OCT 華僑城亚洲

# Overseas Chinese Town (Asia) Holdings Limited
# 華僑城（亞洲）控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 3366

OCT Asia

ANNUAL REPORT
2008

# Contents

# Corporate Information

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|---|---|
| **Board of Directors** | **Executive Directors**<br>Mr. Zheng Fan *(Chairman)*<br>Mr. Ni Zheng<br>Ms. Xie Mei<br>Mr. Zhou Guangneng<br><br>**Independent non-executive Directors**<br>Ms. Wong Wai Ling<br>Mr. Chen Xiangdong<br>Mr. Xiao Yongping |
| **Audit Committee** | Ms. Wong Wai Ling *(chairman)*<br>Mr. Chen Xiangdong<br>Mr. Xiao Yongping |
| **Remuneration Committee** | Ms. Wong Wai Ling *(chairman)*<br>Mr. Chen Xiangdong<br>Mr. Xiao Yongping |
| **Head Office and Principal Place of Business** | Suites 3203-3204, Tower 6<br>The Gateway<br>Harbour City<br>Canton Road<br>Tsim Sha Tsui<br>Kowloon<br>Hong Kong |
| **Registered Office** | Clifton House<br>PO Box 1350 GT<br>75 Fort Street<br>Grand Cayman<br>Cayman Islands |
| **Company Secretary and Qualified Accountant** | Mr. Fong Fuk Wai *(FCPA, FCCA, ACA)* |
| **Auditors** | KPMG<br>Certified Public Accountants |
| **Hong Kong Legal Adviser** | Loong & Yeung |
| **Principal Bankers** | China Merchants Bank Hong Kong Branch<br>Standard Chartered Bank (HK) Ltd. |

# Corporate Information

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| **Principal Share Registrar and Transfer Office** | Appleby Corporate Services (Cayman) Limited<br>Clifton House<br>PO Box 1350 GT<br>75 Fort Street<br>Grand Cayman<br>Cayman Islands |
| **Hong Kong Branch Share Registrar and Transfer Office** | Computershare Hong Kong Investor Services Limited<br>Shops 1712-16, 17/F<br>Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Stock Information** | Stock Code: 03366<br>Stock Short Name: OCT (ASIA) |
| **Company's Website** | http://www.oct-asia.com |
| **Authorized Representatives** | Mr. Ni Zheng<br>Mr. Fong Fuk Wai |

# Financial Highlights

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008
*(Expressed in Renminbi)*

| | 2008 *RMB'000* | 2007 *RMB'000* |
|---|---|---|
| **Turnover** | **739,155** | 739,907 |
| **Cost of sales** | **(673,194)** | (654,846) |
| **Gross profit** | **65,961** | 85,061 |
| Other revenue | **26,735** | 28,276 |
| Other net gain/(loss) | **36,680** | (3,836) |
| Distribution costs | **(33,920)** | (30,799) |
| Administrative expenses | **(50,701)** | (28,378) |
| Other operating expenses | **(6,423)** | (4,214) |
| **Profit from operations** | **38,332** | 46,110 |
| Finance costs | **(3,304)** | (4,381) |
| Share of losses from an associate | **(10,648)** | (484) |
| **Profit before taxation** | **24,380** | 41,245 |
| Income tax | **(7,790)** | (2,826) |
| **Profit for the year** | **16,590** | 38,419 |
| **Attributable to:** | | |
| Equity shareholders of the Company | **16,590** | 38,361 |
| Minority interests | **–** | 58 |
| **Profit for the year** | **16,590** | 38,419 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | |
| Final dividend proposed after the balance sheet date | **5,080** | 12,618 |
| **Earnings per share (RMB)** | | |
| Basic | **0.07** | 0.18 |
| Diluted | **0.07** | 0.17 |

# Chairman's Statement

I am pleased, on behalf of Overseas Chinese Town (Asia) Holdings Limited ("the Company") and its subsidiaries ("the Group"), to present to all shareholders the operating results and Annual Report of the Group for the year ended 31 December 2008, and would like to express my sincere gratitude to all shareholders and all the staff.

## BUSINESS REVIEW

For the year ended 31 December 2008, the Group's turnover was RMB739 million, representing a decrease of 0.1% over 2007. Total assets amounted to RMB925 million, and total equity amounted to RMB537 million.

During the period under review, the global macro-economy downturn as a result of the sub-prime crisis and the decline in exports from China owing to the fragile consumption of developed countries resulted in the decrease in demand for related packaging products. During the period under review, the raw material prices were highly volatile and showed an upward trend in general; whereas labour costs also continued to increase, exposing the Group to the major challenges of slumping market demand, increasing costs of production and intensive industry competition.

Nevertheless, the Group endeavored to reduce costs and increase sales through exploring new customers, strengthening technology innovation, expanding market share of high margin products, reinforcing internal management and centralizing raw materials procurement, and maintained steady sales results amid such poor market environment. Meanwhile, the Group increased the proportion of colour-printed materials so as to increase profit margin. During the period under review, the production of colour-printed products grew by approximately 10% over the year 2007. Through production reform and technology improvement, the Group continued to develop new products to cater for different needs of customers. The Group has developed two new products which have been registered as national patents. In addition, during the period under review, the Group continued to improve the ERP system to optimize the internal management and adopted centralized procurement so as to lower costs. Accordingly, in spite of the unfavorable factors such as increasing costs and falling market demand, the turnover remained steady and substantially achieved the same level as in 2007.

In 2008, the main construction (phase one) of Huizhou Huali Packaging Co., Ltd. ("Huizhou Huali"), a subsidiary of the Company, was well underway and the project entered into the intensive construction stage. In December 2008, the Group completed the acquisition of 51% equity interest in OCT Investments Limited ("OCT Investments"). Together with the 49% equity interest in such company acquired in 2007, the Company now indirectly holds 25% equity interest in Chengdu Tianfu OCT Industry Development Co., Ltd. ("Chengdu OCT") by virtue of its 100% interest in OCT Investments. Chengdu OCT is a large-scale integrated tourism and real estate development project comprising three major segments featuring theme park, urban entertainment & culture and residential community.

# Chairman's Statement

## PROSPECTS

Looking forward, the cost of raw materials is expected to slightly decline; whilst falling product demand and intensifying market competition are likely to persist in the near term. The packaging industry will continue to face difficult challenges. In order to overcome such hard times amid economic downturn and maintain its competitive advantages to grow in the future, the Group will adhere to its past strategies to explore revenue sources and reduce costs through reinforcing internal management, exploring new customers, developing new products and expanding the market share of high profit margin products. In addition, the construction (phase one) of the production facilities of Huizhou Huali is expected to be completed and operation is expected to commence gradually in 2009. Such production facilities will include a high standard and modern steel structured industrial factory and an office building comprising office, R&D center and showroom features. The Company will start to gradually relocate the production facilities in Shenzhen to Huizhou since 2009 as scheduled. Moreover, the theme park of Chengdu OCT commenced operation in January 2009; whilst other segments will also commence business gradually in 2009. With the fast growing economy of Chengdu city and strong local government support on the development of tourism and real estate sectors, the Group believes that the prospect of Chengdu OCT is promising.

In spite of the global macro-economic downturn and falling market demand in the near term, as the economic development and consumption power in China pick up steadily, we are optimistic about the prospects of the packaging industry. The management believes that, leverage on the extensive industry experience of the management, accelerating technology innovation and gradual improvement of strategies and plans, the Group is able to sustain through the financial crisis and be well-positioned for the economic recovery.

## APPRECIATION

I, on behalf of the board of directors, hereby express our most sincere thanks to the management team and all the staff for their efforts and contributions made in the development of the Group. I also take this opportunity to thank all shareholders and business partners for their confidence and support to the Group.

**Zheng Fan**
*Chairman*

Hong Kong, 23 March 2009

# Management Discussion and Analysis

## OPERATING RESULTS

As at 31 December 2008, the Group's total assets amounted to RMB925 million. Total equity amounted to RMB537 million, representing an increase of 5.1% over that as at 31 December 2007. The Group realized sales of RMB739 million in 2008, representing a decrease of 0.1% over the same period in 2007. Profits attributable to equity holders were RMB16.59 million, representing a decrease of 56.8% over 2007, which was partly attributable to the share of loss from Chengdu OCT of RMB10.65 million. The basic earnings per share for the year were RMB0.07, as compared to RMB0.18 for 2007.

During the period under review, gross profit margin was approximately 8.9% (2007: approximately 11.5%), representing a decrease of 2.6% over the same period in 2007. The decrease was mainly attributable to the increase in raw material prices, resulting in an increase in the cost of sales. Net profit margin attributable to equity holders of the Company was approximately 2.2% (2007: approximately 5.2%). Profits attributable to equity holders decreased by 56.8% over 2007.

## DISTRIBUTION COSTS AND ADMINISTRATIVE EXPENSES

Distribution costs for the year ended 31 December 2008 were approximately RMB33.92 million (2007: RMB30.80 million), representing an increase of approximately 10.1% over the same period in 2007, mainly attributable to the increase of labour costs and higher transportation costs due to the surge of oil price in the period.

The Group's administrative expenses for the year ended 31 December 2008 were approximately RMB50.70 million (2007: approximately RMB28.38 million), representing an increase of approximately 78.6% over the same period in 2007. Excluding the factor that the relocation costs of Shenzhen Huali was recognized as an expense, administrative expenses increased by approximately RMB7.32 million over the same period in 2007, which was mainly due to the increase of preliminary expenses of RMB8.07 million of Huizhou Huali during the year.

## INTEREST EXPENSES

The interest expenses of the Group were RMB3.30 million for the year ended 31 December 2008, as compared to RMB4.38 million for the year ended 31 December 2007. The decrease was mainly attributable to the decrease of loan interest rates during the year.

## DIVIDENDS

The Board has resolved to recommend the payment of a final dividend of HK$2.0 cents per share for the year ended 31 December 2008 (2007: HK$5.7 cents per share).

# Management Discussion and Analysis

## INVENTORIES, DEBTORS' AND CREDITORS' TURNOVER

For the year ended 31 December 2008, the Group's inventory turnover days decreased to 46 days, shorter as compared to 51 days for the year ended 31 December 2007, of which the inventory level was maintained at a relatively suitable level. The Group's debtors' turnover days were 80 days for the year ended 31 December 2008, approximately the same as compared to 79 days for the year ended 31 December 2007. The Group's creditors' turnover days were 74 days for the year ended 31 December 2008, as compared to 127 days for the year ended 31 December 2007, mainly attributable to the change of purchase settlement method to enjoy the cash discount from suppliers resulting from the shorter creditors' turnover days. 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 2008 was RMB537 million (31 December 2007: RMB511 million). As at 31 December 2008, the Group had current assets of RMB380 million (31 December 2007: RMB434 million) and current liabilities of RMB255 million (31 December 2007: RMB297 million). The liquidity ratio was 1.49 as at 31 December 2008 as compared to 1.46 as at 31 December 2007. The Group generally finances its operations with internally generated funds and credit facilities provided by banks.

As at 31 December 2008, the Group had outstanding bank loans of RMB99.48 million of which nil was fixed-rate loan (31 December 2007: outstanding bank loans of RMB44.72 million of which RMB20.00 million was fixed-rate loan). As at 31 December 2008, the bank loan interest rates of the Group ranged from 1.33% to 6.56% per annum (while for the year ended 31 December 2007, the bank loan interest rates of the Group ranged from 4.13% to 6.56% per annum). 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 loans divided by total assets) increased from approximately 21% as at 31 December 2007 to approximately 25% as at 31 December 2008.

As at 31 December 2008, approximately 100% of the total amount of outstanding bank loans of the Group was in Hong Kong Dollars (31 December 2007: 45% in Renminbi, 55% in Hong Kong Dollars). As at 31 December 2008, approximately 47% of the total amount of cash and cash equivalents of the Group was in Renminbi (31 December 2007: 44%), approximately 33% of its cash and cash equivalents was in Hong Kong Dollars (31 December 2007: 44%) and approximately 20% of its cash and cash equivalents was in United States Dollars (31 December 2007: 12%).

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 2008. During the year ended 31 December 2008, except for certain foreign exchange forward contracts to mitigate its foreign exchange risk, the Group did not employ any material financial instrument for hedging purposes.

In December 2008, the Company issued 36,250,000 shares to Pacific Climax Limited as part of the consideration for the acquisition of 51% equity interest in OCT Investments Limited.

# Management Discussion and Analysis

As a result of the above and the exercise of certain share options by the grantees during the year, the Company's total issued share capital increased to 288,040,000 Shares as at 31 December 2008.

## ACQUISITION AND DISPOSAL

**Acquisition of 51% equity interest in OCT Investments** – On 2 June 2008 and 4 June 2008, the Company entered into a share transfer agreement and a supplemental agreement with Overseas Chinese Town (HK) Company Limited ("OCT (HK)"), pursuant to which the Company acquired 51% equity interest in OCT Investments held by OCT (HK), and the corresponding portion of shareholder's loans owed by OCT Investments to OCT (HK). The consideration had been satisfied by the Company to issue and allot a total of 36,250,000 Shares to Pacific Climax Limited, a controlling shareholder of the Company and a wholly owned subsidiary of OCT (HK); and a payment in cash of HK$83,000,000 by the Company to OCT (HK). Upon completion, the Company holds 100% interest in OCT Investments, which in turn holds 25% equity interest in Chengdu OCT. The Company considers that the acquisition will facilitate the Group to expand its business scope and explore potential profits sources, which is beneficial to the Company's long term development. The acquisition constituted a major and connected transaction of the Company, details of which can be found at the announcements of the Company dated 4 June 2008 and 25 November 2008 and the circular of the Company dated 24 June 2008.

## EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2008, the Group employed approximately 1,870 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, and equal opportunities will be offered to all staff. 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 many 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, of which 5,790,000 share options had been exercised resulting in 5,790,000 shares have been issued during 2008.

## CONTINGENT LIABILITIES

The Group had no contingent liabilities as at 31 December 2008.

# Directors and Senior Management

## DIRECTORS

### Executive Directors

Mr. Zheng Fan, aged 53, is the Chairman of the Company. He joined the Group since April 2002. He is also the chairman of the board of directors of OCT (HK), the intermediate holding company of the Company. He had been a director of Shenzhen Huali Packing & Trading Co., Ltd. ("Shenzhen Huali"), a subsidiary of the Company, from April 2002 to July 2006. Currently, Mr. Zheng is the Vice president of Overseas Chinese Town Enterprises Company ("OCT Group"), the ultimate controlling shareholder of the Company, chairman of Yunnan OCT Industrial Co., Ltd. (雲南華僑城實業有限公司) ("Yunnan OCT") and a director of Shenzhen OCT Holding Co. Ltd. ("OCT Holding"), a company whose shares are listed on the Shenzhen Stock Exchange, and Shenzhen OCT East Co. Ltd. Since 1994, Mr. Zheng has held various senior positions at OCT Group and its subsidiaries.

