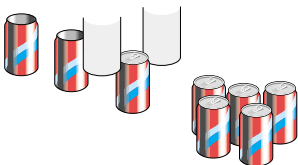
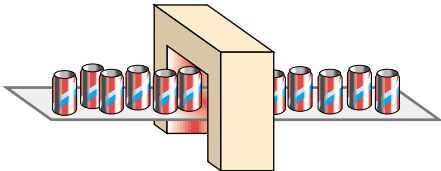
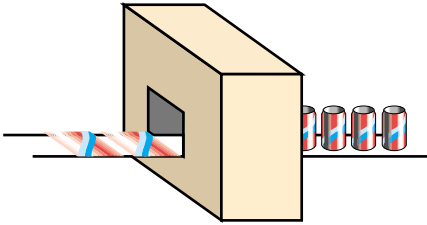
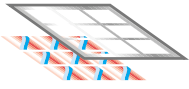


### Manufacture of can bodies



#### 1. Tinfoil cutting and curling

Lacquered and printed tinfoil is cut and curled into cylindrical shape to form can bodies.

#### 2. Quality control procedure: *Shape and dimension check*

Production supervisor checks the shape and dimension of the can bodies against customers' specifications.

#### 3. Sealing of can bodies

Can bodies are wrapped into cylinders and the seams are welded by a high frequency welder. Lacquer and enhancing agents are re-applied respectively on the inside and outside of the can bodies.

#### 4. Quality control procedure: *Test for tension endurance and heat resistance*

Quality control staff tests can bodies for tension endurance and printed artwork for heat resistance abilities.

#### 5. Necking (optional) and seams folding

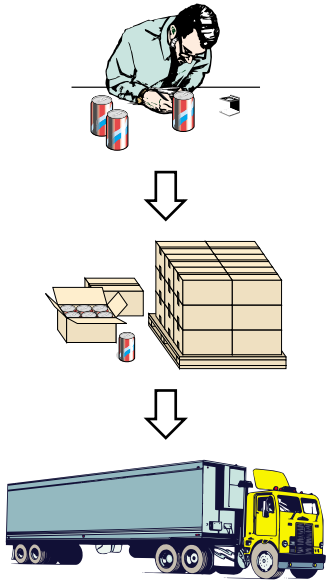
Can bodies are single or triple-necked at the top in accordance with customers' specifications, while both ends of the can bodies are folded down to create seams for subsequent closing of can bodies.

#### 6. Quality control procedure: *Shape and dimension check*

Production supervisor checks the shape and dimension of the can bodies against customers' specifications.

#### 7. Closing the easy-opening end of can bodies

Lacquered easy-opening ends are sealed onto the top end of the can bodies.



**8. Quality control procedure: *Test for leakage***

Sealed cans go through the leakage testing machine which automatically tests whether the cans are properly sealed. Quality control staff carries out sample testing on the tightness of the sealed easy opening lids.

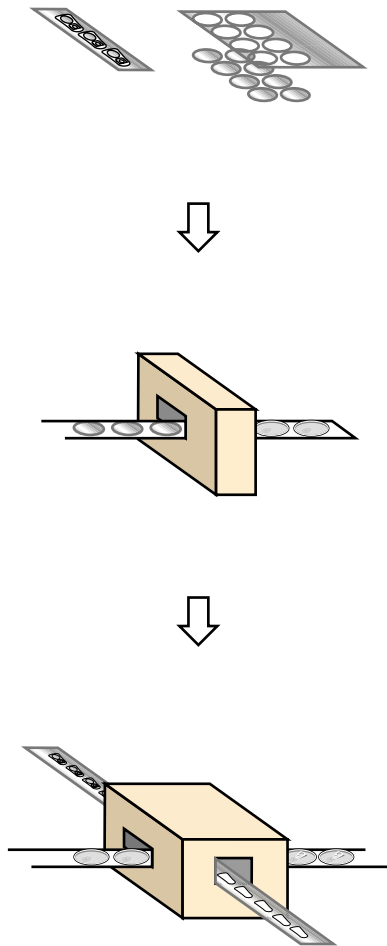
**9. Quality control procedure: *Final inspection***

Quality control staff performs final inspection on the overall quality of the can bodies and issues approval for packaging and delivery.

