006, the remaining lease terms of these pieces of land range from 21 to 47 years.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted shares, at cost	**248,970**	248,970

Details of the subsidiaries at 31 December 2006 are as follows. The class of shares held is ordinary.

Name of company	Place of incorporation/ establishment	Particular of registered/ issued capital	Proportion of ownership interest: 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
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
Grand Signal Limited (note1(c))	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 (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

17 INVESTMENTS IN SUBSIDIARIES *(continued)*

Name of company	Place of incorporation/ establishment	Particular of registered/ issued capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activities
Mudanjiang Huali Packaging Co., Ltd. ("Mudanjiang Huali") (note (ii))	PRC	Paid-up capital of RMB10,000,000	85%	–	85%	Manufacture and sale of paper boxes and products
Shanghai Huali Packaging Co., Ltd. ("Shanghai Huali") (note (i))	PRC	Paid-up capital of RMB55,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Zhongshan Huali Packaging & Trading Co., Ltd. ("Zhongshan Huali") (note (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Anhui Huali Packaging Co., Ltd. ("Anhui Huali) (note (i))	PRC	Paid-up capital of HK$40,000,000	100%	–	100%	Manufacture and sale of paper boxes and products
Shenzhen Huayou Packaging Co., Ltd. ("Shenzhen Huayou") (note (iii))	PRC	Paid-up capital of RMB3,000,000	100%	–	100%	Manufacture and sale of paper boxes and products

Notes:

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

(ii) This company is an equity joint venture established in the PRC.

(iii) On 20 January 2006, the Group acquired 10% interest in Shenzhen Huayou at a cash consideration of RMB300,000 from the minority shareholder. After the acquisition, Shenzhen Huayou has become a wholly-owned subsidiary of the Group. Shenzhen Huayou is an equity joint venture established in the PRC.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

18 INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group	
	2006	2005
	RMB'000	RMB'000
Raw materials	**51,156**	64,211
Work-in-progress	**2,426**	2,081
Finished goods	**9,623**	6,470
Spare parts	**570**	419
	63,775	73,181

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Carrying amount of inventories sold	**608,381**	583,646
Write down of inventories	**385**	215
Reversal of write-down inventories	**(218)**	(606)
	608,548	583,255

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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

19 TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005 (restated)	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts due from subsidiaries	**–**	–	**53,861**	14,230
Trade receivables	**105,467**	108,979	**–**	–
Bills receivable	**26,513**	30,202	**–**	–
Prepayment, deposits and other receivables	**3,878**	3,943	**30**	411
	135,858	143,124	**53,891**	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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**127,807**	125,717	**–**	–
Within 6 months but more than 3 months	**4,115**	13,224	**–**	–
Within 12 months but more than 6 months	**58**	240	**–**	–
	131,980	139,181	**–**	–

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

19 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	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HKD36,545**	HKD 37,900	**HKD–**	HKD–
United States Dollars	**USD 1,835**	USD 2,003	**USD–**	USD–

20 CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2006	2005 (restated)	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash at bank and in hand	**172,160**	97,951	**51,981**	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	
	2006	2005 (restated)	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HKD93,660**	HKD59,466	**HKD51,154**	HKD40,155
United States Dollars	**USD 1,418**	USD 566	**USD 1**	USD –

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

21 TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005 (restated)	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables	**71,244**	58,251	**–**	–
Bills payable	**99,258**	85,693	**–**	–
Other payables	**36,415**	29,500	**3,754**	1,211
Amount due to a related party (note 29(b))	**92**	13,118	**–**	–
	207,009	186,562	**3,754**	1,211

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

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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months or on demand	**124,374**	142,798	**–**	–
Over 3 months but less than 1 year	**45,934**	937	**–**	–
Over 1 year	**194**	209	**–**	–
	170,502	143,944	**–**	–

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	
	2006	2005	**2006**	2005
	'000	'000	**'000**	'000
Hong Kong Dollars	**HKD29,890**	HKD10,791	**HKD–**	HKD–
United States Dollars	**USD 1,947**	USD 215	**USD–**	USD–

