1. GROUP REORGANISATION AND BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a series of group reorganisation steps (the "Reorganisation"), the Company has since 2 June 2003 become the holding company of the subsidiaries now comprising the Group. This was accomplished by the Company acquiring the entire issued share capital of Bloxworth Enterprises Limited ("Bloxworth"), the intermediate holding company of the Group which holds the entire equity interest in Fujian Fuwang Metal Products Co., Ltd. ("Fuwang"). Details of the Reorganisation are set out in the prospectus dated 10 June 2003 issued by the Company (the "Prospectus").

The Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the financial statements of the Group have been prepared using the merger basis of accounting as if the Company had always been the holding company of the subsidiaries now comprising the Group in accordance with the Statement of Standard Accounting Practice ("SSAP") 27 "Accounting for group reconstructions" issued by the Hong Kong Society of Accountants (the "HKSA").

The Company's ultimate holding company is Fu Teng Global Limited ("Fu Teng"), a company incorporated in the British Virgin Islands.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 2 July 2003.

The Company is an investment holding company. The principal activities of the Group are the manufacture and sale of tinplate cans for the packaging of food and beverage in the People's Republic of China (the "PRC"), and provision of tinplate lacquering and printing services.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted, for the first time, Hong Kong Financial Reporting Standard ("HKFRS") - SSAP 12 (Revised) "Income taxes" issued by the HKSA. The term of HKFRS is inclusive of SSAPs and interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. The adoption of SSAP 12 (Revised) has had no significant effect on the results for the current or prior accounting periods.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are as follows:

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are rendered.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortisation and any accumulated impairment losses.

Depreciation or amortisation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight line method, at the following rates per annum:

Land under medium-term leases	Over the unexpired lease terms
Buildings	5%
Leasehold improvements	10% - 20%
Plant and machinery	10%
Motor vehicles	20%
Office equipment	20%

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in the income statement.

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income and expense that are taxable or deductible in other years, and it further excludes income statement items that are never taxable and deductible.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. PRINCIPAL ACCOUNTING POLICIES *(Cont'd)*

Foreign currencies

Transactions in currencies other than Renminbi are translated at the rates ruling on the dates of the transactions. Monetary assets and liabilities denominated in currencies other than Renminbi are re-translated at the rates ruling on the balance sheet date. Share capital is translated at the historical rate of exchange at the time of issue of the shares. Gains and losses arising on exchange are dealt with in the income statement.

On consolidation, assets and liabilities of the subsidiaries which are denominated in currencies other than Renminbi are translated at the rates ruling on the balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised as income or as expenses in the period in which the subsidiary is disposed of.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the relevant leases.

Retirement benefit cost

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are charged as an expense as they fall due.

4. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable for goods sold and services rendered during the year.

Business segments

For management reporting purposes, the Group is currently organised into two divisions - (a) manufacture and sale of tinplate cans; and (b) provision of tinplate lacquering and printing services in the PRC.

The Group's operation by business segment is as follows:

	2003	2002
	RMB'000	RMB'000
Income statement		
Turnover - external		
Manufacture and sale of tinplate cans	**292,004**	218,711
Tinplate lacquering and printing services	**45,584**	43,795
	337,588	262,506
Segment result		
Manufacture and sale of tinplate cans	**86,230**	72,064
Tinplate lacquering and printing services	**20,753**	21,247
	106,983	93,311
Unallocated corporate expenses	**(5,576)**	(2,766)
Profit from operations	**101,407**	90,545
Finance costs	**(2,871)**	(3,265)
Profit before taxation	**98,536**	87,280
Taxation	**(19,818)**	(11,320)
Net profit for the year	**78,718**	75,960

4. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

	2003 RMB'000	2002 RMB'000
Balance sheet		
Assets		
Segment assets		
Manufacture and sale of tinplate cans	**97,089**	83,016
Tinplate lacquering and printing services	**8,474**	8,981
Assets in common use	**17,456**	15,305
Unallocated corporate assets	**206,908**	92,793
Total assets	**329,927**	200,095
Liabilities		
Segment liabilities		
Manufacture and sale of tinplate cans	**10,814**	20,020
Tinplate lacquering and printing services	**—**	30
Liabilities in respect of assets in common use	**4,539**	3,183
Unallocated corporate liabilities	**60,053**	64,803
Total liabilities	**75,406**	88,036
Other information		
Capital additions:		
Manufacture and sale of tinplate cans	**10,558**	3,680
Tinplate lacquering and printing services	**—**	—
Assets in common use	**3,589**	6
Unallocated corporate assets	**284**	102
	14,431	3,788