**10. Packaging and delivery**

Approved can bodies are packaged and delivered to customers together with lacquered bottom lids.

**Manufacture of bottom lids**



**1. Tinplate cutting and trimming**

Bottom lids which fulfil the relevant specifications are cut and trimmed from lacquered tinplate.

**2. Quality control procedure: *Shape and dimension check***

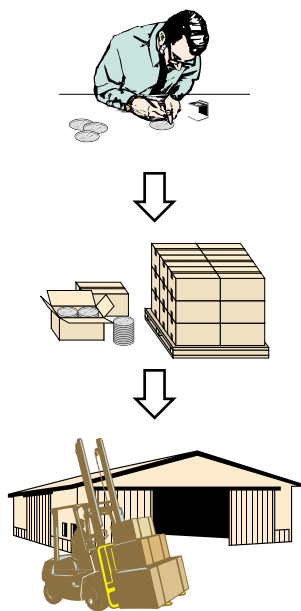
A production supervisor checks the shape and dimension of the bottom lids against customers' specifications.

**3. Seam folding and pressurising**

A bottom lid processing machine pressurises the bottom lid to form a curved shape to prevent any deformation after the food and beverage manufacturers applies product processing procedures. The seams of the bottom lids are then folded up for subsequent closing of can bodies by foods and/or beverages manufacturers.

**4. Application of glue and baking**

Glue is applied evenly on the bottom lids and baked to allow better sealing with the can bodies. The bottom lids are then baked to ensure a complete finish of the glue.



**5. Quality control procedure: *Shape and dimension check***

Production supervisor checks the shape and dimension of the bottom lids against customers' specifications and checks the finish of the glue.

**6. Quality control procedure: *Final inspection***

Quality control staff performs final inspection on the overall quality of the bottom lids and issues approval for packaging and warehousing.

**7. Packaging and warehousing**

Approved bottom lids are packaged for delivery to customers with approved can bodies.

### **Production facilities**

The production facilities of the Group are mainly located in Fuqing, Fujian Province, the PRC with a total gross floor area of approximately 12,383 sq.m., where the Group operates two highly automated workshops, one for the manufacture of tinplate cans and the other for the lacquering and printing of tinplate. The Group obtained the land use rights certificate of such production facilities in August 2001, for a term of 50 years expiring in November 2044. The relevant building ownership certificate was obtained by the Group in March 1999.

The Group's tinplate cans workshop comprises three production lines for the manufacture of can bodies and one production line for the manufacture of bottom lids, while the lacquering and printing workshop comprises one production line for the lacquering of tinplate and two production lines for the printing of artwork on tinplate. The operations of both the tinplate cans workshop and the lacquering and printing workshop are highly automated.

In view of the growing demand for tinplate cans in the PRC and to facilitate the delivery of the Group's products in the western region of the PRC, the Group entered into a lease agreement with Shanxi Yiying, an Independent Third Party, on 20 August 2002 for the lease of a tinplate cans production plant including certain production facilities in Fenyang, Shanxi Province, the PRC for a period of two years commencing from 20 October 2002 at an aggregate annual rental of RMB2 million (inclusive of an annual rental of RMB500,000 for the leasing of land, buildings and structures therein and an annual rental of RMB1,500,000 for the leasing of the production facilities, production supporting equipment and supporting infrastructure facilities). According to the lease agreement, if the Group fails to make its rental payment to the lessor, the lessor is entitled to receive a compensation payment at a daily rate of 0.021% of the total amount overdue. If the Group fails to pay the rental payment which is due and payable for more than six months, the lessor will be entitled to take possession of the leased property, terminate the lease agreement and claim as compensation a sum of RMB2 million against the Group. The Directors understand that the management of Shanxi Yiying

---

## BUSINESS OF THE GROUP

---

decided to cease the operation and leased the production plant in Fenyang to the Group, as its operation was not profitable under the management of Shanxi Yiyong. The production plant in Fenyang, which commenced operations in October 2002, comprises five production lines, two for the manufacture of tinplate cans, one for the manufacture of bottom lids, one for tinplate lacquering and one for tinplate printing.

