中國包裝集團有限公司

China Packaging Group Company Limited

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

2007

Annual Report

CONTENTS

CORPORATE INFORMATION

Directors	*Executive Directors* Yang Zongwang *(Chairman and Chief Executive Officer)* Xue De Fa Xie Xi Liu Zhi Qiang *Independent non-executive Directors* Tong Hing Wah Chong Hoi Fung Ng Wai Man
Company secretary	Li Yik Sang *CPA (Aust.), CPA*
Qualified accountant	Li Yik Sang *CPA (Aust.), CPA*
Authorised representatives	Yang Zongwang Li Yik Sang
Audit committee	Tong Hing Wah *(Chairman)* Chong Hoi Fung Ng Wai Man
Remuneration Committee	Ng Wai Man *(Chairman)* Tong Hing Wah Chong Hoi Fung
Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman KY1-1111 Cayman Islands
Head office and principal place of business	Unit 2603, 26th Floor Harbour Centre 25 Harbour Road Wanchai Hong Kong

Principal bankers	Standard Chartered Bank 12th Floor Standard Chartered Tower 388 Kwun Tong Road Kwun Tong Kowloon Hong Kong
	Bank of China Fuqing Branch Dongmen Road No. 39 Rongcheng Town Fuqing City Fujian Province The PRC
Auditor	Deloitte Touche Tohmatsu *Certified Public Accountants* 35th Floor One Pacific Place 88 Queensway Hong Kong
Principal share registrar and transfer office	Butterfield Fund Services (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 705 Grand Cayman KY1-1107 Cayman Islands
Hong Kong branch share registrar and transfer office	Computershare Hong Kong Investor Services Limited Rooms 1806-7, 18th Floor Hopewell Centre 183 Queen's Road East Wan Chai Hong Kong
Trading code on The Stock Exchange of Hong Kong Limited	572

On behalf of the board of directors (the "Board" or the "Directors") of China Packaging Group Company Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2007.

The Group recorded a turnover of approximately RMB668.6 million for the year ended 31 December 2007, a rise of 29.1% compared with the same period in the previous year. Gross profit grew to RMB211.0 million, representing 33.2% growth compared with the same period in the previous year. Profit after tax for the year amounted to RMB92.5 million. Basic earnings per share were RMB0.167 (2006: RMB0.224). The Board recommended the payment of a final dividend of RMB0.042 per share for the year ended 31 December 2007 (2006: RMB0.044 per share).

According to statistics, China produced approximately 4.6 million tonnes of food cans in 2007, of which 2.5 million tonnes were exported in China, representing growths of above 10% compared to 2006's. Meanwhile, the beverage industry continued to grow at a robust 20%. The 2008 Olympic Games to be hosted by China, is expected to full the China's economy, in particular the consumption volume of beverage products. In the first ten months of 2007, the year-on-year growth in production volume of the PRC beverage industry maintained at above 26.6%.

Catering to the market's surging demand for beverage cans, the Group in 2007 has commenced operations of new production facilities, two new lines for three-piece easy-open can production and one new line for two-piece food can production. These lines further expanded the Group's production capacity and production scale, and has laid a solid foundation for future sales growth.

Apart from establishing new production lines, the Group placed great emphasis on the development of ancillary facilities to support the long-term sustainable growth of the Group. During the year, the Group acquired a parcel of land of approximately 30 acres in Guanghan City Economic and Technological Development Area (廣漢市經濟技術開發區), Sichuan Province for the preparation of construction of new facilities, while the new acquired earlier in Fuqing Xia Cao and Shanxi Fenyang are expected to complete acquisition approval procedures within the year. The Group believes through the above expansion initiatives. We will further raise our production capacity, improve the current production environment and enhance the overall efficiency.

The Group also implements a series of measures to strengthen our business, which include developing new customers, enhancing the ancillary facilities for color printing as well as effective cost control to help strengthen the Group's leading position in the industry.

As China's economy continue to growth and domestic consumption increase significantly, the Group is faced with new growth opportunities in the market. Our efforts in improving the production technology for metal packaging coupled with expanded production capacity shall meet the increasing market demands. The Group's strong management focus and dedicated sales force, together with our pursuits for innovation and progress, shall enable the China Packaging Group to become a leader in the domestic food and beverage packaging industry. I believe that the Group shall deliver another year of promising results in 2008 and bring fruitful returns to shareholders.