4. TURNOVER AND SEGMENT INFORMATION *(Cont'd)*

	2003 RMB'000	2002 RMB'000
Depreciation and amortisation:		
Manufacture and sale of tinplate cans	**2,737**	2,260
Tinplate lacquering and printing services	**—**	—
Assets in common use	**2,006**	1,972
Unallocated corporate assets	**365**	489
	5,108	4,721
Bad and doubtful debts:		
Manufacture and sale of tinplate cans	**—**	(44)
Tinplate lacquering and printing services	**—**	(9)
	—	(53)

No geographical segment analysis is shown as the Group's operating businesses are substantially carried out in the PRC.

5. PROFIT FROM OPERATIONS

	2003 RMB'000	2002 RMB'000
Profit from operations has been arrived at after charging:		
Directors' remuneration	**1,787**	329
Other staff costs	**6,899**	5,193
Retirement benefit cost, other than directors	**51**	38
Total staff costs	**8,737**	5,560
Auditors' remuneration	**651**	639
Depreciation and amortisation of property, plant and equipment	**5,108**	4,721
Minimum lease payments in respect of:		
- land and buildings	**879**	155
- machinery and equipment	**1,500**	375
and after crediting:		
Interest income	**696**	126
Reversal of allowance for bad and doubtful debts	**—**	53

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	2003	2002
	RMB'000	RMB'000
Fees for		
- executive directors	—	—
- independent non-executive directors	138	—
	138	—
Other emoluments for executive directors		
- salaries, allowances and other benefits	1,486	296
- retirement benefit cost	23	7
- performance related incentive payments	140	26
	1,649	329
Other emoluments for independent non-executive directors	—	—
	1,787	329

The emoluments of each of the directors were less than HK$1,000,000 (equivalent to RMB1,060,000).

Employees' emoluments

For the year ended 31 December 2003, the five highest paid individuals included two directors (2002: one director) of the Company, details of whose emoluments are included above. The emoluments of the remaining three (2002: four) highest paid individuals are as follows:

	2003	2002
	RMB'000	RMB'000
Salaries, allowances and other benefits	390	337
Retirement benefit cost	14	6
Performance related incentive payments	37	36
	441	379

6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Cont'd)*

The emoluments of each of the aforesaid employees were less than HK$1,000,000 (equivalent to RMB1,060,000).

No emoluments were paid by the Group to the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any emoluments during the year.

7. FINANCE COSTS

	2003	2002
	RMB'000	RMB'000
Interest on borrowings wholly repayable within five years		
- bank borrowings	**2,850**	3,217
- other borrowings	**1**	38
Bank charges	**20**	10
	2,871	3,265

8. TAXATION

	2003	2002
	RMB'000	RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC	**19,818**	11,320

No provision for Hong Kong Profits Tax has been made as the Group's income neither arises in, nor is derived from, Hong Kong.

8. TAXATION *(Cont'd)*

Pursuant to the relevant income tax laws and regulations in the PRC, Fuwang's operations are eligible for exemption from PRC Enterprise Income Tax for two years starting with the first profit-making year and a 50% tax relief in the following three years. The first profit-making year of Fuwang's operations in the Fujian province is the year ended 31 December 1998. The applicable income tax rate for productive enterprises located at coastal cities is 24% with a local surtax of 3%. According to the letter issued by Fuqing State Tax Bureau on 28 March 2003, local surtax of 3% is exempted. Fuwang's operations in the Shanxi province started to generate profit in the year ended 31 December 2002. In 2003, Fuwang submitted an application in respect of the deferral of its entitlement of the privileged tax policy to 1 January 2003 to the State Tax Bureau of Fenyang, Shanxi province (the "Tax Bureau"). The application was successfully approved by the Tax Bureau on 16 May 2003 and the Tax Bureau agreed to defer the tax holiday and concessions. Fuwang's operations in the Shanxi province is exempted from PRC Enterprise Income Tax commencing in 2003 for two years and thereafter a 50% tax relief for the next three years. Upon the approval of the deferral of tax holiday and concessions, Fuwang was required to pay back the income tax of its operations in the Shanxi province for the period from the date of its registration in Shanxi province on 18 October 2002 to 31 December 2002 at the income tax rate of 24%. The local surtax of 3% is exempted according to local tax preferential policy. The income tax rate of Fuwang is summarised as follows:

	Operations in the Fujian province	**Operations in the Shanxi province**
Year ended 31 December 2002	12%	24%
Year ended 31 December 2003	24%	Nil

The charge for the year can be reconciled to the profit before taxation for the year as follows:

	2003 **RMB'000**	2002 RMB'000
Profit before taxation	**98,536**	87,280
Tax at PRC income tax rate of 24%	**23,649**	20,947
Tax effect of expenses that are not deductible in determining taxable profit	**990**	285
Tax effect of income that is not taxable in determining taxable profit	**(21)**	—
Tax effect of income that is under tax holiday	**(5,199)**	(10,022)
Others	**399**	110
Tax charge for the year	**19,818**	11,320

The Group and the Company did not have any significant unprovided deferred taxation arising during the year or at the balance sheet date.

9. DIVIDEND

No dividend has been paid by the Company since its incorporation. The final dividend of RMB0.04 (equivalent to approximately HK$0.038) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

The following dividends were paid by the subsidiaries to their then shareholders prior to the Reorganisation:

	2003	2002
	RMB'000	RMB'000
Dividend for 2001 paid by Fuwang	**—**	25,965
Dividend for 2002 paid by Bloxworth	**30,000**	—
	30,000	25,965

10. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the year of RMB78,718,000 (2002: RMB75,960,000) and the weighted average of 344,916,164 shares (2002: 300,000,000 shares) that would have been in issue throughout the year. The 300,000,000 shares that were issued prior to the listing of the Company's shares on the Stock Exchange and pursuant to the Reorganisation are treated as if they had been in issue throughout both years.

There were no potential dilutive ordinary shares outstanding during both years.

11. PROPERTY, PLANT AND EQUIPMENT

	Land under medium-term leases RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
THE GROUP							
COST							
At 1 January 2003	1,253	22,292	1,505	41,115	855	454	67,474
Additions	—	—	2,598	11,181	438	214	14,431
At 31 December 2003	1,253	22,292	4,103	52,296	1,293	668	81,905
DEPRECIATION AND AMORTISATION							
At 1 January 2003	68	7,017	1,084	20,618	380	342	29,509
Provided for the year	37	1,003	233	3,702	90	43	5,108
At 31 December 2003	105	8,020	1,317	24,320	470	385	34,617
NET BOOK VALUES							
At 31 December 2003	1,148	14,272	2,786	27,976	823	283	47,288
At 31 December 2002	1,185	15,275	421	20,497	475	112	37,965

The land and buildings of the Group are situated in Fujian, the PRC and are held under medium-term leases.

	Leasehold improvements RMB'000	Office equipment RMB'000	Total RMB'000
THE COMPANY			
COST			
Acquired during the year and balance at 31 December 2003	110	125	235
DEPRECIATION			
Provided for the year and balance at 31 December 2003	13	14	27
NET BOOK VALUE			
At 31 December 2003	97	111	208

12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Unlisted shares, at cost	**118,147**	—

Particulars of the Company's subsidiaries at 31 December 2003 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Paid-up share/ registered capital	Proportion of nominal value of ordinary issued capital/ registered capital held by the Company Directly	Indirectly	Principal activities
Bloxworth Enterprises Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	—	Investment holding
福建福旺金屬製品有限公司 Fujian Fuwang Metal Products Co., Ltd.	PRC	US$3,000,000	—	100%	Manufacture and sale of tinplate cans for the packaging of food and beverage in the PRC, and provision of tinplate lacquering and printing services

None of the subsidiaries had any debt securities subsisting at 31 December 2003 or at any time during the year.

13. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts are unsecured and interest-free. They are repayable within one year or on demand.

