
INDUSTRY OVERVIEW

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THE METAL CONTAINER INDUSTRY IN THE PRC

Metal containers generally include containers for the packaging of food, beverages, chemicals, medicines, cosmetic products and so forth. The most common type of metal container is in the form of cylindrical cans.

The metal container industry in the PRC has experienced tremendous growth over the past decades. In the late 1970s, there were approximately 200 metal container manufacturers in the PRC. By the early 1990s the number of metal container manufacturers had increased to approximately 700. By the end of 1995, there were approximately 1,100 metal container manufacturers in the PRC. The metal container industry in the PRC continued to grow since then, with approximately 1,500 metal containers manufacturers in the PRC by 2002.

The rapid growth in the production of metal containers throughout the 1970s to 1990s was due to several factors. Firstly, the demand for canned food, beverages, chemicals, medicines and cosmetics has continued to grow and has led to an increase in demand for metal containers used for the packaging of these products. Secondly, foreign investors had been investing heavily in the PRC market. In the metal container market, these foreign investors had invested in the production of, among other things, the two-piece containers, three-piece cans, and aerosol cans. It is estimated that from 1979 to 2001, the production of metal cans had increased from 350,000 tonnes to 2,050,000 tonnes. Currently, it is estimated that the metal container industry constitutes approximately 10% of the total packaging and container industry in the PRC and the production of metal containers in the PRC will reach 2,880,000 tonnes by 2005.

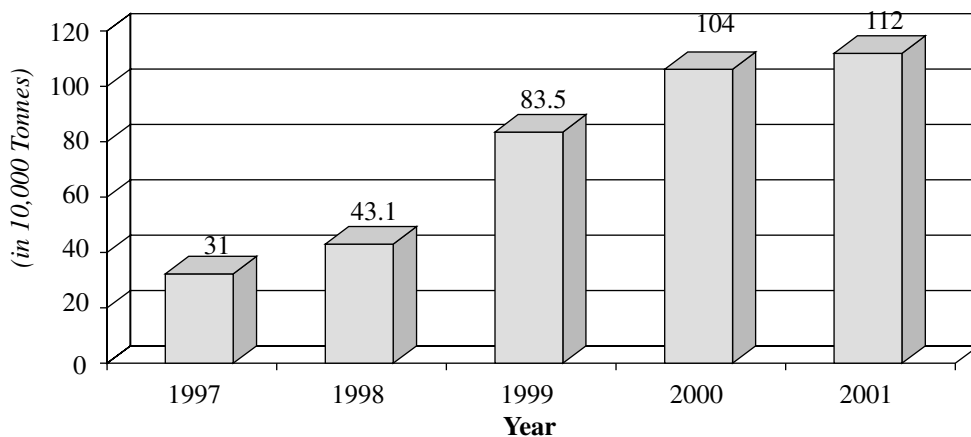
Tinplate production

Tinplate, a sheet iron coated with tin, is a material frequently used for the production of containers in the form of cans. The advantage of tinplate is that it is a tolerant and robust packaging medium, which is able to resist insects, germs, bacteria and ultra-violet light. It can help to retain the aroma and flavour of food and beverage and withstand the poorest handling and transportation conditions. In addition, as tinplate is decomposable, its use for the packaging minimises environmental damage. Although tinplate can be used to produce a variety of cans such as aerosol cans, chemical cans, and paint cans, tinplate is most commonly used in the production of cans for the packaging of food and beverage. The global tinplate consumption pattern indicates that nearly 70% of tinplate is used for food and beverage packaging.

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Since 1980's, the annual worldwide production of tin is approximately 200,000 tonnes, of which approximately 40% or 80,000 tonnes is used to produce tinplate. The production of tinplate in the PRC is growing rapidly. From 1997 to 2001, the production of tinplate in the PRC had increased by over 250%. In 1999, the PRC had surpassed Korea and became the second largest tinplate producer in Asia. The following chart illustrates the growth of tinplate production in the PRC from 1997 to 2001.