APPRECIATION

Last but not least, I would like to express my heartfelt gratitude to the Directors, the management and all our staff whose indispensable contributions have driven the Group to achieve impressive results for the year. My sincere appreciation also goes to all our shareholders, business partners, bankers and customers for their continued support and confidence in the Group over the years.

Yang Zongwang
Chairman

Hong Kong, 15 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2007, the Group recorded a turnover of approximately RMB668.6 million (2006: RMB518.1 million), an increase of approximately 29.1%. This was largely attributable to the strong overall demand for food and beverage products in China.

The Group's gross profit amounted to approximately to RMB211.0 million (2006: RMB158.5 million), representing a year-on-year rise of 33.2%. The increase of gross profit was mainly due to the increase in sales of all the segments of the Group.

Profit for the year under review amounted to approximately RMB92.5 million (2006: RMB96.5 million), a year-on-year decrease of 4.1%.

Business Review

In 2007, despite factors such as Renminbi appreciation and increased labour costs, the Group benefited from the robust growth of the PRC economy and demands, and with the aid of the more advanced technology embedded in the Group's equipment and production lines, steady control on supply sources and prices of raw materials, as well as with the commencement of operation of our new production lines which substantially enhanced our production capacity, the Group's costs were effectively contained. With effective implementation of the Group's strategy, we have continued the growth momentum in the previous year and achieved strong revenues. The analysis is detailed as follows:

I. Continued expansion in PRC beverage market

The 2008 Olympic Games is expected to be a driving force to China's economic growth, which also creates new development opportunities for the PRC beverage industry. Higher personal consumption, more sports events and outdoor sports activities will promote beverage consumption. Pursuant to the statistical figures of the National Bureau of Statistics of China, the growth in production volume of soft drinks amounted to 43.55 million tonnes, representing a year-on-year increase of 26.6%.

In 2007, China produced 4.55 million tonnes of food cans with production value of RMB39.7 billion. Export amounted to 2.50 million tonnes with export value of US$2.57 billion; both production and export volume represented increases in excess of 10% over 2006's.

II. Core business growth drive better results

Compared with the corresponding period of last year, the three principal business operations of the Group continued to record double digit growths, mainly due to the following factors:

1) Two-piece cans

Leveraging the continued growth in China's canned food consumption, the Group successfully procured eight new customers and new orders increased by over 30 million cans during the year. The Group achieved a year-on-year growth exceeding 40% in sales of two-piece can products. Our sales network has been further-developed, currently covering areas in six provinces across the country. On the other hand, in order to match the growing market demand for two-piece can products, the Group added one production line facility and a few dozen moulds. By June, the plans for doubling production capacity and can shape numbers were completed. This served to better satisfy customer's needs and increase our market share, as well as to expand sales, while at the same time boosted customers' confidence in the Group's products, thereby our number of new orders continued to increase, allowing more room for business growth. The Group excelled our proprietary technologies to quickly and extensively expand our production capacity of two-piece can products. Meanwhile, our competitiveness was strengthened by the Group's operation scale, brand name, sales networks, with the pursuit of improvement and the aim to outpace our industry competitors.

2) Three-piece easy-open cans

The sales of three-piece easy-open cans recorded a year-on-year growth of approximately 20%, with orders increased by over 70 million cans. As the commencement of operation of two three-piece easy-open can production lines in 2007 drove our results forward, our existing customers continued to put confidence in the Group's products. Furthermore, new orders continued to increase due to strong demand from the market, the Group also successfully procured about ten new customers who accounted for almost 8% of new orders. Furthermore, the customer base and market conditions for three-piece easy-open cans are relatively matured. Together with the streamlining of structure in the previous year, pressure from cost increases was basically completely offset and ensuring our sales targets are met.

3) *Three-piece food cans*

Sales volume of three-piece food cans for the year grew by approximately 40% compared to the corresponding period of last year. This breakthrough result is attributable to the following reasons: firstly, our products, professional know-how, technologies and qualities, have gradually gained customer recognition and confidence since our operations in the last 4 years; secondly, our recently developed new models of environmental products satisfied customers' requirements for higher quality as well as more variety, further boosting our product sales. Our year-on-year increase in the number of new orders was over 40 million cans.