Mr. Ni Zheng, aged 41, is the Chief Executive Officer of the Company. He has been a director of Shenzhen Huali since 1999. Mr. Ni is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company (except Huali Holdings Company Limited ("Huali Holdings")) and the following PRC incorporated subsidiaries of the Company: Shenzhen Huali, Shanghai Huali Packaging Co., Ltd. ("Shanghai Huali"), Huizhou Huali, Huali Packaging (Huizhou) Co., Ltd. (華勵包裝(惠州)有限公司) ("Huali Huizhou") and Shenzhen Huayou Packaging Co., Ltd. ("Shenzhen Huayou"). Mr. Ni is a director of Pacific Climax Limited, the immediate holding company of the Company, and a director of OCT (HK), the intermediate holding company of the Company. Mr. Ni is also a director of various subsidiaries of OCT (HK), and a director of Chengdu OCT, a subsidiary of OCT Group and a company in which the Company indirectly holds 25% interest. He had been the deputy general manager and general manager of the investment department of OCT Group. Mr. Ni graduated from the department of Applied Physics of Chongqing University and obtained a bachelor's degree in Science and a master degree in Engineering in 1988 and 1991, respectively.

Ms. Xie Mei, aged 41, joined the Group in December 2004. Ms. Xie is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company and the following PRC incorporated subsidiaries of the Company: Shenzhen Huali, Huizhou Huali, Huali Huizhou and Shenzhen Huayou. Ms. Xie has been a deputy general manager and general manager of the strategic development department of OCT Group. Ms. Xie is currently a director of two subsidiaries of OCT Group, namely Inter Continental, Shenzhen and Yunnan OCT. Ms. Xie is also the deputy general manager of OCT (HK), the immediate holding company of the Company. Ms. Xie graduated from the Department of Electrical Engineering of Xi' an Jiaotong University and obtained a bachelor's degree in Engineering in1989. She also obtained a master degree in Economics from the People's University of the PRC in 1999. Ms. Xie was appointed as a non-executive Director in September 2005 and was re-designated as an executive Director in August 2007.

Mr. Zhou Guangneng, aged 57, has participated in the Group's management since January 2002. Currently, Mr. Zhou is a director of all the BVI and Hong Kong incorporated subsidiaries of the Company and the following PRC incorporated subsidiaries of the Company, namely Shanghai Huali, Zhongshan Huali Packaging Co., Ltd (中山華力包裝有限公司) and Zhongshan Huali Packaging Co., Ltd (中山華勵包裝有限公司). He is also a director of various subsidiaries of OCT (HK). Mr. Zhou is also the deputy general manager of OCT (HK) and a director of Pacific Climax Limited. Mr. Zhou graduated from the Department of Physics of Nanjing University in 1978, and obtained a master degree in Science in 1982. Mr. Zhou has 20 years of experience in corporate management and has held various senior positions in subsidiaries of Shenzhen Electronics Group Co., Ltd.

# Directors and Senior Management

### Independent Non-Executive Directors

Ms. Wong Wai Ling, aged 48, joined the Group in April 2007. She received a bachelor degree of Arts from the University of Hong Kong and a postgraduate diploma in Accounting and Finance from the London School of Economics and Political Science, University of London, United Kingdom. Ms. Wong is a fellow member of Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants. She has 20 years of rich experience in accounting, taxation and auditing. She had worked for more than seven years in major international accounting firms and major local accounting firms before she set up her own accounting firm in Hong Kong in 1994. Since then, she has been practicing as a Certified Public Accountant. Ms. Wong is also an independent non-executive director of two Hong Kong listed companies - Galaxy Semi-Conductor Holdings Limited and CATIC Shenzhen Holdings Limited.

Mr. Chen Xiangdong, aged 49, joined the Group in September 2005. Mr. Chen is the general manager of China Printing (Group) Corporation. He joined China National Packaging Corporation in 1988 and has over 20 years of experience in the packaging industry. Mr. Chen graduated from the Department of Automated Control of Northeast China Institute of Heavy Machinery (now known as Yanshan University) and obtained a bachelor's degree in Engineering in 1983. He also obtained a master degree in Engineering majoring in Industrial Management Engineering at Harbin Institute of Technology in 1986.

Mr. Xiao Yongping, aged 43, joined the Group in September 2005. He is an arbitrator of China International Economic and Trade Arbitration Commission, and the vice chairman of China International Private Law Association. Mr. Xiao obtained a doctoral degree in Law at Wuhan University in 1993. At present, he is the dean of the Law School of Wuhan University and a professor in the Law Faculty at Northwest University of Political Science & Law.

### Senior Management

Mr. Zhang Xiaojun, aged 39, has been with the Group since 1993, and is currently the deputy general manager of the Company. Mr. Zhang supervised the daily operation of Shenzhen Huali from 2002 to June 2007. He is currently a director of various subsidiaries of the Company. Mr. Zhang graduated from Zhuzhou Institute of Technology of Hunan (now known as Hunan University of Technology) majoring in Printing Technology where he obtained his bachelor's degree in Engineering.

Mr. Fong Fuk Wai, aged 45, is the chief financial officer, company secretary and qualified accountant of the Company, and also serves as a director of Huali Holdings, a wholly-owned subsidiary of the Company. He joined the Group in January 2005. Mr. Fong graduated from the Hong Kong Polytechnic University and obtained his bachelor's degree in Accountancy in 1994, and obtained a master degree in business administration at the Chinese University of Hong Kong in 1999. Prior to joining the Group, he had been a manager of a group member of a public listed company in Hong Kong, providing group audit and management services. Mr. Fong is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and is also an associate member of the Institute of Chartered Accountants in England and Wales.

# Corporate Governance Report

The Company believes that good corporate governance and strict compliance with the Code on Corporate Governance Practices are very important in enhancing the investors' confidence and the return to the shareholders, and can also increase long-term share value. Therefore, the Company is committed to implementing a high standard of corporate governance, emphasizing good communication with shareholders and investors, and nurturing the corporate culture of strict code of conduct, with a view to continuously improving the Company's transparency. This includes timely, comprehensive and accurate disclosure of information to safeguard the shareholders' interest and to raise long-term share value.

During the reporting period, the Company has complied with all the code provisions of the Code on Corporate Governance Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

## BOARD OF DIRECTORS

The board (the "Board") of directors (the "Directors") of the Company manages the Company's affairs and is responsible for the leadership and governance of the Company. The Board is also responsible for the Company's business, financial performance and preparation of financial statements. The Board formulates the strategy, policy and business plan of the Group, controls corporate risks, monitors the operation and financial performance of the Company. The Board endeavors to make decisions in line with the interest of the shareholders and the Company as a whole, and delegates powers and responsibilities to the management led by the Chief Executive Officer of the Company to carry out the daily management and operation of the Group. The Board comprises seven members, including four Executive Directors and three Independent Non-Executive Directors.

The Company has a separate Chairman and Chief Executive Officer. The two positions are assumed by different persons, in order to ensure that their independence, accountability and power are clear. Mr. Zheng Fan, the Chairman, is responsible for the operation of the Board and the formulation of the Company's strategies and policies. Mr. Ni Zheng, the Chief Executive Officer, with the assistance of other members of the Board and senior management, is responsible for the management of the Company's business, the implementation of significant policies, the daily operational decisions as well as the coordination of the overall operation.

Independent Non-Executive Directors comprise experienced professionals and businessmen. They have profound expertise and experience in the legal, accounting, financial, industrial and commercial aspects. The Board considers that all independent non-executive Directors are independent in their judgment. They ensure the Board has attained the strict standards in the financial and other statutory reporting areas and they provide sufficient balance to safeguard the interests of the shareholders and the Company as a whole.

In order to assist the Directors to carry out their duties, the Board has set out terms of reference, enabling the Directors to seek independent professional advice upon reasonable request under appropriate circumstances and the fees are payable by the Company.

# Corporate Governance Report

As at the date of this report, the Directors of the Company are as follows:

### Executive Directors

Mr. Zheng Fan, the Chairman of the Board

Mr. Ni Zheng, the Chief Executive Officer of the Company

Ms. Xie Mei

Mr. Zhou Guangneng

The above executive Directors were re-elected as executive Directors of the Company at the annual general meeting of the Company held on 25 April 2008, and have entered into service agreements with the Company with a term of three years starting from 25 April 2008, subject to early termination pursuant to the termination provisions therein.

### Independent Non-Executive Directors

Ms. Wong Wai Ling

Mr. Chen Xiangdong

Mr. Xiao Yongping

The above independent non-executive Directors were re-elected as independent non-executive Directors of the Company at the annual general meeting held on 25 April 2008, and have entered into service agreements with the Company. Among the independent non-executive Directors, the term of Ms. Wong Wai Ling began from the date of the annual general meeting at which her appointment was approved and end at the conclusion of the 2009 annual general meeting to be held in 2010 subject to early termination pursuant to the termination provisions therein; the term of Mr. Chen Xiangdong and Mr. Xiao Yongping began from the date of the annual general meeting at which their respective appointments were approved and end at the conclusion of the 2008 annual general meeting to be held in 2009, subject to early termination pursuant to the termination provisions therein. Among the independent non-executive Directors, Ms. Wong Wai Ling, chairman of the Audit Committee and the Remuneration Committee, is a fellow member of Hong Kong Institute of Certified Public Accountants and has more than 20 years' experience in accounting and finance.

The biographies of all Directors are set out in the Annual Report on pages 10 to 11.

The Company has not established a Nomination Committee. The Board will evaluate the independence of all independent non-executive Directors each year and make sure that they comply with the independence requirement of the Listing Rules. All members of the Board are not related to one another in all aspects, including finance, family and business.

# Corporate Governance Report

## THE APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Company has not established a Nomination Committee. All members of the Board are responsible for formulating the procedures for appointing Directors, nominating suitable candidates for approval at the annual general meeting so as to fill vacancies due to the resignation of Directors or appoint additional Directors.

When selecting candidates for appointment as Directors, the Board will consider the candidates' integrity, achievements and experience in the relevant industry, expertise, educational background and whether they have sufficient time to assume the post of Directors.

At the annual general meeting held on 25 April 2008, Mr. Zheng Fan, Mr. Ni Zheng, Ms. Xie Mei and Mr. Zhou Guangneng were re-elected as executive Directors; and Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping were re-elected as independent non-executive Directors.

In accordance with the articles of association of the Company, every Director should be subject to retirement by rotation at least once every three years.

According to the service contracts entered into between the Company and each of Mr. Chen Xiangdong and Mr. Xiao Yongping, both of them being independent non-executive Directors, their term of service began from 25 April 2008, being the date of the annual general meeting at which their respective appointment was approved, and end at the conclusion of the 2008 annual general meeting to be held in 2009. Each of them, although eligible, will not offer himself for re-election at the forthcoming annual general meeting. The Board has proposed Mr. Lam Sing Kwong Simon and Mr. Xu Jian to be appointed as independent non-executive Directors at the forthcoming annual general meeting.

## PROCEDURES OF BOARD MEETINGS

The Board has established meeting procedures and has complied with the code provisions of the Code. The procedures of board meetings provide that the Board shall meet at least four times each year and can convene additional meeting when necessary. The agenda and other reference documents shall be distributed prior to the board meeting to allow sufficient time for the Directors to review. Directors can express different opinions at board meetings. Important decisions will be made only after detailed discussions by the Board. Directors who have conflict of interest or material interests in the relevant transactions will not be counted in the quorum of the meeting and shall abstain from voting on the relevant resolutions. Minutes of board meetings and other committee meeting will be drafted by the Company Secretary and will be sent to all members for their comment and record respectively. Directors are entitled to inspect the minutes at any time.

# Corporate Governance Report

## NUMBER OF BOARD MEETINGS HELD AND THE ATTENDANCE OF DIRECTORS

The Board convened six meetings in the year ended 31 December 2008. The attendances of the meetings of the Board, the Audit Committee and the Remuneration Committee are as follows:

| | Number of meetings attended | | |
|---|---|---|---|
| **Name of Directors** | **The Board** | **Audit Committee** | **Remuneration Committee** |
| Zheng Fan | 4/6 | N/A | N/A |
| Ni Zheng | 4/6 | N/A | N/A |
| Xie Mei | 6/6 | N/A | N/A |
| Zhou Guangneng | 4/6 | N/A | N/A |
| Wong Wai Ling | 5/6 | 4/4 | 2/2 |
| Chen Xiangdong | 5/6 | 4/4 | 2/2 |
| Xiao Yongping | 5/6 | 4/4 | 2/2 |

## SPECIAL COMMITTEES UNDER THE BOARD OF DIRECTORS

The Board has established the following committees and formulated their terms of reference.

## AUDIT COMMITTEE

The Audit Committee consists of three members, including three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping, with Ms. Wong Wai Ling being the chairman of the Audit Committee.

The main areas of responsibilities of the Audit Committee are as follows:

1. To be primarily responsible for making recommendations to the Board on the appointment, reappointment or removal of the external auditors, and to approve remuneration and terms of engagement of the external auditors;

2. Reviewing of internal control and monitoring the work of internal audit department;

3. Reviewing the financial reporting statements of the Company, the Company's annual reports and accounts, interim reports and quarterly reports (if any);

4. Examining financial statements and reporting to the Board for any significant opinions in relation to financial reporting;

5. Conferring with the auditors on any problems or matters of doubt arising from the audit process, as well as other issues the auditors may like to discuss (if necessary, such discussions could be undertaken in the absence of the management);

6. Reviewing correspondences addressed to the management by the auditors and responses from the management.

# Corporate Governance Report

The Audit Committee held four meetings during the year ended 31 December 2008, at which the Audit Committee reviewed and discussed the financial results and reports, compliance procedures, the internal audit department's report regarding the reviewing and procedures of the internal control and risk management of the Company, and the re-appointment of the external auditor.

The Audit Committee has reviewed this annual report, and confirms that it is complete and accurate and complies with the Listing Rules.

## REMUNERATION COMMITTEE

The Remuneration Committee consists of three members, including three independent non-executive Directors, namely Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping, with Ms. Wong Wai Ling being the chairman of the Remuneration Committee.

The main areas of responsibilities of the Remuneration Committee are as follows:

1. The Committee should consult Chairman of the Board on remuneration recommendations concerning other executive Directors;

2. The Committee should put forward recommendations to the Board on matters relating to the overall remuneration policy and structure for the Directors and senior managerial staff of the Company, as well as finalizing a formal and transparent remuneration policy;

3. With authority delegated by the Board, the Committee should finalize the compensation packages for all the executive Directors and senior managerial staff and put forward recommendations to the Board on remuneration for non-executive Directors;

4. Reviewing and approving compensations paid to executive Directors and senior managerial staff, who have their service contracts terminated or whose contracts are not renewed, in order to ensure that the compensations are paid in accordance with relevant contractual terms.

The Remuneration Committee held two meetings during the year ended 31 December 2008, at which the Remuneration Committee reviewed and discussed the remuneration policy and structure of the Company and the remuneration of the executive Directors and senior management in the year under review.

## INTERNAL CONTROL

The Company has an internal audit department which is independent of other departments. The internal audit department has the authority to inspect the Group's risk management network, and the control and governance processes in order to monitor the effectiveness of the internal control of the Company. The department conducts a review on every subsidiary once a year, and reports and makes recommendation to the management of the Company in respect of the review. Besides, the department also regularly reviews all the businesses, the supporting teams and matters relating to work approach, procedure, expenses and internal control measures of the Company's subsidiaries. The department will also conduct ad hoc reviews and investigations when necessary. The internal audit department reports directly to the Audit Committee.