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

22 BANK LOANS

At 31 December 2006, the bank loans were repayable as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year or on demand	**43,664**	38,474	**13,664**	–
After 1 year but within 2 years	**13,664**	–	**13,664**	–
After 2 years but within 5 years	**12,860**	–	**12,860**	–
	26,524	–	**26,524**	–
	70,188	38,474	**40,188**	–

The Group's short-term bank loans comprise:

		The Group		The Company	
		2006	2005	**2006**	2005
		RMB'000	RMB'000	**RMB'000**	RMB'000
Renminbi denominated	Interest rates at 5.3010% to 5.6304% or floating rate at 90% and 95% of PBOC*'s base lending rate per annum with maturities through 24 November 2007	**30,000**	36,300	**–**	–
US Dollars denominated	Interest rates at LIBOR** +1.3595% per annum with maturities through 20 March 2006	**–**	2,174	**–**	–
		30,000	38,474	**–**	–
Current portion of long-term bank loan		**13,664**	–	**13,664**	–
		43,664	38,474	**13,664**	–

* People's Bank of China

** London Interbank Offered Rate

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

22 BANK LOANS *(continued)*

The Group's long-term bank loans comprise:

		The Group		The Company	
		2006	2005	**2006**	2005
		RMB'000	RMB'000	**RMB'000**	RMB'000
HK Dollars denominated	Interest rates at HIBOR* +1.18% per annum with maturities through 2 June 2009	**40,188**	–	**40,188**	–
Less: Current portion of long-term bank loan		**(13,664)**	–	**(13,664)**	–
		26,524	–	**26,524**	–

* Hong Kong Interbank Offered Rate

The bank loans of the Company at 31 December 2006 were guaranteed by its subsidiaries, namely Forever Galaxies Limited, Fortune Crown International Limited and Miracle Stone Development Limited (2005: None). Except for the above, the group and the company did not have secured or guaranteed bank loans at 31 December 2006 (2005: Nil).

All of the Group's banking facilities are subject to the fulfilment of covenants relating to certain of the Group's balance sheet ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 27(b). As at 31 December 2006 none of the covenants relating to drawn down facilities had been breached (2005: RMB Nil).

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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, Anhui 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 EQUITY SETTLED SHARE-BASED TRANSACTION

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

On 7 February 2006, 5,400,000 and 13,900,000 share options were granted to directors and employees of the Company respectively under the Company's share option scheme (no share options were granted for the year ended 31 December 2005). Each option gives the holder the right to subscribe for one ordinary share of HK$0.1 each of the Company which will be settled by physical delivery of shares. These share options vested immediately from the date of grant, and then be exercisable within a period of ten years. The exercise price is HK$1.41, as specified in the rules governing the share option scheme, being the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of the grant of the options, (ii) the average of the closing prices of the shares on the Stock Exchange for the five business days immediately preceding the date of the grant of the options and (iii) the nominal value of the Company's share of the date of grant of the option. No option was exercised, forfeited or expired during the year. All options granted above were outstanding and exercisable at 31 December 2006 (2005: Nil) with a remaining contractual life of 9 years and 1 month.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

During the year ended 31 December 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.

Fair value of share options and assumptions

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

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

25 INCOME TAX IN THE BALANCE SHEET

(a) Current taxation in the balance sheet represents:

	The Group	
	2006	2005
	RMB'000	RMB'000
Provision for PRC income tax	**4,882**	3,970

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(b) Deferred tax assets and liabilities recognised:

The Group

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

	Accounting depreciation in excess of depreciation allowances RMB'000	Provisions RMB'000	Accrued expenses RMB'000	Pre-operating expenses RMB'000	Total RMB'000
Deferred tax arising from:					
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
At 1 January 2006	1,715	280	152	213	2,360
Credited/(charged) to profit or loss	560	45	(39)	(48)	518
At 31 December 2006	2,275	325	113	165	2,878

26 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

(a) Share capital

Authorised and issued share capital

	2006		2005	
	No. of shares '000	**HK$'000**	No. of shares '000	HK$'000
Authorised:				
Ordinary shares of HK$0.1 each (note (ii))	**2,000,000**	**200,000**	2,000,000	200,000
Ordinary shares, issued and fully paid:				
	No. of shares '000	**RMB'000**	No. of shares '000	RMB'000
At 1 January	**200,000**	**20,800**	–	–
Issuance of shares upon formation and 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**	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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(a) Share capital *(continued)*

Notes: *(continued)*

(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.