4) *Color printing processing*

Our color printing processing businesses maintained a steady growth of about 10%, principally due to the very established customer base and relatively stable market conditions developed through over 10 years of operations. On the other hand, the Group's color printing processing technologies continued to innovate and improve, which offers added value to our customers, and therefore further enhance the color printing processing businesses of the Group.

III. Thriving customer recognition and expansion of sales scale

Shanxi Zhanpeng achieved a year-on-year sales growth of approximately 10%. This was attributable to the fast development and strong economic growth in the western China, which contributed to our quality existing customers to establish new factories in the area, while new customers were developed, leading to higher sales. Besides, during the latter half of the year, the commencement of a new production line boosted overall performance (such as production scale and efficiency) by about 40%, effectively lowering our costs. In addition, our customer's recognition and loyalty were enhanced which uplifted our sales.

IV. Effective cost controls to maintain gross profits margin

The Group proactively adopts measures to maintain margins and control costs effectively: 1) raising prices appropriately on products with relatively matured customer base and favourable market conditions, e.g. three-piece easy-open cans, external color printing processing businesses, etc., to achieve profits growth; 2) gradually improving the sales of food can products with high profit margins through technological improvement and product innovation, resulting in doubling the number of can shapes in 2007 and contributing to a more optional mix of the four principal businesses and mitigated cost pressure. The sales proportion from three-piece easy-open cans and food cans changed from 51.8% and 27.7% respectively in 2006 to 48.9% and 39.3%; 3) accelerating production capacity expansion. Two new production lines of three-piece easy-open can and one production line of two-piece food can commenced operation in 2007, both lowered common costs. The above strategies have effectively offset rise in costs and maintain profit margins.

The implementation of the new "Labour Law" shall not cause significant influences on the Group. The relevant provisions targeted certain irregularities in the existing employment policies. For enterprises already adopted human resources management in compliance with the laws and strictly under the lawful framework, the new law shall make them even more competitive. Earlier in 2006, the Group had already engaged a PRC professional management consultancy company to further improve our various rules and policies, facilitate proper personnel management, as well as enhance employee stability. Upon implementation of the new law, the employment procedures of the general labour market will be regulated, which shall narrow the differences of human resources costs between public and private companies, and speed up the establishment of a fair playing field in the industry.

PROSPECTS AND FUTURE PLANS

With the dedicated efforts of all our staff, we achieved satisfactory results in 2007. The management believes that we will achieve even better results in the future. The Group will commit even more efforts in the future to develop new markets and capture opportunities, with an aim to have greater achievements. The details are as follows:

I. Expanded capacity of easy-open can products results in significant growth

To meet strong market demands for the Group's products, the Group's Fuqing plant acquired two high-speed automatic beverage can production lines in 2007, which successfully commenced production in October, two months ahead of scheduled time. Such facilities offer stable quality and high production volume; some are the most advanced models in the industry in PRC. By introducing these production lines, the Group's technological levels have progressed to be in line with developed countries. With the Group's extensive and established relationships within our customer base, as well as our production capacity expansion and technological advancement, our confirmed sales orders have already achieved a year-on-year increase of over 30% in 2008.

Trial production of our new three-piece easy-open can shapes were successful. It is expected that production will commence in the first half of the year. Meanwhile, the Group conducted advertising and promotion among customers and received considerable indicative orders, mainly from neighboring customers. This will help the Group expand market share and achieve higher revenues.

II. Two-piece cans are well-positioned to continue profits growth

The Group's two-piece can sales have occupied important market positions, with the newly ordered equipment for a production line of two-piece food can and several sets of can shape moulds to commence operation in July. The new can shapes with high added value can leverage the existing sales channels to expand market position and sales. With our production capacity expansion and advanced technologies, our confirmed sales orders have shown a year-on-year increase of over 25% in 2008.