For the three years ended 31 December 2002, the total capacity of the Group's tinplate can production was approximately 228 million cans, 228 million cans and 520 million cans per annum respectively while the total capacity for tinplate lacquering and printing was approximately 22,176 tonnes, 22,176 tonnes and 36,696 tonnes of tinplate per annum respectively.

The Directors estimate that the Group's production facilities for tinplate cans production were operated at approximately 68%, 78% and 81% of their optimal production capacities during the Track Record Period, while the Group's production facilities for tinplate lacquering and printing were operated at approximately 26%, 56% and 86% of their optimal production capacities during the same period respectively. Leveraging on its experience in tinplate lacquering and printing and its sizable capacity in the manufacture of tinplate cans, the Group is able to deliver high quality tinplate cans to its customers in approximately five to ten days.

The Directors have confirmed that, since the commencement of its operation in 1997, the Group has not encountered any major accidents and production overhauls.

### RAW MATERIALS

The principal raw material used by the Group in the manufacture of tinplate cans is tinplate. For the provision of tinplate lacquering and printing services (but not the manufacture of tinplate cans), the Group uses tinplate supplied by customers. For each of the three years ended 31 December 2002, purchases of tinplate accounted for approximately 54.1%, 52.4% and 50.4% respectively of the total purchases of the Group. Other major raw materials purchased by the Group include easy-opening ends, ink and lacquer. All of the Group's raw materials are sourced in the PRC.

The Group has implemented a set of procedures in accordance with ISO 9002 and other requirements for the selection of suppliers for tinplate and other major raw materials. Prior to its storage, each raw material is inspected and tested by quality control staff. The raw material is returned to the supplier if any of the Group's requirements are not met. The Group's procurement team assesses a potential supplier based on its production capacity and capability as well as its reputation in the relevant industry. The Group generally enters into one-year supply contracts with its approved suppliers in order to ensure a stable supply of tinplate and other major raw materials. At present, the Group has entered into one-year supply contracts with over 10 approved suppliers. To ensure the quality of its raw materials, the Group's procurement team conducts annual review on the suppliers prior to the renewal of their supply contracts.

The Group has established business relations with over 40 suppliers and the Directors believe that the Group would not encounter any difficulties in sourcing its raw materials.

---

## BUSINESS OF THE GROUP

---

For each of the three years ended 31 December 2002, purchases from the largest supplier of the Group accounted for approximately 31.5%, 30.5% and 38.4% of the Group's total purchases, respectively. During the same period, purchases from the five largest suppliers of the Group accounted for approximately 75.2%, 74.2% and 72.0% of the Group's total purchase, respectively. In addition, the Group has established the following years of relationships with its largest and five largest suppliers during the Track Record Period:

<b>For the year ended 31 December</b>	<b>The Group's largest supplier</b>	<b>The Group's five largest suppliers</b>
2000	2 years	2-4 years
2001	3 years	2-5 years
2002	4 years	1-6 years

For the three years ended 31 December 2002, all of the Group's raw material purchases were settled in Renminbi by cash or remittances with payment terms ranging from about 45 days to 60 days.

None of the Directors or in their knowledge, their associates, or any existing shareholder of the Group whom to the knowledge of the Directors own more than 5% of the issued share capital of the Company (immediately following the completion of the Share Offer and the Capitalisation Issue but without taking into account Shares taken up under the Share Offer) has any interests in any of the five largest suppliers of the Group for each of the three years ended 31 December 2002.

### INVENTORY CONTROL

The Group closely monitors the level of inventories in order to maintain a smooth production schedule. All purchase orders must be approved by the deputy general manager of Fuwang with supporting documents such as the material purchase plan prepared by the production manager of Fuwang. The Group's finance and accounting department provides monthly management accounts on the level of inventory to the senior management of the Group. The Group usually commences production after customers' orders are placed, and purchases of raw materials are made according to the production schedules.

The Group has adopted the following policy for each category of its inventory:

<b>Category</b>	<b>Provision percentage</b>
Raw materials and packing materials:	
No movement for more than 180 days but not more than 1 year	25%
No movement for more than 1 year but not more than 2 years	50%
No movement for more than 2 years	100%
Finished goods:	
No movement for more than 180 days but not more than 1 year	50%
No movement for more than 1 year	100%

---

## BUSINESS OF THE GROUP

---

The majority of the Group's finished goods are tinplate cans of various dimensions. Please refer to the paragraph headed "Products and services" above for details of the dimensions and uses of the Group's tinplate cans.