(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.

(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 RMB 122,345,000 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.

26 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS 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.

(d) Capital reserve

The capital reserve comprises the following:

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

– the fair value of the unexercised share options granted to employees of the company recognised in accordance with the accounting policy adopted for share based payments in note 2(n)(ii).

(e) General reserve fund

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

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

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

(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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

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

(g) Reserves of the Company

	Note	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve 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	11	–	(50,057)	–	–	(50,057)
Capitalisation issue	26(a)(iv)	(15,599)	–	–	–	(15,599)
Issuance of shares for placing and public offering	26(a)(v)	62,400	–	–	–	62,400
Share issuing costs		(16,837)	–	–	–	(16,837)
Profit for the year		–	–	–	4,427	4,427
At 31 December 2005		29,964	248,970	–	4,427	283,361
At 1 January 2006		29,964	248,970	–	4,427	283,361
Profit for the year		–	–	–	18,527	18,527
Dividend approved in respect of the previous year	11	–	–	–	(16,224)	(16,224)
Equity settled share-based transaction	24	–	–	4,558	–	4,558
At 31 December 2006		29,964	248,970	4,558	6,730	290,222

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.

(h) Distributability of reserves

At 31 December 2006, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB290,222,000 (2005: RMB283,361,000).

After the balance sheet date, the directors proposed a final dividend of HK$6.40 cents per ordinary share (2005: HK$7.8 cents per share), amounting to RMB12,675,000 (2005: RMB16,224,000). This dividend has not been recognised as a liability at the balance sheet date.

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. 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.

(b) Liquidity risk

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

(c) Interest rate risk

The effective interest rate of cash and cash equivalents is 2.30% per annum (2005: 1.14% per annum). The effective interest rate of bank loans is 5.72% per annum (2005: 5.18% per annum). The interest rates and terms of repayment of the Group's bank loans are disclosed in Note 22.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

27 FINANCIAL INSTRUMENTS *(continued)*

(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 bank loans, 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 2006 and 2005 due to their nature of short-term maturities or floating interest rate for the long-term bank loans.

28 COMMITMENTS

(a) Capital commitments, outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	The Group		**The Company**	
	2006	2005 (restated)	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted for	**21,318**	3,676	**–**	–
Authorised but not contracted for	**3,158**	11,108	**–**	–
	24,476	14,784	**–**	–

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

28 COMMITMENTS *(continued)*

(b) At 31 December 2006, 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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**5,357**	3,875	**–**	–
After 1 year but within 5 years	**5,668**	5,156	**–**	–
	11,025	9,031	**–**	–

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) 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 29(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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

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

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

	2006	2005
	RMB'000	RMB'000
Interest income	**2,007**	1,034
Interest expenses	**3,552**	2,373

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

	2006	2005
	RMB'000	RMB'000
Cash at bank	**152,402**	56,553
Bank loans – current	**43,664**	38,474
Bank loans – non-current	**26,524**	–

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

Name of party	Relationship with the Group
Overseas Chinese Town Enterprises Corporation ("OCT-EC")	Ultimate holding company
Overseas Chinese Town (HK) Company Limited ("OCTHK")	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 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 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.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

Recurring transactions

	2006	2005
	RMB'000	RMB'000
Sales of goods to:		
Konka Group (Note)	**–**	88,432
OCT-EC, its subsidiaries and associates other than Konka Group	**912**	870
Mei Ling Air-Conditioner	**7,448**	9,106
Mudanjiang Nanhua	**33**	168
	8,393	98,576
Purchase of goods from:		
OCT-EC, its subsidiaries and associates other than Konka Group	**1,002**	1,658
Mudanjiang Nanhua	**2,114**	1,708
	3,116	3,366
Rental paid to:		
OCT-EC, its subsidiaries and associates other than Konka Group	**1,711**	1,712
Shanghai Xia Mei	**180**	180
	1,891	1,892
Utility expenses paid to:		
OCT-EC, its subsidiaries and associates other than Konka Group	**3,785**	4,335