III. Accelerate geographic expansion to provide sustainable growth momentum

The Group registered and established a new subsidiary, Sichuan Zhanwang Metal Products Co., Ltd. （四川展旺金屬製品有限公司）, in November 2007 in Guanghan City (廣漢市) of Chengdu Province. To ensure that the new subsidiary will commence production quickly and provide a growth engine for our business in future, the Group in the second half of 2007 entered into a plant equipment lease agreement (廠房設備租賃協議) with a metal manufacturing company in Guanghan City, as well as executed an agreement for acquisition of two PRC industry leading production lines of high-speed automatic three-piece easy-open can imported from Swiss Soudronic, Japanese Fuji dual-color printing processing production line, Taiwanese new free-cutting metal machine and other ancillary equipment, for which operations may commence during the first half of 2008. The Group presently has over 200 quality customers, some of which have set up branch factories in the south-western regions. Therefore, Zhanwang Metal (展旺金屬) will be able to leverage on the extensive customer base in the early stages of operation and grow its sales rapidly. Various renowned brands of food and beverage enterprises in the PRC have factories in Chengdu. However, the manufacturers of three-piece easy-open cans in neighboring areas are small in scale with low annual production volume. The management believes that after Zhanwang Metal commences production, the market offers enormous growth potential and brings significant growth to the Group.

On the other hand, to boost the long-term significant growths of the Group, the Group acquired a parcel of land of approximately 30 acres in Guanghan City Economic and Technological Development Area (廣漢市經濟技術開發區) at the end of 2007 for Zhanwang Metal to construct its facilities, which is intended to meet the future demand in a fast-growing market. It is expected that upon completion of such project, the Group's overall scale will reach a higher level, and its productions and operations will be further improved.

Moreover, the Group is currently dealing with the procedures for its proposed land acquisition in two of its production bases, namely Fuqing Xia Cao and Shanxi Fenyang. The Group already paid deposits for the land premium at the end of 2007, and the remaining approval procedures are expected to be completed during this year.

IV. Enhance color printing capabilities for future expansion

As the packaging industry evolves rapidly, requirements for color printing technologies have gone up. Our proprietary can production and color printing processing businesses are growing quickly every year. Therefore, the Group plans to acquire new equipment to meet future production needs and long-term business expansion. Based on our co-operation with Japanese Fuji company for over a decade and our confidence in their product quality, the Group entered into a purchase contract with Fuji company. Its highly-efficient, high-speed production machines and high quality will meet the needs for our color printing processing businesses and proprietary can production businesses. The new equipment, upon commencement of operation, will take our printing processing technologies and capabilities to a new height where customers' requirements for high quality packaging are met.

Based on the implementation of the Group's various business plans, as well as the progress of certain new projcets, the Group is confident that it will continue to develop in 2008 and our results to reach new height, new barriers.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations by internally generated cashflow and banking facilities provided by its bankers.

For the year ended 31 December 2007, the Group generated approximately RMB98.0 million (2006: RMB100.4 million) of cash from operations. As at 31 December 2007, the Group had cash and cash equivalents of approximately RMB400.1 million (2006: RMB393.3 million) and had total borrowings of approximately RMB99.3 million (2006: RMB97.4 million) of the total of approximately RMB99.3 million bank loans outstanding as at 31 December 2007, RMB29 million were arranged at 0.5% over The People's Bank of China Standard Loan Interest Rate . The remaining RMB40.7 million and RMB29.6 million of bank loan was subject to floating rate from 2.0% to 2.75% over HIBOR per annum and 1.75% over LIBOR per annum respectively. The maturity profile for the Group's total borrowings was approximately 89% within one year and approximately 11% after one year but not exceeding three years. All of the aforementioned bank loans were guaranteed by corporate guarantees and pledged bank deposit from the Company.

As at 31 December 2007, the Group's current ratio, as a ratio of current assets to current liabilities, was approximately 2.2 (2006: 3.2) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was approximately 9.3% (2006: 12.9%).

With respect to foreign exchange exposure, as the Group's transactions were mostly denominated in Renminbi and Hong Kong dollars, the exposure to foreign exchange fluctuations is minimal therefore no use of financial instruments for hedging purposes is considered necessary.

CAPITAL STRUCTURE

During the year ended 31 December 2007, a total of 45,030,000 shares were issued pursuant to the exercise of the share options by the option holders of the Company and 60,000,000 shares were issued pursuant to the placing and subscription agreement which was completed in June 2007. As a result, the total number of issued and fully paid shares of the Company as at 31 December 2007 is 601,791,081.

CAPITAL COMMITMENTS

As at 31 December 2007, the Group had capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately RMB66 million (2006: RMB3.8 million) and did not have any authorised but not contracted for capital commitments (2006: Nil).