Tinplate production in the PRC



Source: China Cans Association (中國罐頭協會)

According to 中國罐頭協會 (China Cans Association), it is estimated that the demand for tinplate in the PRC will reach approximately 1,650,000 tonnes by 2003, representing a growth rate of approximately 85% from 1997 to 2003.

Competition in the metal container industry in the PRC

The Directors consider that the PRC metal container industry is highly fragmented and comprises mainly of small to medium-sized metal container manufacturers. Due to their limitations in, among others, production capacities, working capital and product selection and their lack of technical expertise for tinplate lacquering and printing, the Directors have advised that small to medium-sized manufacturers usually focus on serving small to medium-sized food and beverage producers in the PRC and therefore compete with each other for the same group of customers. This results in an abundant supply of their products and intensifies the price competition among them.

As the quality and design of the metal can packaging for canned food and beverage substantially impact on the sales of these products, the Directors believe that food and beverage producers are increasingly requiring their metal cans to have consistent high quality and are willing to pay higher prices to purchase from metal can manufacturers which are able to deliver such quality. The Directors estimate that there are currently a total of around eight metal can manufacturers in Fujian Province, the PRC. However, based on the knowledge of the Directors, the Directors believe that the Group has an advantage over certain of these manufacturers in terms of production capacities, quality and technical expertise in carrying out the lacquering and printing procedures necessary to produce high

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quality artwork. As a result, the Directors have observed a general trend in the market in recent years for the few manufacturers which are able to produce their products with consistent high quality to achieve high growth rates and obtain higher profit margins while many other manufacturers which cannot produce such quality compete on price and hence suffer decreasing sales.

In general, the Directors do not consider that the supply of tinplate cans has been in excess of demand in the PRC for the following reasons:

- the production volume of beverages in the PRC is expected to increase at an annual rate of approximately 10% for fruit juice beverages, 15% for tea beverages, 1% for vegetable beverages and 7% for protein drink beverages until 2005;
- food industry consumption in the PRC grew at an annual rate of approximately 10% for the last 10 years, according to a study conducted by an industry magazine in the PRC; and
- the packaging industry grew at an annual rate of approximately 18% for the past 20 years.

So far as the Directors are aware, there is no independent source of published information available on the Group's market share in the metal container industry in the PRC. However, the Directors estimate that the Group accounted for approximately 11% and 12% of the market for tinplate cans in Fujian Province, the PRC in 2000 and 2001 respectively. The Directors' estimation of the Group's share in the market for tinplate cans in Fujian Province, the PRC in 2000 was based on the total production of approximately 1,600 million tinplate cans in Fujian Province, the PRC in 2000 as stated in an article titled "Current development of the Fujian packaging and printing industry" dated 7 June 2001 and the total number of tinplate cans sold by the Group for the year ended 31 December 2000. The Directors' estimation of the Group's share in the market for tinplate cans in Fujian Province, the PRC in 2001 was based on the information in the Fujian Yearbook for 2001 in respect of the total production of tinplate cans in Fujian Province, the PRC and the total number of tinplate cans sold by the Group for the year ended 31 December 2001. So far as the Directors are aware, there is no publicly available information for the total production figure for tinplate cans in Fujian Province for the year 2002 as at the Latest Practicable Date.

CONSUMPTION OF CANNED FOOD AND BEVERAGES IN THE PRC

The demand for metal containers is significantly influenced by the consumption of canned food and beverages as metal containers are required for the packaging of these products. Tinplate cans are primarily used for the packaging of fruit juice, tea beverages and processed food in the PRC. As the production of these products increases, demand for tinplate cans also increases as a result.