# Corporate Governance Report

During the year under review, the Board examined the effectiveness of the internal control system of the Company through the Audit Committee.

## FINANCIAL REPORTING

The Directors are responsible for overseeing the preparation of the financial statements, to ensure the annual report giving a true and fair view of the Group's state of affairs, the results and cash flow for the year. In preparing the financial statements for the year ended 31 December 2008, the Directors have:

- selected appropriate accounting policies and applied them consistently; and
- made judgments and estimates that are prudent and reasonable.

The Company recognizes that high quality corporate reporting is very important in reinforcing the trustworthy relationship with the Company's stakeholders and aims at presenting a balanced, clear and comprehensible assessment of the Company's performance, position and prospects in all corporate communications. In order to have timely and effective communications between the Company and its shareholders, the annual results of the Company are announced in a timely manner within the limit of 4 months after the financial year end.

The auditors' responsibilities are set out in the Auditors' Report on page 34.

Through the Audit Committee, the Board has reviewed the internal control system in respect of finance, operations and compliance of the Company and its subsidiaries. The Audit Committee considers that the Company and its subsidiaries have established all necessary mechanisms. The above control mechanism has ensured compliance in respect of the Company's operations. The Board considers that the Company has complied with the code provisions on internal control of the Code.

## DIRECTORS' REMUNERATION

The Group paid total Directors' remuneration amounts of approximately RMB605,000, RMB306,000, RMB371,000, RMB107,000, RMB1 and RMB107,000 to Mr. Ni Zheng, Ms. Xie Mei, Mr. Zhou Guangneng, Ms. Wong Wai Ling, Mr. Chen Xiangdong and Mr. Xiao Yongping respectively for the year ended 31 December 2008. Mr. Zheng Fan did not receive any basic remuneration from the Group for the year ended 31 December 2008.

Directors' remuneration is determined based on a variety of factors such as market conditions and responsibilities assumed by each Director. As at 31 December 2008, there was no arrangement in which Directors waived their remuneration.

## SECURITIES TRADING BY DIRECTORS

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Companies set out in Appendix 10 of the Listing Rules ("Model Code"). The Board confirms that, having made detailed enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

# Corporate Governance Report

## SECURITIES TRANSACTIONS BY SENIOR MANAGEMENT AND STAFF

Senior management and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code. These senior management and staff have been individually notified and advised about the Model Code by the Company.

## FINANCIAL OFFICER

The Financial Officer of the Company is responsible for preparing interim and annual financial statements based on accounting principles generally accepted in Hong Kong and ensures that the financial statements truly reflect the Group's results and financial position as well as in compliance with the Companies Ordinance, the Listing Rules and other relevant laws and regulations. The Financial Officer reports directly to the Chairman of the Audit Committee and co-ordinates with external auditors on a regular basis. In addition, the Financial Officer will review the control of financial risks of the Group and provide advices thereon to the Board.

## COMPANY SECRETARY

The Company Secretary reports directly to the Board. All the Directors have easy access to the Company Secretary and the responsibility of the Company Secretary is to ensure the board meetings are properly held and are in compliance with the relevant laws and regulations. The Company Secretary is also responsible for giving advices with respect to the Directors' obligations on securities interest disclosure, disclosure requirements of discloseable transactions, connected transactions and price-sensitive information. The Company Secretary shall provide advices to the Board with respect to strict compliance with the laws, requirements and the Company's articles of association at appropriate times. As the Company's principal channel of communication with the Stock Exchange, the Company Secretary assists the Board in implementing and strengthening the Company's corporate governance code so as to bring the best long term value to shareholders. In addition, the Company Secretary also provides relevant information updates and continuous professional development to the Directors with respect to legal, supervisory and other continuous obligations for being a director of a listed company at appropriate times. The Company Secretary is also responsible for supervising and managing the Group's investor relationship.

## EXTERNAL AUDITORS

The Group's external auditors are KPMG. The remuneration paid to the external auditors in 2008 comprised fees for audit services of RMB1.66 million and no fees had been paid to them for tax compliance and advisory work.

The responsibilities of the auditors to the shareholders are set out on page 34 in this annual report.

# Corporate Governance Report

## INVESTORS RELATIONSHIP

The Company places great emphasis on its relationship and communication with investors. The Company has numerous communication channels, such as press conference and seminars, to communicate with the media, analysts and fund managers. Designated senior management staff holds dialogue with analysts, fund managers and investors, who are also arranged to visit the Company from time to time, so as to keep them abreast of the Group's latest developments. In addition, investors can also visit the Company's website at www.oct-asia.com for the most updated information and the status of the business development of the Group.

## COMMUNICATION WITH SHAREHOLDERS

The Company believes that maintaining good and effective communication with shareholders can facilitate the shareholders' understanding of the business performance and strategies of the Group. The Board and senior management also recognize the responsibility of safeguarding the interest of shareholders of the Company. In order to safeguard the shareholders' interest, the Company reports its financial and operating performance to shareholders through annual reports and interim reports. Shareholders of the Company can also obtain information of the Group in time through annual reports, interim reports, announcements, circulars, press releases and the Group's website. The annual general meetings are an appropriate forum for direct communication between the Board and shareholders. Shareholders can raise questions directly to the Board in respect of the performance and future development of the Group at annual general meetings. In addition, the Company welcomes shareholders to give their valuable opinions and suggestions to the Company, and the Group has designated staff responsible for maintaining the communication between the Board and shareholders.

# Directors' Report

The Board has pleasure in submitting the Annual Report together with the audited financial statements for the year ended 31 December 2008.

## PRINCIPAL PLACE OF BUSINESS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 28 February 2005. Its registered office and principal place of business are at Clifton House, 75 Fort street, PO Box 1350 GT, George Town, Grand Cayman, Cayman Islands and Suites 3203-3204, Tower 6, The Gateway, Harbour City, Canton Road, Tsimshatsui, Kowloon, Hong Kong respectively.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of the Group are design and manufacture of quality paper-based packaging materials and containers, including corrugated paperboard and printed cartons.

## RESULTS AND DISTRIBUTIONS

The results of the Group for the year are set out in the consolidated income statement on page 36.

The Directors consider that dividends to be declared during the year or declarable in future by the Group will be decided by the Board in its discretion. The factors that the Board will take into consideration include (among others) distributable profits, the Group's profits, financial position, capital requirements and other factors which the Directors may deem relevant at the time. Undistributed profits will be used to provide funds for the Group's continued growth and business expansion. Subject to the above, the Directors propose distribution of a dividend of HK$2.0 cents per share for the year ended 31 December 2008 (2007: HK$5.7 cents per share).

## MAJOR ACQUISITION

In December 2008, the Company completed the acquisition of 51% equity interest in OCT Investments and the corresponding shareholder's loans, and OCT Investments becomes a wholly-owned subsidiary of the Company. As OCT Investments holds 25% equity interest in Chengdu OCT, following the completion of the above acquisition, the Company indirectly holds 25% equity interest in Chengdu OCT.

For details of the acquisition, please refer to the announcements of the Company dated 5 June and 25 November 2008, and the circular of the Company dated 24 June 2008.

## FINANCIAL STATEMENTS

The profit of the Group for the year ended 31 December 2008 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 36 to 102.

# Directors' Report

## PROPOSED FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of HK$2.0 cents per share for shareholders whose names appear on the Register of Members of the Company on 12 May 2009. The Register of Member will be closed from 12 May 2009 to 14 May 2009, both days inclusive, and the proposed final dividend is expected to be paid on 25 June 2009. The payment of dividends shall be subject to the approval of the shareholders at the forthcoming Annual General Meeting to be held on 14 May 2009. In order to be qualified for attending the Annual General Meeting and the proposed dividend, shareholders should deliver share certificates together with transfer documents to the Company's branch share registrar at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 pm on 11 May 2009.

## CHARITABLE DONATIONS

No charitable donations were made by the Group during the year.

## TRANSFERS TO RESERVES

Profits attributable to shareholders before dividends of RMB16.59 million (2007: RMB38.36 million) have been transferred to reserves. Other movements in the reserves are set out in note 26 to the financial statements.

## PROPERTY, PLANT AND EQUIPMENT

During the year, the Group invested approximately RMB65.16 million for the acquisitions of property, plant and equipment (including construction in progress). Details of the movements of property, plant and equipment, and construction in progress are set out in notes 12 and 13 to the financial statements.

## SHARE CAPITAL

For the year ended 31 December 2008, an additional 5,790,000 Shares were issued as a result of the exercise of certain share options granted under the Share Option Scheme of the Company.

In December 2008, in order to acquire 51% equity interest in OCT Investments and the corresponding portion of shareholder's loans, the Company issued 36,250,000 Shares as part of the consideration to Pacific Climax Limited.

As a result of the above, the Company's total issued share capital increased to 288,040,000 Shares as at 31 December 2008.

Details of the movements in share capital of the Company during the year are set out in note 26 to the financial statements.

## DISTRIBUTABLE RESERVES

Pursuant to the relevant rules of the Cayman Islands, the Company's distributable reserves as at 31 December 2008 amounted to RMB511 million.

# Directors' Report

## PRE-EMPTIVE RIGHTS

There was no provision in respect of pre-emptive rights in the articles of association of the Company, nor any requirement in the laws of the Cayman Islands requiring the Company to issue new shares to the existing shareholders proportionately.

## PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not purchased its own listed shares during the reporting period. During the period, save as disclosed in this Annual Report, the Company or any of its subsidiaries has not purchased or sold or redeemed any of the listed shares in the Company.

## MATERIAL CONTRACTS

Save as disclosed in this Annual Report, no contract of significance has been entered into during the reporting period between the Company or any of its subsidiaries and the controlling shareholder or its subsidiaries.

## SERVICE CONTRACTS

No Director has an unexpired service contract which is not determinable by the Company within one year without payment of compensation other than normal statutory compensation.

## DIRECTORS

The Directors of the Company during the year were as follows:

### Executive Directors:

Mr. Zheng Fan *(Chairman)*
Mr. Ni Zheng
Ms. Xie Mei
Mr. Zhou Guangneng

### Independent non-executive Directors:

Ms. Wong Wai Ling
Mr. Chen Xiangdong
Mr. Xiao Yongping

## DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Annual Report, no contract of significance in relation to the Group's business to which the Company, any of its holding companies, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

# Directors' Report

## PERSONAL BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Personal biographies of Directors and senior management are set out on pages 10 to 11.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors of the Company is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the 2008 financial year up to and including the date of this report.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND/OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) held by the Directors and chief executives of the Company which have been notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO) or have been entered in the register maintained by the Company pursuant to section 352 of the SFO, or otherwise have been notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") are as follows:

## LONG POSITION IN ORDINARY SHARES OF THE COMPANY

### Long positions in ordinary shares of the Company

| Name of Directors | Number of ordinary shares held | Capacity | Nature of interest | Approximate % of issued share capital of the Company |
|---|---|---|---|---|
| Ni Zheng | 600,000 | Beneficial owner | Personal | 0.21% |
| Zhou Guangneng | 510,000 | Beneficial owner | Personal | 0.18% |

### Long positions in underlying shares of the Company

| Name of Directors | Number of underlying shares | Capacity | Nature of interest | Approximate % of issued share capital of the Company |
|---|---|---|---|---|
| Ni Zheng *(Note 1)* | 1,400,000 | Beneficial owner | Personal | 0.49% |
| Zhou Guangneng *(Note 2)* | 1,190,000 | Beneficial owner | Personal | 0.41% |

# Directors' Report

*Notes:*

(1) Ni Zheng is taken to be interested as a grantee of options to subscribed for 1,400,000 Shares under the share option scheme of the Company.

(2) Zhou Guangneng is taken to be interested as a grantee of options to subscribed for 1,190,000 Shares under the share option scheme of the Company.

Save as disclosed above, as at 31 December 2008, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2008, as far as is known to the Directors, the following persons (not being a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO:

### Long Position in Ordinary Shares of the Company

| Name | Capacity/Nature | No. of shares held | Approximate shareholding percentage |
|---|---|---|---|
| **Substantial Shareholders** | | | |
| Pacific Climax Limited *(Note 1)* | Beneficial owner | 196,620,000 | 68.26% |
| Overseas Chinese Town (HK) Company Limited ("OCT (HK)") | Interest of a controlled corporation *(Note 2)* | 196,620,000 | 68.26% |
| Shenzhen OCT Holding Co. Ltd. ("OCT Holding") | Interest of a controlled corporation *(Note 3)* | 196,620,000 | 68.26% |
| Overseas Chinese Town Enterprises Company ("OCT Group") | Interest of a controlled corporation *(Note 4)* | 196,620,000 | 68.26% |
| **Others** | | | |
| Polyfairz Group Limited (formerly known as Polyfair Limited) | Beneficial owner | 15,630,000 | 5.43% |
| Zhang Zhilin | Interest of a controlled corporation *(Note 5)* | 15,630,000 | 5.43% |
| Tang Qinmei | Interest of spouse *(Note 6)* | 15,630,000 | 5.43% |

# Directors' Report

*Notes:*

(1) Mr. Ni Zheng and Mr. Zhou Guangneng, both of them are Directors, are also directors of Pacific Climax Limited.

(2) OCT (HK) is the beneficial owner of all the issued share capital in Pacific Climax Limited. Therefore, OCT (HK) is deemed, or taken to be interested in these shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO. Mr. Zheng Fan and Mr. Ni Zheng, both of them are Directors, are also directors of OCT (HK).

(3) OCT Group entered into a state-assets transfer agreement on 6 June 2008 with OCT Holding, pursuant to which OCT Group conditionally agreed to sell, and OCT Holding conditionally agreed to purchase, inter alia, the entire issued share capital of OCT (HK). The said state-assets transfer agreement is yet to be completed. For the purposes of the SFO, OCT Holding is deemed, or taken to be, interested in the 196,620,000 Shares which are beneficially owned by Pacific Climax Limited. OCT Holding is a company incorporated in the PRC, the shares of which are listed on the Shenzhen Stock Exchange. As at the date of this report, OCT Group held 1,265,088,130 shares of OCT Holding, representing approximately 48.26% of the issued share capital of OCT Holding. As advised by OCT Group, OCT Holding is a subsidiary of OCT Group. Mr Zheng Fan, a Director, is also a director of OCT Holding.

(4) OCT Group is the beneficial owner of all the issued shares in OCT (HK) (OCT Group holds 454,999,998 shares in OCT (HK) in its own name. Mr. Zheng Fan, an Executive Director, and Mr. Guo Yubin hold one share each in OCT (HK) on trust for OCT Group) and which is in turn the beneficial owner of all the issued share capital in Pacific Climax Limited and therefore OCT Group is deemed, or taken to be, interested in the 196,620,000 shares which are beneficially owned by Pacific Climax Limited for the purpose of the SFO.