PLEDGE OF ASSETS

As at 31 December 2007, bank deposit of approximately RMB17.0 million (2006: RMB21.7 million) was pledged to a bank for banking facilities granted to the Group to the extent of the amount of deposits placed with the banks.

CONTINGENT LIABILITIES

As at 31 December 2007, the Group did not have any material contingent liabilities (2006: Nil).

SIGNIFICANT INVESTMENTS HELD AND MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS AND SUBSIDIARIES

There were no material acquisitions or disposals of investments and subsidiaries for the year ended 31 December 2007.

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2007, the Group employed a total of 450 employees (2006: 445 employees) situated mainly in the PRC and Hong Kong. The Group's emolument policy is formulated based on industry practices and performance of individual employees. During the year under review, the total staff costs (including Directors' emoluments) amounted to approximately RMB29.6 million (2006: RMB15.6 mllion).

The Group operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. There were totalling 84,070,000 share options were granted during the year ended 31 December 2007.

EXECUTIVE DIRECTORS

Mr. Yang Zongwang（楊宗旺）, aged 44, is the founder, the chairman and the chief executive officer of the Group. Mr. Yang is responsible for formulating the overall business strategies planning, business development and overseeing the entire operations of the Group. Prior to the establishment of the Group in 1997, Mr. Yang gained over 10 years of experience in food processing and packaging in the PRC. Mr. Yang is a member of the 中國人民政治協商會議福建省福清市委員會 (Fujian Province Fuqing City Committee of Chinese People's Political Consultative Conference) and the 福清市青年聯合會 (Fujian Province Fuqing City Committee of Youth Association) and an executive of the 福建省青年企業家協會 (Standing Committee of Young Entrepreneur Association of Fujian Province).

Mr. Xue De Fa（薛德發）, aged 37, is the general manager of the Group. Mr. Xue joined the Group as a sales and marketing manager in 1997. He is mainly responsible for planning and coordination of marketing activities, sales of products and services and business development of the Group. Mr. Xue gained over 10 years of experience in sales and marketing of packaging cans and was the assistant manager of the sales and marketing department of 福建省聯建（集團）有限公司 (Fujian Sinocan Lianjian (Group) Company Limited), a tinplate can manufacturer in Fujian Province, the PRC. Mr. Xue obtained his bachelor degree from 黑龍江省哈爾濱師範大學 (Haerbin Teaching University of Heilongjiang Province) in July 1992.

Mr. Xie Xi（謝希）, aged 40, is responsible for the Group's procurement. Mr. Xie joined the Group as a merchandiser of the procurement department in 1997 and was promoted to the procurement manager in 1998. As a procurement manager, he is mainly responsible for monitoring the Group's procurement process and liaison with the Group's suppliers. Mr. Xie obtained over 10 years of procurement experience and was the supervisor of the procurement department of 福清市華僑罐頭廠 (Fuqing Huaqiao Cans Factory). Mr. Xie obtained a certificate for the completion of a two-year course in Political Science from 寧德師範學校 (Ningde Teachers Training College) in July 1989.

Mr. Liu Zhi Qiang（劉志強）, aged 46, is responsible for the Group's administration. Mr. Liu joined the Group in September 2002. Mr. Liu graduated from the Guanghua School of Management in the Peking University with a Executive Master in Business Administration programme. Mr. Liu gained about 22 years of experience in corporate finance and project management. He has held various senior positions in a number of recognised financial institutions and companies in the PRC and Hong Kong, including 中國光大國際信託投資公司 (China Everbright Trust and Investment Company), 日本櫻花銀行 (Sakura Global Capital Co., Ltd.), 京華山一國際（香港）有限公司 (Core Pacific - Yamaichi International (H.K.) Limited) and 中國星火有限公司 (China Spark Co., Ltd.). He also previously worked in the statistics department of 中國人民銀行 (People's Bank of China).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tong Hing Wah（湯慶華）, aged 37, joined the Group in June 2003 and is the chief financial officer and company secretary of a company listed on the Main Board of the Stock Exchange. Mr. Tong graduated from the Hong Kong Polytechnic University with a bachelor degree in Accountancy in 1993. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of The Association of Chartered Certified Accountants. He has over 13 years of experience in auditing, accounting and financial management.