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Beverages

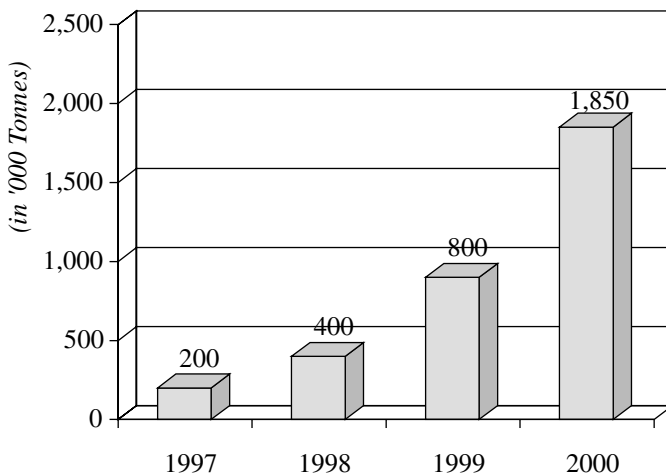
According to 中國飲料工業協會 (Association for the Beverage Industry of the PRC), the production of beverages in the PRC grew from less than 300,000 tonnes in 1980 to approximately 16,690,000 tonnes in 2001, representing an increase of over 55 folds in 21 years. It is estimated that the production of beverages continued to grow in the PRC by more than 20% to approximately 20,250,000 tonnes in 2002, with fruit juices, protein drinks and tea beverages accounting for approximately 10%, 7% and 15% of the expected total production for the year respectively.

In addition, it is estimated in the PRC's Tenth Five-Year Plan that the volume of production of beverages will increase at an annual rate of approximately 10%, reaching approximately 23 million tonnes by 2005. With the PRC population becoming increasingly health conscious, the PRC beverage producers are offering consumers a larger variety of beverages. Juice-flavoured beverages have also become increasingly popular among domestic consumers in the PRC.

In the early 1990s, annual output of fruit juice in the PRC was 1 million tonnes and had increased to 1.5 million tonnes by 2001. In addition, a research indicated that revenue derived from sale of fruit juices in the PRC was approximately RMB8.2 billion in 2001 and was expected to grow at approximately 15% in 2002 with total output reaching 2 million tonnes. One of the reasons for the expected increase is that many juice producers aim to increase the export of their products overseas. Exports to overseas markets accounted for 30% of total output of fruit juice in the PRC in 2001.

Tea beverages have also become increasingly popular in the PRC. The following table illustrates the increase in consumption of tea beverages in the PRC from 1997 to 2000.

Consumption of tea beverages in PRC



Source: 2001年初飲料行情分析 (An analysis on beverages in the PRC: 2001)

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In 2001, the production of tea beverages was approximately 1,850,000 tonnes in the PRC. Consumption of tea beverages in the PRC was estimated to have increased by 15-fold in the six years ended 2002.

Canned food

According to an article from Zhongguo Shang Bao, since the 1950s, canned food from the PRC had been sold around the world with a cumulative quantity of 15.5 million tonnes which was worth US\$15 billion, ranking at the top of the PRC's food industry. Meanwhile, the total volume and value of processed food had also been increasing over the years. It is estimated that by 2005, the annual production of canned foods will reach 3,900,000 tonnes in the PRC, representing an average annual growth of approximately 7.8%.

With the growing affluence of PRC consumers, it is expected that the consumption of beverages and canned food will further increase leading to the increased demand for tinplate cans.

REGULATIONS GOVERNING THE TINPLATE CAN MANUFACTURING INDUSTRY

The PRC government has promulgated certain regulations in connection with food safety and food packaging, which govern the tinplate can manufacturing industry. The principal legislation is the Food Hygiene Law of the PRC, which is promulgated by the National People's Congress on 5 October 1995 (the "Food Hygiene Law"). Article 12 of the Food Hygiene Law requires that all food containers and packaging materials must comply with the hygiene standards and hygiene measures. On 26 November 1990, the Ministry of Health of the PRC ("MOH") issued Administrative Measures of Epoxy-Phenolic Pastes for Food Can Internal Walls, which set out certain technical standards for the application of epoxy-phenolic pastes during the production of food cans. The MOH also approved China National Food Industry Standardisation Technical Commission to issue a set of hygiene standards for food can manufacturing factories. These standards cover the whole process of tinplate can manufacturing.

There are no environmental protection laws and regulations which specifically govern tinplate can manufacturing and lacquering. Generally speaking, the Group should comply with those national environmental protection laws applicable to all companies.