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

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

Non recurring transactions

	2006	2005
	RMB'000	RMB'000
Acquisition of Grand Signal OCT-HK (Note 1 (c))	**8,796**	–

Balances with related parties

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

	2006	2005
	RMB'000	RMB'000
Trade receivable	**660**	2,947
Trade payable	**304**	475

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

	2006	2005
		(restated)
	RMB'000	RMB'000
Other receivables	**293**	294
Other payables (note 21)	**92**	13,118

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

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

29 MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

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

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	**2,431**	1,397
Post employment benefits	**103**	156
Equity compensation benefits	**2,267**	–
	4,801	1,553

Total remuneration is included in "staff costs" (see note 6(b)).

(d) Contributions to post-employment benefits plans

The Group participates in various defined contribution post-employment benefit plans for its employees. Further details of these plans are disclosed in note 23.

30 NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) After the balance sheet date the directors proposed a final dividend. Further details are disclosed in note 11.

(b) On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which will take effect on 1 January 2008. The details of the existing corporate income tax rate and preferential tax policies applicable to the Group are disclosed in note 7. From 1 January 2008, the income tax rate of the PRC subsidiaries of the Group is expected to gradually increase to the standard rate of 25% over a five-year transition period. However, the new tax law has not set out the details as to how the existing preferential tax rate will gradually increase to the standard rate of 25%. Consequently, the Group is not able to make an estimate of the expected financial effect of the new tax law on its deferred tax assets and liabilities. The expected financial effect of the new tax law, if any, will be reflected in the Group's 2007 financial statements. The enactment of the new tax law is not expected to have any financial effect on the amounts accrued in the balance sheet in respect of current tax payable.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

30 NON-ADJUSTING POST BALANCE SHEET EVENTS *(continued)*

(c) On 13 March 2007, the Company established an indirectly wholly owned subsidiary, Huizhou Huali Packing Co., Ltd ("Huizhou Huali") with a registered capital of HK$90,000,000.

On 19 March 2007, Huizhou Huali entered into a transfer agreement with an independent third party, Guangdong Yonghe Pharmaceuticals Development Limited to acquire the land use rights of a piece of land in Huiyang for the Group's production expansion at a cash consideration of RMB64,460,000 which may be adjusted based on the actual site measurement as approved by the relevant planning bureau of the PRC. The purchase consideration will be satisfied by the net proceeds from the public offer and placing of shares in 2005 and internally generated funds.

31 COMPARATIVE FIGURES

Certain comparative figures have been adjusted or reclassified as a result of the using of the principles of merger accounting under AG5. Further details are disclosed is note 1(c).

32 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2006, the Directors consider the ultimate holding company of the Group to be Overseas Chinese Town Enterprises Corporation, which is incorporated in the PRC. The directors also consider the immediate holding company to be Pacific Climax Limited. These entities do not produce financial statements available for public use.

33 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 15 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 on the Group's estimates of the present value of the estimated future cash flow. Given the uncertainties involved in estimating the future cash flow of individual customer, the actual recoverable amount may be higher or lower than that estimated at the balance sheet date.

(ii) Provision for inventories

As explained in 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. Uncertainty exists in these estimations.

Notes to the Financial Statements

(Expressed in Renminbi unless otherwise indicated)

34 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2006

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 ended 31 December 2006 and which have not been adopted in these financial statements.

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Presentation of financial statements: Capital disclosures	1 January 2007
HKFRS 7	Financial instruments: disclosures	1 January 2007
HKFRS 8	Operating segments	1 January 2009
HK(IFRIC) 7	Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies	1 March 2006
HK(IFRIC) 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) 9	Reassessment of embedded derivatives	1 June 2006
HK(IFRIC) 10	Interim financial reporting and impairment	1 November 2006
HK(IFRIC) 11	HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12	Service concession arrangements	1 January 2008

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.