At at 31 December 2000, 2001 and 2002, the Group had inventories of about RMB12.8 million, RMB4.5 million and RMB6.3 million respectively, comprising raw materials, packing materials and finished goods. For the three years ended 31 December 2002, the inventory turnover of the Group was about 60 days, 15 days and 14 days respectively.

For each of the three years ended 31 December 2002, provision for obsolete inventories made by the Group was not significant. The Directors have advised that, as the majority of raw materials of the Group, including tinplate, easy-opening ends, ink and lacquer, are not subject to seasonal variation and are not perishable, the Group did not identify any major slow moving and obsolete inventories during the Track Record Period and inventory obsolescence is not a major concern of the Group.

### QUALITY CONTROL

The Group is committed to stringent quality control procedures. The Directors believe that the Group's commitment to manufacture high quality products and its emphasis on quality control are crucial to the success of the Group. Accordingly, the Group regularly invites relevant regulatory authorities in the PRC to provide quality control training to the Group's technical staff. At the same time, the Group also continuously enhances and updates its quality control procedures.

The Group's quality control procedures can be divided into three stages:

(1) **raw material procurement stage:**

Tinplate and other raw materials are only purchased from suppliers approved by the procurement team of the Group. Prior to the storage of raw materials at the Group's warehouse, each raw material is strictly inspected and tested by quality control staff. The raw material is returned to the supplier if any of the Group's requirements are not met.

(2) **production stage:**

The Group carries out stringent quality control procedures throughout the production process. To ensure the quality, consistency and reliability of the Group's products, quality checks are carried out at each production stage to ensure that customers' specifications are strictly adhered to. Only products which fulfil the Group's quality control requirements can be proceeded to the next procedure. The products which are unable to fulfil the technical specifications are taken out by the production staff and placed in an area for further processing in accordance with ISO 9002 procedures.

(3) **finished products quality assurance:**

All finished goods are subject to final inspection and approval before packaging and delivery to the Group's customers to ensure that the finished products conform to product quality standards and the specifications prescribed by the customers. In recognition of its commitment to quality control, the Group was granted the ISO 9002 accreditation in 2000.

## BUSINESS OF THE GROUP

### SALES AND MARKETING

#### Sales

The Group's revenue is mainly derived from the sale of tinsplate cans and the provision of tinsplate lacquering and printing services. Set out below is a breakdown of the Group's turnover by business activities.

	Year ended 31 December					
	2000		2001		2002	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%	<i>RMB'000</i>	%
<b>Turnover by business activities</b>						
Sale of tinsplate cans ( <i>Note 1</i> )	115,002	97.8	137,036	84.7	218,711	83.3
Tinsplate lacquering and printing ( <i>Note 2</i> )	<u>2,602</u>	<u>2.2</u>	<u>24,659</u>	<u>15.3</u>	<u>43,795</u>	<u>16.7</u>
Total turnover	<u>117,604</u>	<u>100.0</u>	<u>161,695</u>	<u>100.0</u>	<u>262,506</u>	<u>100.0</u>

*Notes:*

1. Turnover derived from the sale of tinsplate cans during the Track Record Period included both turnover derived from the sale of tinsplate cans and the provision of tinsplate lacquering and printing services to those customers which ordered tinsplate cans from the Group.
2. Turnover from tinsplate lacquering and printing was derived from customers which only required the Group's services in tinsplate lacquering and printing but not the manufacture of tinsplate cans.

The Group has established a client base of over 60 PRC food and beverage producers located in 20 provincial regions. All of the Group's products are sold in the PRC.

Sales to the largest customer of the Group accounted for approximately 25.6%, 20.2% and 21.7% respectively of the Group's total turnover for each of the three years ended 31 December 2002, while sales to the five largest customers of the Group accounted for approximately 82.0%, 52.9% and 47.6% respectively of the Group's total turnover for the same period. In addition, the Group has established the following years of relationships with its largest and five largest customers during the Track Record Period:

For the year ended 31 December	The Group's largest customer	The Group's five largest customers
2000	4 years	3-4 years
2001	5 years	1-5 years
2002	6 years	2-6 years