14. INVENTORIES

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Raw materials	**7,603**	3,630
Packing materials	**136**	143
Finished goods	**3,145**	2,533
	10,884	6,306

All inventories were stated at cost.

15. TRADE RECEIVABLES

The Group currently requires certain of its customers to settle in cash on delivery and allows an average credit period of two to three months to other trade customers. The following is an aged analysis of trade receivables:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 3 months	**68,108**	67,105
Over 3 months but not more than 6 months	**22**	4
Over 6 months but not more than 1 year	**—**	2
	68,130	67,111

16. PLEDGED BANK DEPOSITS

The deposits are pledged with a bank for trade finance facilities granted to the Group to the extent of the amount of deposits placed with the bank.

17. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Within 3 months	**9,922**	15,685
Over 3 months but not more than 6 months	**76**	16
Over 6 months but not more than 1 year	**6**	3
	10,004	15,704

18. AMOUNTS DUE TO DIRECTORS

The amounts at 31 December 2003 represent principally emoluments payable to directors. The amounts at 31 December 2002 represented principally payments made on behalf of the Group. They are unsecured, interest-free and repayable on demand.

19. BANK LOANS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
The maturity of the bank loans, which bear interest at prevailing market rates, is as follows:		
Within one year	**37,000**	41,500
After one year, but not exceeding two years	**7,000**	—
After two years, but not exceeding five years	**—**	7,000
	44,000	48,500
Less: Amount due within one year and included in current liabilities	**(37,000)**	(41,500)
Amount due after one year	**7,000**	7,000

The bank loans as at 31 December 2002 were guaranteed by 福建福銘食品有限公司 Fujian Fuming Food Co., Ltd. This company is indirectly 50% held by a brother of Mr. Yang Zongwang, who is also the chairman of this company. Mr. Yang Zongwang is a director and a deemed substantial shareholder of the Company. Following the listing of Company's shares on the Stock Exchange, such guarantee was released and replaced by corporate guarantee from the Company (see note 25).

20. UNSECURED BORROWINGS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Interest-free, one-year term loan from the local municipal government	—	1,242
One-year term loan from an outside party (see note below)	—	178
	—	1,420

Note: The one-year term loan from an outside party above bore interest at prevailing market rate and was guaranteed by 福建福銘食品有限公司 Fujian Fuming Food Co., Ltd. The loan was repaid in full during the year.

21. SHARE CAPITAL

	Notes	**Number of shares**	**Amount**
			HK$'000
Ordinary shares of HK$0.10 each			
Authorised:			
Upon incorporation on 21 October 2002	(a)	1,000,000	100
Increase in authorised share capital	(b)	1,999,000,000	199,900
At 31 December 2003		2,000,000,000	200,000
Issued and fully paid:			
Issue of shares at nil-paid on 30 October 2002 and credited as fully paid in accordance with the Reorganisation	(a) & (c)	1,000,000	100
Issue of shares to the shareholders in accordance with the Reorganisation	(c)	1,000,000	100
Issue of shares by way of capitalisation of share premium account	(d)	298,000,000	29,800
Placing of shares to professional and institutional investors	(e)	72,820,000	7,282
Issue of shares to the public	(e)	9,980,000	998
At 31 December 2003		382,800,000	38,280
			RMB'000
Shown in the financial statements at 31 December 2003			40,577

21. SHARE CAPITAL *(Cont'd)*

The amount of share capital of RMB8,000 shown on the consolidated balance sheet at 31 December 2002 represented the paid-in capital of Bloxworth as at that date.

The movements in the Company's authorised and issued share capital during the period from 21 October 2002 (date of incorporation) to 31 December 2003 are as follows:

(a) Upon incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were allotted and issued at nil-paid on 30 October 2002.

(b) On 2 June 2003, the authorised share capital of the Company was increased from HK$100,000 to HK$200,000,000 by the creation of an additional 1,999,000,000 ordinary shares of HK$0.10 each.

(c) On 2 June 2003, as part of the Reorganisation, the Company (i) issued to Fu Teng and certain private investors an aggregate of 1,000,000 new ordinary shares of HK$0.10 each credited as fully paid at par, and (ii) credited as fully paid at par for the then existing 1,000,000 ordinary shares issued at nil-paid on 30 October 2002 held by Fu Teng as set out in (a) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Bloxworth.