(5) Polyfairz Group Limited (formerly known as Polyfair Limited) is beneficially owned as to 90% by Mr. Zhang Zhilin and thus a controlled corporation of Mr. Zhang Zhilin, and Mr. Zhang Zhilin is deemed, or taken to be, interested in the 15,630,000 shares which are beneficially owned by Polyfairz Group Limited for the purpose of the SFO.

(6) Ms. Tang Qinmei is the spouse of Mr. Zhang Zhilin. Therefore, Ms. Tang Qinmei is deemed, or taken to be, interested in all the shares in which Mr. Zhang Zhilin is interested for the purpose of the SFO.

Save as disclosed above, no other interests required to be recorded in the register kept under section 336 of the SFO have been notified to the Company.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year.

# Directors' Report

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

| | Percentage of the Group's total | |
|---|---|---|
| | **Sales** | **Purchases** |
| The largest customer | 11% | |
| Five largest customers in aggregate | 33% | |
| The largest supplier | | 14% |
| Five largest suppliers in aggregate | | 44% |

Other than OCT Group, the ultimate controlling company of the Company (which indirectly owns 68.26% of the total issued shares of the Company), which owns a 16.48% stake in Konka Group Co., Ltd., the largest customer of the Group in 2008, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in the Group's five largest suppliers or customers.

## CONNECTED TRANSACTIONS

During the year, the Group has the following continuing connected transactions (the "Connected Transactions") and the Company has fully complied with the announcement, reporting and/or independent shareholders' approval requirements under Chapter 14A of the Listing Rules (where applicable):

1. On 27 December 2007, Shenzhen Overseas Chinese Town Real Estate Company Limited ("OCT Properties") (as lessor) entered into a tenancy agreement with Shenzhen Huali (as lessee), a wholly-owned subsidiary of the Company, for a term from 1 January 2008 to 31 December 2010.

   OCT Properties is a non-wholly owned subsidiary of OCT Group, the ultimate controlling shareholder of the Company. OCT Properties is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements under the above tenancy agreement constitute continuing connected transactions.

2. Shenzhen Huali purchases printed instruction manuals, brochures or similar publications from Panyu Huali Youde Offset Printing & Packaging Company Limited ("Panyu Huali"). On 27 December 2007, a sale and purchase agreement was entered into between Shenzhen Huali and Panyu Huali for a contract period commencing from 1 January 2008 to 31 December 2010.

   OCT Group, the ultimate shareholder of OCT (HK), together with its associates, are directly or indirectly interested in over 50% equity interest in Panyu Huali. As such, Panyu Huali is a connected person within the meaning of the Listing Rules. Accordingly, the above purchase arrangements constitute continuing connected transactions under the Listing Rules.

# Directors' Report

3. On 27 December 2007, Shenzhen Overseas Chinese Town Water and Electricity Company ("OCT Electricity") and Shenzhen Huali entered into a utilities agreement for a term commencing from 1 January 2008 to 31 December 2010. Under the agreement, Shenzhen Huali has agreed to pay the water (including sewage charges) and electricity charges incurred for the premises owned or rented by Shenzhen Huali located in Huaqiaocheng, Shenzhen. The calculation of the electricity and water charges are based on meter reading of separate meters installed by Shenzhen Huali. The water, sewage and electricity tariffs charged by OCT Electricity follow the standard charges set by the government authorities.

   OCT Electricity is a state-owned enterprise and OCT Group, the ultimate shareholder of OCT (HK), is directly interested in 100% of the registered capital of OCT Electricity. OCT Electricity is a connected person within the meaning of the Listing Rules. Accordingly, the arrangements under the utilities agreement constitute continuing connected transactions.

4. The Group, in particular Shenzhen Huali, sells cartons to OCT Group and a number of its associated companies (being such companies in the equity capital of which OCT Group is directly or indirectly interested so as to exercise or control the exercise of 30% or more of the voting power at general meetings, or to control the composition of a majority of the board of directors). A new sale and purchase agreement was entered into between Shenzhen Huali and OCT Group on 27 December 2007 for a contract period commencing from 1 January 2008 to 31 December 2010.

   OCT Group is the ultimate shareholder of OCT (HK). Pursuant to the Listing Rules, each of OCT Group and its associated companies is a connected person to the Company. Accordingly, the arrangements under the above sales and purchase agreement constitute continuing connected transactions.

5. Shanghai Huali sells cartons to Shanghai Meiling Center Air Conditioner Co., Ltd. ("Meiling Air Conditioner"). A new sales and purchase agreement was entered into between Shanghai Huali and Meiling Air Conditioner on 27 December 2007 for a contract period commencing from 1 January 2008 to 31 December 2010.

   Mr. Zhang Zhi Lin, a director of Shanghai Huali, a subsidiary of the Company, owns 79.08% equity interest in Shanghai Huiyang Industry Co., Ltd., which in turn owns 50% equity interest in Meiling Air Conditioner. Pursuant to the Listing Rules, Meiling Air Conditioner is a connected person to the Company. Accordingly, the sale arrangements stated above constitute continuing connected transactions under the Listing Rules.

6. Shenzhen Huali sold its properties consisting of 2 factory buildings to OCT properties on 11 July 2007, while on the same date, Shenzhen Huali and OCT Properties entered into a tenancy agreement, pursuant to which the properties would be leased back to Shenzhen Huali commencing from the date OCT Properties having obtained the title of the properties and ending on 31 December 2009. The lease term has commenced from 1 June 2008 when the transfer of title of the properties had been completed.

   OCT Properties is a non-wholly owned subsidiary of OCT Group, the ultimate controlling shareholder of the Company. OCT Properties is a connected person of the Company within the meaning of the Listing Rules. Accordingly, the arrangements under the above tenancy agreement constitute continuing connected transactions.

# Directors' Report

Details of items (1) to (5) of the Connected Transactions are set out in the announcement of the Company dated 28 December 2007, and details of item (6) of the Connected Transactions are set out in the announcement and circular of the Company dated 13 July 2007 and 24 August 2007, respectively. The transaction amount and cap of the Connected Transactions for the year ended 31 December 2008 are as follows:

| **Particulars of the connected transactions** | **Transaction amount for the year ended 31 December 2008**<br>*RMB'000* | **Cap amount for the year ended 31 December 2008**<br>*RMB'000* |
|---|---|---|
| (1) Tenancy agreement between OCT Properties (as lessor) and Shenzhen Huali (as lessee) | 1,716 | 1,716 |
| (2) Purchase of booklets by Shenzhen Huali from Panyu Huali | 544 | 3,000 |
| (3) Electricity supply arrangement between OCT Electricity and Shenzhen Huali | 3,899 | 5,500 |
| (4) Sales of cartons by the Group to OCT Group and its associated companies | 655 | 3,000 |
| (5) Sales of cartons by Shanghai Huali to Meiling Air Conditioner | 8,733 | 9,000 |
| (6) The lease back of properties between OCT Properties (as lessor) and Shenzhen Huali (as lessee) | 1,847 | 3,166 |

The Directors confirm that for the above Connected Transactions, the Company complied with the disclosure, reporting and/or shareholders approval requirements in Chapter 14A of the Listing Rules.

The following continuing connected transaction has also been entered into by the Group, which involved an aggregate annual consideration below HK$1.00 million and hence falls within the de minimis threshold as stipulated under Rule 14A.33(3) of the Listing Rules. Therefore, the following transaction is not subject to any of the reporting, announcement and independent shareholders' approval requirements applicable to continuing connected transactions under Chapter 14A of the Listing Rules.

On 18 April 2005, Shanghai Pudong Xiamei Plastics Co., Ltd. (as lessor) and Shanghai Huali (as lessee) entered into a tenancy agreement, pursuant to which Shanghai Huali agreed to lease from Shanghai Pudong Xiamei Plastics Co., Ltd., an office premise for a term effective from 1 April 2005 to 31 December 2008 at an annual rent of RMB180,000 (exclusive of water and electricity charges). Mr. Zhang Zhi Lin, a director of Shanghai Huali, owns 79.08% equity interest in Shanghai Huiyang Industry Co., Ltd. Shanghai Huiyang Industry Co., Ltd. owns 50% equity interest in Shanghai Pudong Xiamei Plastics Co., Ltd. Accordingly, Shanghai Pudong Xiamei Plastics Co., Ltd. is a connected person within the meaning of the Listing Rules, and the arrangements under the above tenancy agreement constitute continuing connected transactions under the Listing Rules but were exempt from all the reporting, announcement and independent shareholders approval requirement under Chapter 14A of the Listing Rules.

# Directors' Report

The Independent Non-Executive Directors of the Company have reviewed the above continuing connected transactions and confirm:

(1) the above transactions are in the ordinary course of business of the Company;

(2) the above transactions are on normal commercial terms, or if there are insufficient comparable transactions to judge whether the terms of those transactions are normal commercial terms, as far as the Company is concerned, the terms of the above transactions are no less favorable than that available from or provided by independent third parties (as the case may be); and

(3) the above transactions are entered into under the terms of the agreement in respect of the relevant transactions and the transaction terms are fair and reasonable and are in the interest of shareholders of the Company as a whole.

In addition, the Company's auditors have confirmed in writing to the Board, the above continuing connected transactions:

(1) have received the approval of the Board;

(2) nothing had come to their attention which caused them to believe that:

- the connected transactions had not been entered into in accordance with the relevant agreements governing the transactions;

- the connected transactions had not been entered into in accordance with the pricing policies of the Group if the transactions involve provision of goods by the Group; and

- the transaction amount occurred in 2008 for each of the connected transactions was not within the respective cap amount as disclosed in the Company's Announcement on 13 July 2007 and 28 December 2007.

In 2008, the Group acquired 51% equity interest in OCT Investments and the shareholder's loans held by OCT (HK). Details of the disposal and acquisition are set out in the paragraph under "ACQUISITION AND DISPOSAL" in the section headed "Management Discussion and Analysis", and disclosed in the announcements and circular dated 5 June, 24 June and 25 November 2008 in compliance with the requirements under Chapter 14A of the Listing Rules.

The related party transactions are set out in note 29 to the financial statements. Apart from the connected transactions disclosed above, all the other related party transactions did not fall under the scope of "Connected Transactions" or "Continuing Connected Transaction" under Chapter 14A of the Listing Rules which are required to comply with any of the reporting, announcement or independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

# Directors' Report

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 31 December 2008 are set out in note 22 and 29 to the financial statements.

## FIVE YEAR SUMMARY

A summary of the results and the assets and liabilities of the Company for the last five years is set out on pages 103 and 104 of the Annual Report.

## RETIREMENT SCHEMES

The Group participates in two defined contribution retirement schemes which cover the Group's full-time employees. Particulars of these retirement schemes are set out in note 23 to the financial statements.

## CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent parties.

## AUDITORS

KPMG were first appointed as the auditors of the Company in 2005.

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting of the Company.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has maintained the prescribed public float under the Listing Rules.

## SHARE OPTION SCHEME

The Company has a share option scheme which was adopted on 12 October 2005 whereby the Directors are authorized, at their absolute discretion and on such terms as they may think fit, grant an employee (full-time or part-time), a director, consultant and adviser of the Group, or any substantial shareholder of the Group, options to subscribe for shares of the Company. The purpose of the share option scheme is to attract and retain the best available personnel, to provide additional incentive to the employees (full-time and part-time), directors, consultants and advisers of the Group and to promote the success of the Group. The share option scheme shall be valid and effective for a period of ten years ending on 11 October 2015, unless terminated earlier by shareholders of the Company at general meeting.

# Directors' Report

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to the Company on acceptance of the offer for the grant of an option is HK$1.00.

The subscription price of a share in respect of any particular option granted under the share option scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of grant of the option; and (iii) the nominal value of a share on the date of grant of the option.

The Company shall be entitled to issue options, provided that the total number of shares which may be issued upon exercise of all options to be granted under the share option scheme does not exceed 10% of the shares in issue at the date of approval of the share option scheme. The Company may at any time refresh such limit, subject to the shareholders' approval and issue of a circular in compliance with the Listing Rules, provided that the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under all the share option schemes of the Company does not exceed 30% of the shares in issue at the time.

The total number of options available for issue under the share option scheme as at the date of this report was 700,000 options, which, if granted and shares were issued upon exercise of such options, will represent 0.24% of the issued share capital of the Company as at the date of this report. In addition, the total number of shares to be issued upon exercise of options already granted under the share option scheme was 13,510,000 Shares, representing approximately 4.69% of the issued share capital of the Company as at the date of this Report. The total number of shares issued and to be issued upon exercise of options granted to any grantee (including both exercised and outstanding options) under the share option scheme, in any 12-month period up to the date of grant shall not exceed 1% of the total number of shares in issue.

An option may be exercised in accordance with the terms of the share option scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

# Directors' Report

The status of the share options granted up to 31 December 2008 are as follows:

| Name and Category of participants | Number of unlisted share options (physically settled equity derivatives) As at 1 January 2008 | Granted during the period | Exercised during the period | Cancelled/ lapsed during the period | As at 31 December 2008 | Date of grant of share options* | Exercise period of share options | Exercise price of share options** | Share price of the Company as at the date of grant of share option*** | Share price of the Company as at the date of exercise of share options**** |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | *HK$* | *HK$* | *HK$* |
| **Directors** | | | | | | | | | | |
| Ni Zheng | 2,000,000 | – | 600,000 | – | 1,400,000 | 7 February 2006 | 7 February 2006 to 6 February 2016 | 1.41 | 1.41 | 3.35 |
| Zhou Guangneng | 1,700,000 | – | 510,000 | – | 1,190,000 | 7 February 2006 | 7 February 2006 to 6 February 2016 | 1.41 | 1.41 | 3.35 |
| | 3,700,000 | – | 1,110,000 | – | 2,590,000 | | | | | |
| **Other employees** | 15,600,000 | – | 4,680,000 | – | 10,920,000 | 7 February 2006 | 7 February 2006 to 7 February 2016 | 1.41 | 1.41 | 3.35 |
| **Total** | 19,300,000 | – | 5,790,000 | – | 13,510,000 | | | | | |

* Under the Company's share option scheme, there is no vesting period of the share options.

** The exercise price of the share options was subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

*** The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options.

**** The share price of the Company disclosed as at the date of the exercise of the share options was the weighted average closing price of the shares immediately before the dates on which the share options were exercised during the period.

# Directors' Report

Apart from the foregoing, at no time during the period prior to the date of the Annual Report was the Company, any of its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

Hong Kong, 23 March 2009

# Independent Auditor's Report

**Independent auditor's report to the shareholders of**
**Overseas Chinese Town (Asia) Holdings Limited**
*(Incorporated in Cayman Islands with limited liability)*

We have audited the consolidated financial statements of Overseas Chinese Town (Asia) Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 36 to 102, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

# Independent Auditor's Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**
*Certified Public Accountants*
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong
23 March 2009

# Consolidated income statement

As at 31 December 2008

*(Expressed in Renminbi)*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Turnover** | 3 | **739,155** | 739,907 |
| **Cost of sales** | | **(673,194)** | (654,846) |
| **Gross profit** | | **65,961** | 85,061 |
| Other revenue | 4(a) | **26,735** | 28,276 |
| Other net gain/(loss) | 4(b) | **36,680** | (3,836) |
| Distribution costs | | **(33,920)** | (30,799) |
| Administrative expenses | | **(50,701)** | (28,378) |
| Other operating expenses | | **(6,423)** | (4,214) |
| **Profit from operations** | | **38,332** | 46,110 |
| Finance costs | 5(a) | **(3,304)** | (4,381) |
| Share of losses from an associate | | **(10,648)** | (484) |
| **Profit before taxation** | 5 | **24,380** | 41,245 |
| Income tax | 6 | **(7,790)** | (2,826) |
| **Profit for the year** | | **16,590** | 38,419 |
| **Attributable to:** | | | |
| Equity shareholders of the Company | | **16,590** | 38,361 |
| Minority interests | | **–** | 58 |
| **Profit for the year** | | **16,590** | 38,419 |
| **Dividends payable to equity shareholders of the Company attributable to the year:** | | | |
| Final dividend proposed after the balance sheet date | 10 | **5,080** | 12,618 |
| **Earnings per share (RMB)** | 11 | | |
| Basic | | **0.07** | 0.18 |
| Diluted | | **0.07** | 0.17 |

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated balance sheet

at 31 December 2008

*(Expressed in Renminbi)*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 12 | **165,753** | 191,468 |
| Construction in progress | 13 | **59,386** | 921 |
| Goodwill | 14 | **24,937** | 24,937 |
| Lease prepayments | 15 | **70,671** | 72,169 |
| Interest in an associate | 17 | **213,673** | 89,907 |
| Deferred tax assets | 25(b) | **10,579** | 6,444 |
| | | **544,999** | 385,846 |
| **Current assets** | | | |
| Non-current assets held for sale | | **–** | 12,361 |
| Inventories | 18 | **84,853** | 91,866 |
| Trade and other receivables | 19 | **167,371** | 210,296 |
| Cash and cash equivalents | 20 | **127,307** | 119,292 |
| | | **379,531** | 433,815 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **204,907** | 259,789 |
| Bank loans | 22 | **42,199** | 32,735 |
| Current taxation | 25(a) | **7,948** | 4,333 |
| | | **255,054** | 296,857 |
| **Net current assets** | | **124,477** | 136,958 |
| **Total assets less current liabilities** | | **669,476** | 522,804 |
| **Non-current liabilities** | | | |
| Other payable to intermediate holding company | 29(b) | **73,198** | – |
| Bank loans | 22 | **57,279** | 11,986 |
| Deferred tax liability | 25(b) | **2,183** | – |
| | | **132,660** | 11,986 |
| **NET ASSETS** | | **536,816** | 510,818 |

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated balance sheet

at 31 December 2008 *(continued)*
*(Expressed in Renminbi)*

| | *Note* | **2008** **RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | *26(a)* | **28,976** | 25,260 |
| **Reserves** | | **507,840** | 485,558 |
| **Total equity attributable to equity shareholders of the Company** | *26* | **536,816** | 510,818 |
| **TOTAL EQUITY** | | **536,816** | 510,818 |

Approved and authorised for issue by the board of directors on 23 March 2009.

**Zheng Fan** )
) *Directors*
**Ni Zheng** )

The notes on pages 44 to 102 form part of these financial statements.

# Balance sheet

at 31 December 2008

*(Expressed in Renminbi)*

| | Note | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Investments in subsidiaries | 16 | **389,452** | 248,970 |
| Interest in an associate | 17 | **–** | 90,391 |
| Property, plant and equipment | 12 | **9** | 22 |
| | | **389,461** | 339,383 |
| **Current assets** | | | |
| Trade and other receivables | 19 | **388,662** | 202,702 |
| Cash and cash equivalents | 20 | **12,564** | 10,524 |
| | | **401,226** | 213,226 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **104,211** | 14,713 |
| Bank loans | 22 | **32,277** | 12,735 |
| | | **136,488** | 27,448 |
| **Net current assets** | | **264,738** | 185,778 |
| **Total assets less current liabilities** | | **654,199** | 525,161 |
| **Non-current liabilities** | | | |
| Other payable to intermediate holding company | 29(b) | **73,198** | – |
| Bank loans | 22 | **40,744** | 11,986 |
| **NET ASSETS** | | **540,257** | 513,175 |
| **CAPITAL AND RESERVES** | | | |
| **Share capital** | 26(a) | **28,976** | 25,260 |
| **Reserves** | 26(g) | **511,281** | 487,915 |
| **TOTAL EQUITY** | | **540,257** | 513,175 |

Approved and authorised for issue by the board of directors on 23 March 2009.

**Zheng Fan** )
) *Directors*
**Ni Zheng** )

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated statement of changes in equity

For the year ended 31 December 2008

*(Expressed in Renminbi)*

| | | Attributable to equity shareholders of the Company | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Note | Registered/ issued capital RMB'000 (note 26(a)) | Share premium RMB'000 (note 26(b)) | Contributed surplus RMB'000 (note 26(b)) | Merger reserve RMB'000 (note 26(c)) | Capital reserve RMB'000 (note 26(d)) | Exchange reserve RMB'000 | General reserve fund RMB'000 (note 26(e)) | Enterprise expansion fund RMB'000 (note 26(f)) | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total RMB'000 |
| At 1 January 2007 | | 20,800 | 29,964 | 147,711 | 24,757 | 25,386 | (1,290) | 31,131 | 5,366 | 52,337 | 336,162 | 1,699 | 337,861 |
| Disposal of a subsidiary | | – | – | – | – | – | – | – | – | – | – | (1,757) | (1,757) |
| Exchange differences arising from translation of financial statements of foreign subsidiaries | | – | – | – | – | – | (486) | – | – | – | (486) | – | (486) |
| Profit for the year | | – | – | – | – | – | – | – | – | 38,361 | 38,361 | 58 | 38,419 |
| Total recognised income and expense for the year | | – | – | – | – | – | (486) | – | - | 38,361 | 37,875 | (1,699) | 36,176 |
| Issuance of shares | 26(a) | 4,460 | 144,996 | – | – | – | – | – | – | – | 149,456 | – | 149,456 |
| Transfer between reserves | | – | – | – | – | – | – | 2,566 | – | (2,566) | – | – | – |
| Dividend approved in respect of previous year | 10(b) | – | – | – | – | – | – | – | – | (12,675) | (12,675) | – | (12,675) |
| At 31 December 2007 | | 25,260 | 174,960 | 147,711 | 24,757 | 25,386 | (1,776) | 33,697 | 5,366 | 75,457 | 510,818 | – | 510,818 |
| At 1 January 2008 | | 25,260 | 174,960 | 147,711 | 24,757 | 25,386 | (1,776) | 33,697 | 5,366 | 75,457 | 510,818 | – | 510,818 |
| Exchange differences on translation of financial statements foreign subsidiaries | | – | – | – | – | – | (3,844) | – | – | – | (3,844) | – | (3,844) |
| Profit for the year | | – | – | – | – | – | – | – | – | 16,590 | 16,590 | – | 16,590 |
| Total recognised income and expense for the year | | – | – | – | – | – | (3,844) | – | – | 16,590 | 12,746 | – | 12,746 |
| Issuance of shares | 26(a) | 3,716 | 23,521 | – | – | (1,367) | – | – | – | – | 25,870 | – | 25,870 |
| Transfer between reserves | | – | – | – | – | – | – | 2,494 | – | (2,494) | – | – | – |
| Dividend approved in respect of previous year | 10(b) | – | – | – | – | – | – | – | – | (12,618) | (12,618) | – | (12,618) |
| At 31 December 2008 | | 28,976 | 198,481 | 147,711 | 24,757 | 24,019 | (5,620) | 36,191 | 5,366 | 76,935 | 536,816 | – | 536,816 |

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated cash flow statement

for the year ended 31 December 2008

*(Expressed in Renminbi)*

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Operating activities** | | |
| Profit before taxation | **24,380** | 41,245 |
| Adjustments for: | | |
| – Depreciation and amortisation | **30,051** | 30,769 |
| – Interest income | **(1,333)** | (2,511) |
| – (Gain)/loss on disposal of property, plant and equipment | **(36,194)** | 41 |
| – Impairment on property, plant and equipment | **3,306** | 3,707 |
| – Interest expense | **3,304** | 4,381 |
| – Gain on disposal of a subsidiary | **–** | (696) |
| – Share of losses of an associate | **10,648** | – |
| **Operating profit before changes in working capital** | **34,162** | 76,936 |
| Decrease/(increase) in inventories | **7,013** | (28,091) |
| Decrease/(increase) in trade and other receivables | **1,686** | (30,727) |
| (Decrease)/increase in trade and other payables | **(73,188)** | 55,302 |
| **Cash (used in)/generated from operations** | **(30,327)** | 73,420 |
| PRC tax paid | **(6,127)** | (9,614) |
| Interest paid | **(3,109)** | (4,279) |
| **Net cash (used in)/generated from operating activities** | **(39,563)** | 59,527 |

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated cash flow statement

for the year ended 31 December 2008 *(continued)*
*(Expressed in Renminbi)*

| | Note | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Payment for purchase of property, plant and equipment | | **(5,187)** | (4,329) |
| Payment for acquisition of an associate | | **(1,505)** | (50,857) |
| Proceeds from disposal of property, plant and equipment | | **49,104** | 34 |
| Proceeds from disposal of a subsidiary *(Note)* | | **–** | 7,578 |
| Payment for construction in progress | | **(41,433)** | (26,251) |
| Interest received | | **1,333** | 2,511 |
| Lease prepayments | | **–** | (62,313) |
| **Net cash generated from/(used in) investing activities** | | **2,312** | (133,627) |
| **Financing activities** | | | |
| Net proceeds from issuance of shares | | **7,334** | 65,953 |
| Proceeds from new bank loans | | **88,190** | 81,000 |
| Dividends paid to the equity shareholders of the Company | | **(12,618)** | (12,675) |
| Repayment of bank loans | | **(33,433)** | (106,467) |
| **Net cash generated from financing activities** | | **49,473** | 27,811 |
| **Net increase/(decrease) in cash and cash equivalents** | | **12,222** | (46,289) |
| **Cash and cash equivalents at 1 January** | | **119,292** | 172,160 |
| **Effect of foreign exchange rate changes** | | **(4,207)** | (6,579) |
| **Cash and cash equivalents at 31 December** | *20* | **127,307** | 119,292 |

The notes on pages 44 to 102 form part of these financial statements.

# Consolidated cash flow statement

for the year ended 31 December 2008 *(continued)*
*(Expressed in Renminbi)*

*Note:*

**Proceeds from disposal of a subsidiary**

On 20 May 2007, the Group disposed of 100% equity interest in its subsidiary, Mission Holdings Services Limited ("Mission Holdings") to an independent third party. Mission Holdings is an investment holding company which holds 85% interest in its sole subsidiary, Mudanjiang Huali Packaging Co., Ltd. ("Mudanjiang Huali").

The value of assets disposed of and liabilities assumed were as follows:

Net assets disposed of:

| | *RMB'000* |
|---|---|
| Property, plant and equipment | 3,169 |
| Trade and other receivable | 2,952 |
| Inventories | 5,096 |
| Cash | 2,202 |
| Trade and other payables | (2,578) |
| Minority interest | (1,757) |
| | 9,084 |
| Gain on disposal of a subsidiary | 696 |
| Satisfied by: | |
| Cash | 9,780 |

Analysis of the net inflow of cash and cash equivalent in respect of the disposal of a subsidiary

| | |
|---|---|
| Cash consideration | 9,780 |
| Cash disposal of | (2,202) |
| Net inflow of cash and cash equivalents in respect of disposal of a subsidiary | 7,578 |

The notes on pages 44 to 102 form part of these financial statements.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

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.

## 1 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 Hong Kong Institute of Certified Public Accountants ("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 of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

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 (see note 2).

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

### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in an associate. The Group is primarily involved in the manufacture and sale of paper cartons and products.

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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (b) Basis of preparation of the financial statements *(continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 32.

### (c) Subsidiaries 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.

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 1(i)).

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (d) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the group's share of the investee's net assets and any impairment loss relating to the investment. The group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investment in an associate is stated at cost less impairment losses (see note 1(i)), unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

### (e) 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 1(i)).

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)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (f) 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 1(i)). 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 | 5 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 1(i)). Cost comprises all direct and indirect costs, including interest charges (see note 1(t)) 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 until it is substantially complete and ready for its intended use.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (g) 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.

### (h) 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 19 to 46 years, and impairment losses (see note 1(i)).

### (i) Impairment of assets

*(i) Impairment of investments in debt and equity securities and other receivables*

Investments in debt and equity securities (other than investments in subsidiaries) that are stated at cost or amortised cost or are classified as available-for-sale securities 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 investments in an associate recognised using the equity method (see note 1(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 1(i)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(i)(ii).

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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Impairment of assets *(continued)*

*(i) Impairment of investments in debt and equity securities and other receivables (continued)*

– 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 or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

*(ii) Impairment of other assets*

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

– property, plant and equipment;

– construction in progress;

– lease prepayments;

– investments in subsidiaries; and

– goodwill.

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

– 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).

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (i) Impairment of assets *(continued)*

*(ii) Impairment of other assets (continued)*

– Recognition of impairment losses

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

– Reversals of impairment losses

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

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

### (j) 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 realisable as an expense in the period in which the related revenue is realisable. 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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (k) 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 1(i)), except where the receivables are interest-free loans 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 1(i)).

### (l) 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.

### (m) 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.

### (n) 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.

### (o) 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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (o) 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.

### (p) 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)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) 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 at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. 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)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (p) 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.

### (q) 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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (r) 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.

### (s) 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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (t) Borrowing costs

Borrowing costs are expensed in profit or loss in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (u) Non-current assets held for sale

A non-current asset is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset is available for sale in its present condition.

Immediately before classification as held for sale, the measurement of the non-current assets is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties. These assets, even if for sale, would continue to be measured in accordance with the policies set out elsewhere in note 1.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, the non-current asset is not depreciated or amortised.

### (v) 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;

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 1 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### (v) Related parties *(continued)*

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

(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.

### (w) Segment reporting

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

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. The following of these developments are relevant to the Group's financial statements:

- HKAS 1 (revised 2007), Presentation of financial statements
- Improvements to HKFRSs (2008)
- HKAS 27, Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate
- HKAS 23, Borrowing costs
- HKFRS 2, Share-based payment – vesting conditions and cancellations

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 2 CHANGES IN ACCOUNTING POLICIES *(continued)*

The amendments to HKAS 23 and HKFRS 2 have had no material impact on the Group's financial statements as the amendments and interpretations were consistent with policies already adopted by the Group. The impact of the remainder of these developments is as follows:

- As a result of the adoption of HKAS 1 (revised 2007), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

- The "Improvements to HKFRSs (2008)" comprise a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. Of these, the following two amendments have resulted in changes to the Group's accounting policies:

  – As a result of amendments to HKAS 28, Investments in associates, impairment losses recognised in respect of an associate carried under the equity method are no longer allocated to the goodwill inherent in that carrying value. As a result, when there has been a favourable change in the estimates used to determine the recoverable amount, the impairment loss will be reversed. Previously, the Group allocated impairment losses to goodwill and, in accordance with the accounting policy for goodwill, did not consider the loss to be reversible. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any impairment losses that arise in the current or future periods and previous periods have not been restated.