(d) On 17 June 2003, 298,000,000 new ordinary shares of HK$0.10 each were allotted and issued as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 2 June 2003, by way of capitalisation of the sum of HK$29,800,000 (equivalent to RMB31,588,000) standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new issue and placing of shares as set out in (e) below. For the purpose of preparing the financial statements, these shares were deemed to have been in issue throughout both years.

(e) On 17 June 2003, 82,800,000 new ordinary shares of HK$0.10 each were issued by way of placing to professional and institutional investors and public offer to the public at a price of HK$1.23 per share.

All the shares which were issued by the Company during the year rank pari passu with each other in all respects.

The Company intended to use the net proceeds from the new issue of shares to further develop the Group's business and for general working capital purposes.

22. RESERVES

	Share premium RMB'000	Contributed surplus RMB'000	Accumulated losses RMB'000	Total RMB'000
THE COMPANY				
Contributed surplus arising from issue of shares at nil-paid and credited as fully paid on Reorganisation	—	117,935	—	117,935
Premium arising from issue of shares for cash by way of new issue and placing	99,178	—	—	99,178
Expenses incurred in connection with the issue of new shares	(14,211)	—	—	(14,211)
Capitalisation issue	(31,588)	—	—	(31,588)
Net loss for the year	—	—	(4,034)	(4,034)
	53,379	117,935	(4,034)	167,280

The contributed surplus of the Company represents the difference between the consolidated net assets of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the Reorganisation.

Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, all reserves of the Company are available for distribution to shareholders.

22. RESERVES *(Cont'd)*

THE GROUP

(a) Basis of appropriations to reserves

As stipulated by the relevant laws and regulations in the PRC, Fuwang is required to provide for the surplus reserve fund and the enterprise expansion fund. Appropriation to such reserve funds are made out of net profit after taxation as reported in the statutory financial statements of Fuwang prepared in accordance with PRC Accounting Standards and the amount and allocation basis are decided by its board of directors annually. The surplus reserve fund can be used to make up prior year losses of Fuwang, if any, and can be applied in conversion into capital by means of capitalisation issue. The enterprise expansion fund is used for expanding the capital base of Fuwang by means of capitalisation issue.

(b) Special reserve

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the Reorganisation.

23. MAJOR NON-CASH TRANSACTIONS

(a) On 2 June 2003, the Company issued an aggregate of 1,000,000 new shares of HK$0.10 each and credited as fully paid at par for the then existing 1,000,000 shares issued at nil-paid on 30 October 2002, as consideration for the exchange of investment in Bloxworth held by Fu Teng and certain private investors for the purpose of listing of its shares on the Stock Exchange.

(b) On 17 June 2003, the Company allotted 298,000,000 new shares of HK$0.10 each to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 2 June 2003, by the way of capitalisation of the sum of HK$29,800,000 (equivalent to RMB31,588,000) standing to the credit of the share premium account of the Company for the purpose of listing of its shares on the Stock Exchange.

(c) During the year ended 31 December 2002 and as part of the Reorganisation, Bloxworth acquired from Nikjak Enterprises Limited ("Nikjak") 25% equity interest in Fuwang for a consideration of US$1,200,000 (equivalent to RMB9,922,000) which is satisfied by Bloxworth allotting and issuing 250 new shares of US$1 each in its capital to Nikjak. Mr. Yang Zongwang has beneficial interests in Nikjak.

24. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group and the Company had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	THE GROUP						THE COMPANY	
	2003			2002			**2003**	2002
	Land and buildings	**Machinery and equipment**	**Total**	Land and buildings	Machinery and equipment	Total	**Land and buildings**	Land and building
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**993**	**1,500**	**2,493**	618	1,500	2,118	**381**	—
In the second to fifth year inclusive	**1,400**	**4,125**	**5,525**	593	1,125	1,718	**25**	—
	2,393	**5,625**	**8,018**	1,211	2,625	3,836	**406**	—

The lease payments represent the rental payable by the Group or the Company for certain of the office premises, warehouse and machinery and equipment. Leases are negotiated for one to two years. The lease payments are fixed and no arrangements have been entered into for contingent rental payments.