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

## 3 TURNOVER

The principal activity of the Group is the manufacture and sale of paper boxes and products. Turnover represents the sales value of goods supplied to customers, net of value-added tax.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 4 OTHER REVENUE AND NET GAIN/(LOSS)

### (a) Other revenue

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **1,333** | 2,511 |
| Sale of scrap paper | **23,614** | 20,856 |
| Sale of materials | **61** | 761 |
| Government grants | **20** | 220 |
| Tax refund for dividend re-investment | **1,707** | 3,900 |
| Others | **–** | 28 |
| | **26,735** | 28,276 |

### (b) Other net gain/(loss)

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Gain on disposal of a subsidiary | **–** | 696 |
| Net gain/(loss) on disposal of property, plant and equipment *(Note)* | **36,194** | (41) |
| Exchange loss | **(624)** | (4,502) |
| Others | **1,110** | 11 |
| | **36,680** | (3,836) |

*Note*: Included in the net gain / (loss) on disposal of property, plant and equipment was gain on disposal of non-current assets held for sale of RMB35,592,000. On 11 July 2007, a subsidiary of the Group, Shenzhen Huali Packing & Trading Co., Ltd. ("Shenzhen Huali"), entered into an agreement with Shenzhen Overseas Chinese Town Real Estate Company Limited ("OCT Properties"), its fellow subsidiary, to sell the land use right of a piece of land located in Shenzhen and two factory buildings erected on the land ("the Properties"), at a cash consideration of RMB50,600,000. Shenzhen Huali also entered into a tenancy agreement with OCT Properties to lease back the Properties at a monthly rental of approximately RMB264,000. The Properties with a value of RMB12,361,000 were reclassified to non-current assets held for sale in 2007. The lease term has commenced from 1 June 2008 when the transfer of title of the Properties was completed.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 5 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| **(a) Finance costs:** | | |
| Interest on bank loans | **3,304** | 4,381 |
| **(b) Staff costs:** | | |
| Salaries, wages and other benefits# | **66,345** | 54,562 |
| Contributions to defined contribution retirement schemes *(note 23)*# | **3,781** | 3,271 |
| | **70,126** | 57,833 |
| **(c) Other items:** | | |
| Amortisation of lease prepayments# | **1,498** | 1,663 |
| Depreciation of property, plant and equipment# | **28,553** | 29,106 |
| Impairment losses on trade and other receivables | **2,055** | 23 |
| Impairment losses on property, plant and equipment | **3,306** | 3,707 |
| Auditors' remuneration | | |
| – audit services | **1,658** | 1,900 |
| – tax services | **–** | 90 |
| Operating lease charges in respect of land and properties# | **10,176** | 8,064 |
| Exchange loss | **624** | 4,502 |
| Cost of inventories *(note 18(b))*# | **674,574** | 655,408 |

# Cost of inventories included RMB76,760,000 (2007: RMB72,084,000) relating to staff costs, depreciation and amortisation expenses and operating lease charges, amount of which is also included in the respective total amounts disclosed separately in notes 5(b) and 5(c) for each of these types of expenses.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

(a) Taxation in the consolidated income statement represents:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| **Current tax – Provision for PRC income tax** | | |
| Provision for the year | **9,742** | 6,513 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences *(note 25(b))* | **(1,952)** | (2,020) |
| Effect of change in income tax rate on deferred tax balance *(note 25(b))* | **–** | (1,667) |
| | **(1,952)** | (3,687) |
| | **7,790** | 2,826 |

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 (2007: 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 (2007: Nil).

Pursuant to the income tax rules and regulations of the PRC, taxation for PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant cities in the PRC, which range between 18% - 25% (2007: 15% - 33%). Certain subsidiaries are entitled to a tax concession period in which it is fully exempted from PRC income tax for two years, starting from its first profit-making year, followed by a 50% reduction in the PRC income tax for the next three years ("two years free and three years half").

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 6 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(continued)*

(a) Taxation in the consolidated income statement represents: *(continued)*

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 takes effect on 1 January 2008. The State Council passed Circular 39 on 26 December 2007 to clarify the grandfathering treating for existing enterprises that are entitled to preferential tax treatments. As a result of new tax law and Circular 39, the income tax rate of some PRC subsidiaries are reduced from 33% to 25% from 1 January 2008; the tax rate of some PRC subsidiaries are gradually increased from 15% to 25% over a five-year transitional period (18% in 2008, 20% in 2009, 22% in 2010, 24% in 2011 and 25% in 2012 and thereafter). If a PRC subsidiary has not become profit-making and enjoyed the two years free and three years half tax concession period before 2008, the PRC subsidiary can enjoy the tax concession period from 2008 and onward.

Pursuant to the new tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC effective from 1 January 2008. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and PRC for avoidance of double taxation and prevention of tax evasion, dividends declared from PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax from 1 January 2008 and onwards.

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

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Profit before taxation | **24,380** | 41,245 |
| Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned | **6,635** | 5,605 |
| Tax effect of non-deductible expenses | **3,072** | 1,878 |
| Tax effect of non-taxable income | **(652)** | (591) |
| Tax effect of prior year's unrecognised tax losses utilised | **(256)** | (247) |
| Tax effect of unused tax losses not recognised | **1,645** | 1,909 |
| Effect of tax concessions | **(2,654)** | (3,740) |
| Effect of income tax rates changes in respect of current year temporary differences | **–** | (321) |
| Effect of income tax rates changes in respect of brought forward temporary differences | **–** | (1,667) |
| Actual tax expense | **7,790** | 2,826 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 7 DIRECTORS' REMUNERATION

Directors' remuneration is as follows:

| | **Directors' fees** *RMB'000* | **Salaries, allowances and benefits in kind** *RMB'000* | **Discretionary bonuses** *RMB'000* | **Retirement schemes contributions** *RMB'000* | **2008 Total** *RMB'000* |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| – Zheng Fan | **–** | **–** | **–** | **–** | **–** |
| – Ni Zheng | **–** | **391** | **202** | **12** | **605** |
| – Zhou Guangneng | **–** | **256** | **104** | **11** | **371** |
| – Xie Mei | **–** | **236** | **58** | **12** | **306** |
| Independent non-executive directors: | | | | | |
| – Wong Wai Ling | **107** | **–** | **–** | **–** | **107** |
| – Chen Xiangdong | **–** | **–** | **–** | **–** | **–** |
| – Xiao Yongping | **107** | **–** | **–** | **–** | **107** |
| | **214** | **883** | **364** | **35** | **1,496** |

| | Directors' fees *RMB'000* | Salaries, allowances and benefits in kind *RMB'000* | Discretionary bonuses *RMB'000* | Retirement schemes contributions *RMB'000* | 2007 Total *RMB'000* |
|---|---|---|---|---|---|
| Executive directors: | | | | | |
| – Zheng Fan | – | – | – | – | – |
| – Ni Zheng | – | 381 | 229 | 11 | 621 |
| – Zhou Guangneng | – | 280 | 130 | 12 | 422 |
| – Xie Mei | – | 114 | – | 6 | 120 |
| – Liu Danlin | – | 133 | 133 | 6 | 272 |
| Independent non-executive directors: | | | | | |
| – Wong Wai Ling | 78 | – | – | – | 78 |
| – Chen Xiangdong | – | – | – | – | – |
| – Xiao Yongping | 117 | – | – | – | 117 |
| – Lee Kit Wah | 39 | – | – | – | 39 |
| | 234 | 908 | 492 | 35 | 1,669 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 8 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2007: two) are directors whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other three (2007: three) individuals are as follows:

| | **2008** **RMB'000** | 2007 *RMB'000* |
|---|---|---|
| Salaries and other emoluments | **1,039** | 1,006 |
| Discretionary bonuses | **308** | 429 |
| Retirement schemes contributions | **23** | 34 |
| | **1,370** | 1,469 |

The emoluments of the three (2007: three) individuals with the highest emoluments are within the band from HK$Nil to HK$1,000,000.

## 9 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a loss of RMB15,014,000 (2007: RMB11,758,000) 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:

| | **2008** **RMB'000** | 2007 *RMB'000* |
|---|---|---|
| Amount of loss attributable to equity shareholders dealt with in the Company's financial statements | **(15,014)** | (11,758) |
| Final dividends from subsidiaries attributable to the profits of the previous financial year, approved and paid during the year | **28,844** | 77,130 |
| Company's profit for the year *(note 26(g))* | **13,830** | 65,372 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 10 DIVIDENDS

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

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend proposed after the balance sheet date of HK$2.0 cents per share (equivalent RMB1.76 cents per share) (2007: HK$5.70 cents per share (equivalent RMB5.207 cents per share)) | **5,080** | 12,618 |

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

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Final dividend in respect of the previous financial year, approved and paid during the year, of HK$5.70 cents per share (equivalent RMB5.207 cents per share) (2007: HK$6.40 cents per share (equivalent RMB6.337 cents per share) | **12,618** | 12,675 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 11 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 RMB16,590,000 (2007: RMB38,361,000) and the weighted average of 252,874,645 (2007: 216,761,644) ordinary shares in issue during the year, calculated as follows:

*Weighted average number of ordinary shares*

| | **2008** | 2007 |
|---|---|---|
| | ***No. of shares*** | *No. of shares* |
| Ordinary shares issued at 1 January *(note 26(a))* | **246,000,000** | 200,000,000 |
| Issuance of new shares *(note 26(a))* | **6,874,645** | 16,761,644 |
| Weighted average number of shares at 31 December | **252,874,645** | 216,761,644 |

### (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 RMB16,590,000 (2007: RMB38,361,000) and the weighted average of 256,412,944 (2007: 228,460,247) ordinary shares (diluted), calculated as follows:

*Weighted average number of ordinary shares (diluted)*

| | **2008** | 2007 |
|---|---|---|
| | ***No. of shares*** | No. of shares |
| Weighted average number of ordinary shares at 31 December | **252,874,645** | 216,761,644 |
| Effect of deemed issue of shares under the Company's share option scheme for nil consideration *(note 24)* | **3,538,299** | 11,698,603 |
| Weighted average number of ordinary shares (diluted) at 31 December | **256,412,944** | 228,460,247 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 12 PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings<br>*RMB'000* | Plant and machinery<br>*RMB'000* | Motor vehicles<br>*RMB'000* | Other property, plant and equipment<br>*RMB'000* | Total<br>*RMB'000* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| At 1 January 2007 | 82,821 | 267,870 | 20,789 | 22,141 | 393,621 |
| Exchange adjustment | – | – | – | (3) | (3) |
| Additions | 26 | 2,931 | 1,053 | 1,735 | 5,745 |
| Transfer from construction in progress *(note 13)* | 3,904 | 41,453 | 411 | – | 45,768 |
| Disposals | – | (168) | (495) | (157) | (820) |
| Disposal of a subsidiary | (1,672) | (7,494) | (488) | (2,780) | (12,434) |
| Transfer to held for sale | (18,754) | – | – | – | (18,754) |
| At 31 December 2007 | 66,325 | 304,592 | 21,270 | 20,936 | 413,123 |
| At 1 January 2008 | 66,325 | 304,592 | 21,270 | 20,936 | 413,123 |
| Exchange adjustment | – | – | – | (3) | (3) |
| Additions | 499 | 969 | 1,047 | 2,468 | 4,983 |
| Transfer from construction in progress *(note 13)* | – | 451 | – | 1,261 | 1,712 |
| Disposals | (1,955) | (8,596) | (746) | (90) | (11,387) |
| At 31 December 2008 | 64,869 | 297,416 | 21,571 | 24,572 | 408,428 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

### The Group *(continued)*

| | Buildings RMB'000 | Plant and machinery RMB'000 | Motor vehicles RMB'000 | Other property, plant and equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Accumulated depreciation and impairment loss:** | | | | | |
| At 1 January 2007 | 27,983 | 155,094 | 16,147 | 14,513 | 213,737 |
| Exchange adjustments | – | – | – | (1) | (1) |
| Charge for the year | 4,561 | 20,101 | 1,784 | 2,660 | 29,106 |
| Impairment loss | – | 3,539 | – | 168 | 3,707 |
| Written back on disposal | – | (102) | (495) | (148) | (745) |
| Written back on disposal of a subsidiary | (1,388) | (4,740) | (445) | (2,692) | (9,265) |
| Transfer to held for sale *(note 4(b))* | (14,884) | – | – | – | (14,884) |
| At 31 December 2007 | 16,272 | 173,892 | 16,991 | 14,500 | 221,655 |
| At 1 January 2008 | 16,272 | 173,892 | 16,991 | 14,500 | 221,655 |
| Exchange adjustments | – | – | – | (1) | (1) |
| Charge for the year | 3,806 | 19,989 | 1,794 | 2,964 | 28,553 |
| Impairment loss | – | 3,306 | – | – | 3,306 |
| Written back on disposal | (1,616) | (8,395) | (746) | (81) | (10,838) |
| At 31 December 2008 | 18,462 | 188,792 | 18,039 | 17,382 | 242,675 |
| **Net book value:** | | | | | |
| At 31 December 2008 | 46,407 | 108,624 | 3,532 | 7,190 | 165,753 |
| At 31 December 2007 | 50,053 | 130,700 | 4,279 | 6,436 | 191,468 |

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

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 12 PROPERTY, PLANT AND EQUIPMENT *(continued)*

### The Company

| | Other property, plant and equipment *RMB'000* |
|---|---|
| **Cost:** | |
| As at 1 January 2007 | 147 |
| Exchange adjustment | (2) |
| Disposals | (106) |
| As at 31 December 2007 | 39 |
| As at 1 January 2008 | 39 |
| Exchange adjustment | (2) |
| As at 31 December 2008 | 37 |
| **Accumulated depreciation:** | |
| As at 1 January 2007 | 25 |
| Exchange adjustment | (1) |
| Charge for the year | 14 |
| Disposals | (21) |
| As at 31 December 2007 | 17 |
| As at 1 January 2008 | 17 |
| Exchange adjustment | (1) |
| Charge for the year | 12 |
| As at 31 December 2008 | 28 |
| **Net book value:** | |
| As at 31 December 2008 | 9 |
| As at 31 December 2007 | 22 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 13 CONSTRUCTION IN PROGRESS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| **Cost:** | | |
| At 1 January | **921** | 20,438 |
| Additions | **60,177** | 26,251 |
| Transfer to property, plant and equipment *(note 12)* | **(1,712)** | (45,768) |
| At 31 December | **59,386** | 921 |

## 14 GOODWILL

| | The Group |
|---|---|
| | *RMB'000* |
| **Cost:** | |
| At 1 January 2007, 31 December 2007 and 31 December 2008 | 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 bases as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Shanghai | **1,012** | 1,012 |
| Shenzhen | **23,925** | 23,925 |
| | **24,937** | 24,937 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 14 GOODWILL *(continued)*

### Impairment test for cash-generating units containing goodwill *(continued)*

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 estimated 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:

| | **2008** | 2007 |
|---|---|---|
| | **%** | % |
| Gross margin | **9** | 11 |
| Growth rate | **7-9** | 8 |
| Discount rate | **6** | 5 |

Management determined the budgeted gross margin based on past performance and its expectation for market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the paper packaging industry.