25. CONTINGENT LIABILITIES

	THE COMPANY	
	2003	2002
	RMB'000	RMB'000
Corporate guarantees given to banks to secure bank borrowings granted to a subsidiary	**44,000**	—

26. CAPITAL COMMITMENTS

	THE GROUP	
	2003	2002
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**31,366**	1,634

The Company did not have significant capital commitment.

27. SHARE OPTION SCHEME

Pursuant to the written resolutions passed by all of the shareholders of the Company on 2 June 2003, the Company adopted a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contribution to the Group. Under the Scheme, the directors of the Company may, at their absolute discretion, invite any employee (whether full-time or part time, including any executive director), any non-executive directors (including independent non-executive directors), any supplier of goods or services, any customer, any person or entity that provides research, development or other technological support, any shareholder, any adviser (professional or otherwise) or consultant to any area of business or business development of the Group or its investee companies to take up options to subscribe for shares in the Company representing up to a maximum 10% of the shares in issue as at the date of commencement of listing of shares of the Company on the Stock Exchange and subject to renewal with shareholders' approval. The number of shares in respect of which options may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the shares of the Company in issue, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in any one year exceeding the higher of 0.1% of the Company's shares in issue and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders.

Options granted must be taken up within 21 days of the date of grant, upon payment of HK$1 per each grant of options. Options may be exercised at any time from the date of acceptance of the share option to such date as determined by the board of directors but in any event not exceeding 10 years. The exercise price is determined by the directors of the Company and will be not less than the higher of the closing price of the Company's shares on the date of grant, the average closing prices of the shares for the five business days immediately preceding the date of grant and the nominal value of the Company's shares.

No option was granted by the Company under the Scheme since its adoption and up to 31 December 2003.

27. SHARE OPTION SCHEME *(Cont'd)*

On 10 February 2004, 30,000,000 share options were granted at an exercise price of HK$0.81 (equivalent to RMB0.86) per share.

The financial impact of options granted is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recognised in the income statement in respect of the value of options granted in the year. Upon the exercise of the options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

28. RETIREMENT BENEFITS PLANS

In the PRC, the Group and its employees in the PRC participate in retirement benefit schemes regulated by the local municipal governments, pursuant to which the Group and its PRC employees pay contributions to the schemes. The Group is currently required to pay a monthly contribution at 18% of the respective employees' average monthly salary in the preceding year.

In Hong Kong, the Group has set up a retirement scheme in accordance with the mandatory provident fund requirements prescribed by the Mandatory Provident Fund Schemes Ordinance. The Group is required to contribute 5% of the respective employees' monthly salary (up to a maximum contribution of HK$1,000 (equivalent to approximately RMB1,060) by the Group) on a monthly basis to the fund.

29. RELATED PARTY TRANSACTIONS

During both years, a director provided certain office premises and motor vehicles for the Group's use at nil consideration. The running costs of these premises and motor vehicles were borne by the Group.

On 16 September 2002, the Group entered into a tenancy agreement with a director for the lease of an office unit and a carparking space from him for a term of three years commencing from 1 January 2003 to 31 December 2005 at a quarterly rental of RMB27,300 (inclusive of certain expenses). A firm of independent property valuers has reviewed the terms of the tenancy agreement and has confirmed that the rental payable under the agreement is on normal commercial terms and fair and reasonable. On 1 July 2003, the Group and the director entered into an agreement to terminate the tenancy agreement with immediate effect. Rental paid by the Group under the tenancy agreement during the six months ended 30 June 2003 amounted to RMB55,000.

During the year ended 31 December 2002 and as part of the Reorganisation, Bloxworth acquired from 福建省福清市大鑫旺彩印有限公司 ("Daxinwang") 75% equity interest in Fuwang for a consideration of US$3,650,000 (equivalent to RMB30,178,000). Mr. Yang Zongwang has beneficial interests in Daxinwang.

During the year ended 31 December 2002 and as part of the Reorganisation, Bloxworth acquired from Nikjak 25% equity interest in Fuwang for a consideration of US$1,200,000 (equivalent to RMB9,922,000) which is satisfied by Bloxworth allotting and issuing 250 new shares of US$1 each in its capital to Nikjak. Mr. Yang Zongwang has beneficial interests in Nikjak.