## 15 LEASE PREPAYMENTS

Leasehold land of the Group is held in the PRC. At 31 December 2008, the remaining lease terms of these pieces of land range from 19 to 46 years.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 16 INVESTMENTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **389,452** | 248,970 |

Details of subsidiaries at 31 December 2008 are as follows. The class of shares held is ordinary.

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation/ establishment** | **Particular of registered/ issued capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activities** |
| 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 |
| Shanghai Huali Packaging Co., Ltd. ("Shanghai Huali") *(note (i))* | PRC | Paid-up capital of RMB 55,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| Zhongshan Huali Packaging Co., Ltd. ("Zhongshan Huali") *(note (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 (ii))* | PRC | Paid-up capital of RMB3,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 16 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 |
|---|---|---|---|---|---|---|
| Huizhou Huali Packaging Co., Ltd.(" Huizhou Huali") *(note (i))* | PRC | Paid-up capital of HK$90,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| Huali Packaging (Huizhou) Co., Ltd. ("Huali Huizhou") *(note (i)) and (iii))* | PRC | Paid-up capital of HK$10,000,000 | 100% | – | 100% | Manufacture and sale of paper boxes and products |
| 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 |
| Grand Signal Limited | BVI | 1 share of US$1 each | 100% | – | 100% | Investment holding |
| Huali Holdings Company Limited | Hong Kong | 1,000,000 shares of HK$1 each | 100% | – | 100% | Investment holding |
| OCT Investments Limited ("OCT Investments") | BVI | 100 shares of US$1 each | 100% | 100% | – | Investment holding |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 16 INVESTMENTS IN SUBSIDIARIES *(continued)*

| | | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|---|
| **Name of company** | **Place of incorporation/ establishment** | **Particular of registered/ issued capital** | **Group's effective interest** | **Held by the Company** | **Held by a subsidiary** | **Principal activities** |
| Power Shiny Development Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |
| Bantix International Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |
| Wantex Investment Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |
| Barwin Development Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |
| Excel Found Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |
| Hanmax Investment Limited | Hong Kong | 1 share of HK$1 each | 100% | – | 100% | Investment holding |

*Notes:*

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

(ii) The company is a limited company established in the PRC.

(iii) During the year, the Group established a wholly owned subsidiary, Huali Huizhou.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 17 INTEREST IN AN ASSOCIATE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Unlisted shares, at cost | **–** | – | **–** | 90,391 |
| Share of net assets | **110,138** | 89,907 | **–** | – |
| Goodwill | **103,535** | – | **–** | – |
| | **213,673** | 89,907 | **–** | 90,391 |

Details of the associate of the Group, which is an unlisted corporate entity, are as follows:

| Name of associate | Form of business structure | Registered | Particulars of issued and paid up capital | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by the a subsidiary | Principal activity |
|---|---|---|---|---|---|---|---|
| Chengdu Tianfu OCT Industry Development ("Chengdu OCT") | Incorporated | PRC | RMB 400,000,000 | 25% | – | 25% | Travel and tourism |

### Summary financial information on the associate

| | Assets | Liabilities | Equity | Revenues | Loss |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **2008** | | | | | |
| 100 per cent | **3,780,530** | **(3,339,977)** | **440,553** | **–** | **(73,350)** |
| Group's effective interest | **945,133** | **(834,995)** | **110,138** | **–** | **(10,648)** |
| **2007** | | | | | |
| 100 per cent | 273,293 | (89,809) | 183,484 | – | (3,956) |
| Group's effective interest | 133,913 | (44,006) | 89,907 | – | (484) |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 17 INTEREST IN AN ASSOCIATE *(continued)*

OCT Investments was a 49% owned associate of the Group at 31 December 2007. The sole business of OCT Investments is the holding of 25% equity interests in Chengdu OCT. On 2 June and 4 June 2008, the Company entered into a share transfer agreement and a supplemental agreement with its intermediate holding company, Overseas Chinese Town (HK) Company Limited ("OCT (HK)"), whereby it conditionally agreed to further acquire the remaining 51% equity interests of OCT Investments together with a shareholder's loan of RMB45,803,000 owed by OCT Investments to OCT (HK) ("Second Acquisition"). Pursuant to the Share Transfer Agreement, the Company has elected to satisfy the aggregate consideration by cash of HK$83,000,000 (approximately RMB73,380,000) and issuance of 36,250,000 shares to OCT (HK) or its nominee(s). Transaction costs directly attributable to the Second Acquisition of RMB1,500,000 were incurred. The value of the shares issued at date of Second Acqusition, net of nominal value of HK$3,625,000 (equivalent to approximately RMB3,195,800) was credited to reserves.

The board of directors consider the above transactions constituted a step acquisition of the associate, Chengdu OCT, to the Group. Upon the completion, the Group is indirectly holding 25% equity interests of Chengdu OCT.

Had the Second Acquisition occurred on 1 January 2008, management estimates an additional share of loss from Chengdu OCT amounting to RMB7,689,000 would have been recognised to the income statement of the Group.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 18 INVENTORIES

(a) Inventories in the balance sheet comprise:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Raw materials | **72,601** | 78,451 |
| Work-in-progress | **2,031** | 2,929 |
| Finished goods | **10,211** | 10,215 |
| Spare parts | **10** | 271 |
| | **84,853** | 91,866 |

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Carrying amount of inventories sold | **673,194** | 654,846 |
| Write down of inventories | **1,380** | 700 |
| Reversal of write-down inventories | **–** | (138) |
| | **674,574** | 655,408 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 19 TRADE AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade receivables and bills receivable: | | | | |
| Amounts due from subsidiaries | **–** | – | **–** | 158,686 |
| Amounts due from fellow subsidiaries *(note 29(b))* | **90** | 173 | **–** | – |
| Amounts due from other related companies *(note 29(b))* | **702** | 982 | **–** | – |
| Amounts due from third parties | **167,095** | 162,724 | **–** | – |
| Less: allowance for doubtful debts *(note 19(b))* | **(5,023)** | (3,146) | **–** | – |
| | **162,864** | 160,733 | **–** | 158,686 |
| Prepayment, deposits and other receivables: | | | | |
| Amounts due from immediate subsidiaries | **–** | – | **388,481** | – |
| Amounts due from fellow subsidiaries *(note 29(b))* | **820** | 293 | **–** | – |
| Amounts due from associates *(note 29(b))* | **–** | 44,008 | **–** | 44,008 |
| Amounts due from third parties | **3,687** | 5,262 | **181** | 8 |
| | **167,371** | 210,296 | **388,662** | 202,702 |

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

Apart from rental deposits of RMB1,117,000 (2007: RMB604,000) and amounts due from associates of RMB Nil (2007: RMB44,008,000) which are expected to be recovered after one year, all of the trade and other receivables, net of impairment losses for bad and doubtful debts, are expected to be recovered within one year.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 19 TRADE AND OTHER RECEIVABLES *(continued)*

### (a) Ageing analysis

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Current | **150,802** | 146,657 |
| Less than three months past due | **11,883** | 13,997 |
| Three to six months past due | **179** | 79 |
| Amount past due | **12,062** | 14,076 |
| | **162,864** | 160,733 |

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

### (b) Impairment of trade receivables

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivable directly (see note 1(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **3,146** | 3,513 |
| Impairment loss recognised | **2,052** | 297 |
| Amount of reversal | **(175)** | (490) |
| Uncollectible amount written off | **–** | (174) |
| At 31 December | **5,023** | 3,146 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 19 TRADE AND OTHER RECEIVABLES *(continued)*

### (b) Impairment of trade receivables *(continued)*

At 31 December 2008, the Group's trade receivables of RMB2,397,000 (2007: RMB545,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. Consequently, specific allowances for doubtful debts of RMB2,397,000 (2007: RMB545,000) were recognised. The Group does not hold any collateral over these balances.

### (c) Trade receivable and bills receivable that are not impaired

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

## 20 CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Cash at bank and in hand | **127,307** | 119,292 | **12,564** | 10,524 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 21 TRADE AND OTHER PAYABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Trade payables and bills payable: | | | | |
| Amounts due to fellow subsidiaries *(note 29(b))* | **2** | 72 | **-** | - |
| Amounts due to other related companies *(note 29(b))* | **-** | 20 | **-** | - |
| Amounts due to third parties | **136,350** | 227,360 | **-** | - |
| | **136,352** | 227,452 | **-** | - |
| Other payables: | | | | |
| Amounts due to subsidiaries | **-** | - | **99,883** | - |
| Amounts due to other related companies *(note 29(b))* | **493** | 194 | **195** | - |
| Amounts due to third parties | **68,062** | 32,143 | **4,133** | 14,713 |
| | **204,907** | 259,789 | **104,211** | 14,713 |

All of the trade and other payables (including amount due to related parties) are expected to be settled within one year.

The Group's exposure to currency and liquidity risks related to trade and other payables is disclosed in note 27.

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 | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Due within three months or on demand | **114,051** | 166,638 |
| Due after three months but less than one year | **22,267** | 60,812 |
| Due after one year | **34** | 2 |
| | **136,352** | 227,452 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 22 BANK LOANS

At 31 December 2008, the bank loans were repayable as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within 1 year or on demand | **42,199** | 32,735 | **32,277** | 12,735 |
| After 1 year but within 2 years | **34,218** | 11,986 | **20,989** | 11,986 |
| After 2 years but within 5 years | **23,061** | – | **19,755** | – |
| | **57,279** | 11,986 | **40,744** | 11,986 |
| | **99,478** | 44,721 | **73,021** | 24,721 |

The Group's short-term bank loans comprise:

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Short-term | | | | | |
| Renminbi denominated | (2007: 5.88% – 6.56% per annum with maturities through 19 October 2008) | **–** | 20,000 | **–** | – |
| Current portion of long-term bank loan | | | | | |
| HK Dollars denominated | Interest rates at HIBOR*+0.88% – HIBOR*+1.18% per annum with maturities through 15 May 2009 – 27 December 2009 | **42,199** | 12,735 | **32,277** | 12,735 |
| | | **42,199** | 32,735 | **32,277** | 12,735 |

* Hong Kong 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 | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| HK Dollars denominated | Interest rates at HIBOR*+0.88% – HIBOR*+1.18% per annum with maturities through 15 May 2009 – 27 June 2011 | **99,478** | 24,721 | **73,021** | 24,721 |
| Less: Current portion of long-term bank loan | | **(42,199)** | (12,735) | **(32,277)** | (12,735) |
| | | **57,279** | 11,986 | **40,744** | 11,986 |

* Hong Kong Interbank Offered Rate

The bank loans of the Group at 31 December 2008 were guaranteed by its subsidiaries, namely Forever Galaxies Limited, Fortune Crown International Limited and Miracle Stone Development Limited. Except for the above, the Group and the Company did not have secured or guaranteed bank loans at 31 December 2008.

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 2008 none of the covenants relating to drawn down facilities had been breached (2007: none).

# 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, Huizhou, Shanghai and Anhui whereby the Group is required to make contributions to the Schemes at a rate ranging from 10% to 22% (2007: 10% 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. 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 forfeited or expired during the year.

On 21 April 2008, 5,790,000 share options were exercised. The remaining options granted above were outstanding and exercisable at 31 December 2008 with a remaining contractual life of 7 years and 1 months.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 25 INCOME TAX IN THE BALANCE SHEET

### (a) Current taxation in the balance sheet represents:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* |
| Provision for PRC income tax | **7,948** | 4,333 |

### (b) Deferred tax assets and liabilities recognised:

*The Group*

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

| | Accounting depreciation in excess of depreciation allowances | Provisions | Accrued expenses | Unrealised profit | Pre-operating expenses | Undistributed profits of subsidiaries | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Deferred tax arising from:** | | | | | | | |
| At 1 January 2007 | 2,275 | 325 | 113 | – | 165 | – | 2,878 |
| Due to disposal of Mudanjiang Huali | (84) | (37) | – | – | – | – | (121) |
| Credited to profit or loss | 2,108 | 1,199 | 23 | – | 357 | – | 3,687 |
| At 31 December 2007 | 4,299 | 1,487 | 136 | – | 522 | – | 6,444 |
| At 1 January 2008 | 4,299 | 1,487 | 136 | – | 522 | – | 6,444 |
| Credited to profit or loss | 9 | 1,335 | 3,003 | 208 | (420) | (2,183) | 1,952 |
| At 31 December 2008 | 4,308 | 2,822 | 3,139 | 208 | 102 | (2,183) | 8,396 |

# 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: *(continued)*

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Net deferred tax asset recognised on the balance sheet | **10,579** | 6,444 |
| Net deferred tax liability recognised on the balance sheet date | **(2,183)** | – |
| | **8,396** | 6,444 |

### (c) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 1(p), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB4,274,000 (2007: RMB2,885,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 26 EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

### (a) Share capital

*Authorised and issued share capital*

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | ***No. of shares '000*** | ***HK$'000*** | *No. of shares '000* | *HK$'000* |
| **Authorised:** | | | | |
| Ordinary shares of HK$0.1 each | **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 | **246,000** | **25,260** | 200,000 | 20,800 |
| Issuance of new shares | **42,040** | **3,716** | 46,000 | 4,460 |
| At 31 December | **288,040** | **28,976** | 246,000 | 25,260 |

On 21 April 2008, 5,790,000 share options of the Company at par value of HK$0.1 were exercised at exercise price of HK$1.41 per share. The excess of the exercise price over the par value of the shares issued has been credited to the share premium account of the Company.

On 2 December 2008, the Company issued and allotted 36,250,000 shares at par value of HK$0.1 to its holding Company, OCT (HK) or its nominee(s), as part of the consideration for acquiring 51% shareholding of OCT Investments.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

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

### (b) Share premium and contributed surplus

Under the Companies Law of the Cayman Islands, the funds in the share premium account and the contributed surplus 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.

The excess of the issued price net of any issuance expenses over the par value of the shares issued has been credited to the share premium account of the Company.

### (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

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 1(o)(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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

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

### (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.

### (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 |
|---|---|---|---|---|---|---|
| At 1 January 2007 | | 29,964 | 248,970 | 4,558 | 6,730 | 290,222 |
| Issuance of shares | | 144,996 | – | – | – | 144,996 |
| Profit for the year | | – | – | – | 65,372 | 65,372 |
| Dividend approved in respect of the previous year | 10(b) | – | – | – | (12,675) | (12,675) |
| At 31 December 2007 | | 174,960 | 248,970 | 4,558 | 59,427 | 487,915 |
| At 1 January 2008 | | 174,960 | 248,970 | 4,558 | 59,427 | 487,915 |
| Issuance of shares | | 23,521 | – | (1,367) | – | 22,154 |
| Profit for the year | | – | – | – | 13,830 | 13,830 |
| Dividend approved in respect of the previous year | 10(b) | – | – | – | (12,618) | (12,618) |
| At 31 December 2008 | | 198,481 | 248,970 | 3,191 | 60,639 | 511,281 |

### (h) Distributability of reserves

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company is RMB511,281,000 (2007: RMB487,915,000).

After the balance sheet date, the directors proposed a final dividend of HK$2.0 cents per ordinary share (2007: HK$5.70 cents per share), amounting to RMB5,080,000 (2007: RMB12,618,000). This dividend has not been recognised as a liability at the balance sheet date.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

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

### (i) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings and trade and other payables), plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity less unaccrued proposed dividends.

During 2008, the Group's strategy, which was unchanged from 2007, was to maintain the net debt-to-adjusted capital ratio at a level of lower than 100%. In order to maintain or adjust the ratio, the Group may issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE

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, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 60-120 days from the date of billing. Debtors with balances that are more than 1 month past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the balance sheet date, 10% (2007:14%) and 20% (2007: 28%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

The maximum exposure to credit risk without taking into account of any collateral held is represented by the carrying amount of each financial asset. The Group does not provide any guarantees which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and other receivables are set out in note 19.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (b) Liquidity risk

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

Further quantitative disclosures in respect of the Group's exposure to liquidity risk arising from trade and other receivables, trade and other payables and bank loans are set out in note 19, 21, 22 and 29.

### (c) Interest rate risk

The Group's interest rate risk arises primarily from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk.

The effective interest rate of cash and cash equivalents is 1.1% per annum (2007: 2.14% per annum). The effective interest rate of bank loans is 4.99% per annum (2007: 5.84% per annum). The interest rates and terms of repayment of the Group's bank loans are disclosed in note 22 and 29.

At 31 December 2008, it is estimated that a general increase of 100 basis points in interest rates, with all other variables held constant, would have decreased the Group's profit after tax and retained profits by approximately RMB576,000 (2007: increased RMB652,000).

A 100 basis points decrease in interest rates at 31 December 2008 would have had equal but opposite effect on the basis that all other variables remain constant.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax and retained profits that would arise assuming that the change in interest rates had occurred at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax and retained is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2007.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (d) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Euros, United States dollars, Hong Kong dollars. The Group manages this risk as follows:

*(i) Forecast transactions*

The Group hedge certain of its estimated foreign currency exposure in respect of committed future sales and purchases and certain of its estimated foreign currency exposure in respect of highly probable forecast sales and purchases. The Group used forward exchange contracts to mitigate its currency risk. All of the forward exchange contracts have maturities of less than one year after the balance sheet date.

*(ii) Exposure to currency risk*

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

**The Group**

| | **2008** | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **United States Dollars '000** | **Hong Kong Dollars '000** | **Euros '000** | United States Dollars '000 | Hong Kong Dollars '000 | Euros '000 |
| Trade and other receivables | **1,832** | **54,504** | **–** | 2,538 | 90,005 | – |
| Cash and cash equivalents | **3,622** | **36,891** | **–** | 1,915 | 55,766 | 4 |
| Trade and other payables | **(2,364)** | **(18,321)** | **–** | (1,296) | (46,419) | 22 |
| Other payable to intermediate holding company | **–** | **(83,000)** | **–** | – | – | – |
| Bank loans | **–** | **(82,800)** | **–** | – | (26,400) | – |
| Gross exposure arising from recognised assets and liabilities | **3,090** | **(92,726)** | **–** | 3,157 | 72,952 | 26 |

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (d) Currency risk *(continued)*

*(ii) Exposure to currency risk (continued)*

**The Company**

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **United States Dollars** **'000** | **Hong Kong Dollars** **'000** | United States Dollars '000 | Hong Kong Dollars '000 |
| Trade and other receivables | **–** | **408,525** | – | 216,469 |
| Cash and cash equivalents | **–** | **14,247** | 1 | 11,236 |
| Trade and other payables | **–** | **(118,167)** | – | (15,712) |
| Other payable to intermediate holding company | **–** | **(83,000)** | – | – |
| Bank loans | **–** | **(82,800)** | – | (26,400) |
| Gross exposure arising from recognised assets and liabilities | **–** | **138,805** | 1 | 185,593 |

The Group and the Company ensure that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address the short term imbalances.

*(iii) Sensitivity analysis*

A 5 per cent weakening of the Hong Kong dollars and United State dollars against the above RMB at 31 December 2008 would have increased profit by RMB2,428,000 (2007: decreased RMB2,003,000). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2007.

A 5 per cent strengthening of the Hong Kong dollars and United States dollars against the above currencies at 31 December would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 27 FINANCIAL RISK MANAGEMENT AND FAIR VALUE *(continued)*

### (d) Currency risk *(continued)*

*(iii) Sensitivity analysis (continued)*

Results of the analysis as presented above represent an aggregation of the instantaneous effects on each of the Group entities' profit after tax and equity measured in the respective functional currencies.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2007.

### (e) Fair values

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007 due to their nature of short-term maturities or floating interest rate for the long-term bank loans.

### (f) Estimation of fair values

*(i) Forward exchange contracts*

Forward exchange contracts are either marked to market using listed market prices or by discounting the contractual forward price and deducting the current spot rate.

*(ii) Interest-bearing loans and borrowings*

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 28 COMMITMENTS

(a) Capital commitments, outstanding at 31 December 2008 not provided for in the financial statements were as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Contracted for | **46,337** | 5,978 | **–** | – |
| Authorised but not contracted for | **126,718** | 2,665 | **–** | – |
| | **173,055** | 8,643 | **–** | – |

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

(b) At 31 December 2008, 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 | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | ***RMB'000*** | *RMB'000* | ***RMB'000*** | *RMB'000* |
| Within one year | **8,096** | 7,155 | **–** | – |
| After one year but within five years | **2,281** | 6,224 | **–** | – |
| After five years | **1,457** | 1,569 | **–** | – |
| | **11,834** | 14,948 | **–** | – |

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.

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 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.

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:*

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Interest income | **1,234** | 2,104 |
| Interest expense | **2,458** | 4,248 |

# 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)*

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Cash at bank | **120,800** | 86,281 |
| Bank loans | **73,021** | 44,721 |

### (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 Group") | Ultimate holding company |
| Overseas Chinese Town (HK) Company Limited | Intermediate holding company |
| Shanghai Huiyang Industry Co., Ltd. ("Shanghai Hui Yang") | An entity majority-owned by an equity shareholder who has significant influence over the Company |
| 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 |
| Shenzhen Overseas Chinese Town Real Estate Company Limited | Subsidiary of OCT Group |
| Mudanjiang Nanhua Hesheng Co., Ltd. ("Mudanjiang Nanhua") *(Note)* | Minority equity holder of a subsidiary |

*Note*: Mudanjiang Nanhua ceased to be a related party of the Group upon the disposal of Mudanjiang Huali on 20 May 2007.

# 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*

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| *Sales of goods to:* | | |
| OCT Group, its subsidiaries and associates | **655** | 952 |
| Mei Ling Air-Conditioner | **8,733** | 8,370 |
| | **9,388** | 9,322 |
| *Purchase of goods from:* | | |
| OCT Group, its subsidiaries and associates | **544** | 663 |
| Mudanjiang Nanhua *(Note)* | **–** | 547 |
| | **544** | 1,210 |
| *Rental paid to:* | | |
| OCT Group, its subsidiaries and associates | **3,563** | 1,701 |
| Shanghai Xia Mei | **180** | 180 |
| | **3,743** | 1,881 |
| *Utility expenses paid to:* | | |
| OCT Group, its subsidiaries and associates | **3,899** | 3,603 |

*Note:* The amount for the year ended 31 December 2007 represents transactions occurred before 20 May 2007 when Mudanjiang Nanhua was still regarded as a related party of the Group.

# 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)*

*Non recurring transactions*

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| *Acquisition of OCT Investments:* | | |
| OCT (HK) | **91,708** | 136,066 |

On 2 December 2008, the Company acquired 51% equity interest in OCT Investments from OCT (HK).

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| *Sales of land use right and factory buildings to:* | | |
| OCT Properties *(note 4(b))* | **50,600** | – |

*Balances with related parties*

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

| | *Notes* | **2008 RMB'000** | 2007 RMB'000 |
|---|---|---|---|
| Trade receivable from fellow subsidiaries *(note 19)* | *(i)* | **90** | 173 |
| Trade receivable from other related companies *(note 19)* | *(i)* | **702** | 982 |
| Trade payable to fellow subsidiaries *(note 21)* | *(ii)* | **(2)** | (72) |
| Trade payable to other related companies *(note 21)* | *(ii)* | – | (20) |
| | | | |
| Other receivable from fellow subsidiaries *(note 19)* | *(iii)* | **820** | 293 |
| Other receivable from associates *(note 19)* | *(iii)* | **–** | 44,008 |
| Other payable to other related companies *(note 21)* | *(iii)* | **(493)** | (194) |
| Other payable to intermediate holding company | *(iv)* | **(73,198)** | – |

# 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)*

*Notes:*

(i) The trade receivable balances are unsecured, non-interest bearing and are expected to be recovered within six months. These refer to receivables in respect of sale of paper cartons and paper boxes to related parties.

(ii) 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.

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

(iv) Other payable to intermediate holding company of HK$83,000,000 is unsecured, bearing an interest at HIBOR+1% and is repayable in two years.

### (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 7 and certain of the highest paid employees as disclosed in note 8, is as follows:

| | **2008** | 2007 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Short-term employee benefits | **2,808** | 3,069 |
| Post employment benefits | **58** | 69 |
| | **2,866** | 3,138 |

Total remuneration is included in "staff costs" (see note 5(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

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

# Notes to the financial statements

*(Expressed in Renminbi unless otherwise indicated)*

## 31 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2008, 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 consider the immediate holding company to be Pacific Climax Limited, which is incorporated in BVI. These entities do not produce financial statements available for public use.

## 32 ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 14 contains information about the assumptions relating to goodwill impairment. Other key sources of estimation uncertainty are as follows:

### (i) Impairment loss for trade and other receivables

As explained in note 1(i), 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 note 1(j), 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.

### (iii) Impairment loss for property, plant and equipment

As explained in note 1(i), the Group's makes impairment loss for property, plant and equipment based on the Group's estimates of the recoverable amount. Uncertainty exists in these estimations.

## 33 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

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.

## 34 COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised 2007), Presentation of Financial Statements, certain comparative figures have been adjusted to conform to current period's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

# Five-Year Financial Summary

As at 31 December

*(Expressed in Renminbi)*

## CONSOLIDATED INCOME STATEMENT

| | **2008** | 2007 | 2006 | 2005 (restated) | 2004 |
|---|---|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Turnover** | **739,155** | 739,907 | 695,503 | 662,243 | 605,533 |
| **Cost of sales** | **(673,194)** | (654,846) | (608,381) | (583,646) | (531,817) |
| **Gross profit** | **65,961** | 85,061 | 87,122 | 78,597 | 73,716 |
| Other revenue | **26,735** | 28,276 | 22,544 | 21,519 | 16,493 |
| Other net gain/(loss) | **36,680** | (3,836) | (3,394) | (1,424) | (501) |
| Distribution costs | **(33,920)** | (30,799) | (32,562) | (30,340) | (31,980) |
| Administrative expenses | **(50,701)** | (28,378) | (30,125) | (19,297) | (14,612) |
| Other operating expenses | **(6,423)** | (4,214) | (756) | (761) | (1,399) |
| **Profit from operations** | **38,322** | 46,110 | 42,829 | 48,294 | 41,717 |
| Finance costs | **(3,304)** | (4,381) | (3,552) | (2,480) | (3,633) |
| Share of losses from an associate | **(10,648)** | (484) | – | – | – |
| **Profit before taxation** | **24,380** | 41,245 | 39,277 | 45,814 | 38,084 |
| Income tax | **(7,790)** | (2,826) | (5,970) | (5,440) | (5,942) |
| **Profit for the year** | **16,590** | 38,419 | 33,307 | 40,374 | 32,142 |
| **Attributable to:** | | | | | |
| Equity shareholders of the Company | **16,590** | 38,361 | 32,999 | 40,089 | 28,651 |
| Minority interests | **–** | 58 | 308 | 285 | 3,491 |
| **Profit for the year** | **16,590** | 38,419 | 33,307 | 40,374 | 32,142 |
| **Earnings per share (RMB)** | | | | | |
| Basic | **0.07** | 0.18 | 0.16 | 0.25 | 0.19 |
| Diluted | **0.07** | 0.17 | 0.16 | 0.25 | 0.19 |

# Five-Year Financial Summary

As at 31 December

*(Expressed in Renminbi)*

## CONSOLIDATED BALANCE SHEET

| | 2008 | 2007 | 2006 | 2005 (restated) | 2004 |
|---|---|---|---|---|---|
| | ***RMB'000*** | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| **Non-current assets** | | | | | |
| Property, plant and equipment | **165,753** | 191,468 | 179,884 | 183,006 | 200,486 |
| Construction in progress | **59,386** | 921 | 20,438 | 9,506 | 766 |
| Goodwill | **24,937** | 24,937 | 24,937 | 24,937 | 24,937 |
| Lease prepayments | **70,671** | 72,169 | 20,010 | 20,589 | 9,360 |
| Interest in an associate | **213,673** | 89,907 | – | – | – |
| Deferred tax assets | **10,579** | 6,444 | 2,878 | 2,360 | 1,512 |
| | **544,999** | 385,846 | 248,147 | 240,398 | 237,061 |
| **Current assets** | | | | | |
| Non-current assets held for sale | **–** | 12,361 | – | – | – |
| Inventories | **84,853** | 91,866 | 63,775 | 73,181 | 68,939 |
| Trade and other receivables | **167,371** | 210,296 | 135,858 | 143,124 | 183,174 |
| Pledged bank deposits | **–** | – | – | – | 4,091 |
| Cash and cash equivalents | **127,307** | 119,292 | 172,160 | 97,951 | 59,595 |
| | **379,531** | 433,815 | 371,793 | 314,256 | 315,799 |
| **Current liabilities** | | | | | |
| Trade and other payables | **204,907** | 259,789 | 207,009 | 186,562 | 245,204 |
| Bank loans | **42,199** | 32,735 | 43,664 | 38,474 | 52,119 |
| Current taxation | **7,948** | 4,333 | 4,882 | 3,970 | 4,988 |
| | **255,054** | 296,857 | 255,555 | 229,006 | 302,311 |
| **Net current assets** | **124,477** | 136,958 | 116,238 | 85,250 | 13,488 |
| **Total assets less current liabilities** | **669,476** | 522,804 | 364,385 | 325,648 | 250,549 |
| **Non-current liabilities** | | | | | |
| Other payable to intermediate holding company | **73,198** | – | – | – | – |
| Bank loans | **57,279** | 11,986 | 26,524 | – | – |
| Deferred tax liability | **2,183** | – | – | – | – |
| | **132,660** | 11,986 | 26,524 | – | – |
| **NET ASSETS** | **536,816** | 510,818 | 337,861 | 325,648 | 250,549 |
| **Total equity attributable to equity shareholders of the Company** | **536,816** | 510,818 | 336,162 | 323,957 | 249,143 |
| **Minority interests** | **–** | – | 1,699 | 1,691 | 1,406 |
| **TOTAL EQUITY** | **536,816** | 510,818 | 337,861 | 325,648 | 250,549 |