Mr. Chong Hoi Fung（庄海峰）, aged 37, joined the Group in June 2003 and has been a deputy general manager of a property development company in the PRC for 8 years. He has also held senior positions in other property development companies in Hong Kong and the PRC. Mr. Chong graduated from Xiamen University with a bachelor degree in Economics in 1993. He has about 11 years of experience in property development and 2 years of experience in international trading in the PRC.

Mr. Ng Wai Man（吳偉文）, aged 37, joined the Group in September 2004. He is currently a financial controller of an international reputable investment management company in Hong Kong and has accumulated over 11 years of experience in the investment management industry. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of CPA Australia. He obtained a bachelor degree in commerce in Australia.

SENIOR MANAGEMENT

Mr. Li Yik Sang（李奕生）, aged 34, is the chief financial officer and company secretary of the Company. Mr. Li is primarily responsible for the financial reporting and regulatory compliance of the Company. Mr. Li graduated from The University of Queensland of Australia with a bachelor in Commerce in 1998 and Master in Commerce in 2000. He is a Certified Practising Accountant of CPA Australia and a Certified Public Accountant of Hong Kong Institute of Certified Public Accountant. Prior to joining the Group, Mr. Li has obtained over 6 years of experience from international accounting firms.

Ms. Xu Chun Qing（徐春清）, aged 39, is the administration manager of the Group and is responsible for the administration and human resources management of the Group. Ms. Xu joined the Group in 1997. Ms. Xu gained over 10 years of experience in administration and human resources management and was the supervisor of the administration department of 福建省聯建（集團）有限公司 (Fujian Sinocan Lianjian (Group) Company Limited). Ms. Xu obtained her bachelor degree from 黑龍江省哈爾濱師範大學 (Haerbin Teachers Training University of Heilongjiang Province).

Mr. Pan Bo Cheng（潘伯誠）, aged 49, is the technical development manager of the Group and is responsible for the provision of technical advice and support to the Group's production department. Mr. Pan joined the Group in 1997. Mr. Pan obtained about 25 years of printing experience in the packaging industry and was the development manager of 福州市印刷廠 (Fuzhou Printing Factory). Mr. Pan has also been involved in the development of printing methodology. His article "談罐頭內塗料的塗印 (A discussion on inside lacquering of cans)" was granted 科學技術優秀論文四等獎 (Fourth Class Prize of the Outstanding Scientific Technology Thesis Award) by governmental authorities in Fuzhou in February 2000. Mr. Pan obtained his tertiary education in administration and management from 中國紡織政治函授學院 (China Textile and Politics College).

Ms. Yang Yunxian（楊雲仙）, aged 43, is a director of Fujian Fuwang Metal Products Co., Ltd. ("Fuwang"), a wholly owned subsidiary of the Company, and is involved in the administration and human resources management of the Group. Ms. Yang joined the Group in 1997. Ms. Yang gained over 15 years of experience in administration and human resources management. Ms. Yang is the spouse of Mr. Yang.

Mr. Dai Jian Guang（戴建光）, aged 43, is the assistant procurement manager of the Group. Mr. Dai joined the Group in 1997. Mr. Dai obtained over 10 years of procurement experience in the PRC and was previously a procurement officer of 福清市無線電廠 (Fuqing City Wireless Factory).

Mr. Lin Qiu Ping（林秋萍）, aged 46, is the finance and accounting manager of the Group. Mr. Lin joined the Group in 1999 and is responsible for all finance and accounting matters of the Group's Mainland China subsidiaries. Mr. Lin gained about 20 years of extensive experience in accounting, taxation and cost management. Mr. Lin obtained his tertiary education from 福建省財經學校 (Fujian Finance and Economics School).

Mr. Zhang Shi Liang（張世良）, aged 44, is the engineering manager of the Group. Mr. Zhang joined the Group in 2004. He is mainly responsible for the repair and maintenance of the facilities of the plant. Mr. Zhang gained over 15 years of equipment management, mould and mechanical design. He is also the 中國管理科學研究院學術委員會研究員 (Researcher of the Management Science Research Institute Academic Committee in China).

Mr. Deng Shi Long（鄧仕龍）, aged 37, is the manager of production department and is responsible for various tasks including the operation of the production plant of the Group. Mr. Deng joined the Group in 2006, and gained over 8 years of experience in packaging industry. He was the general manager of 福州百利彩印工業有限公司 **(**Fuzhou Bai Li Colour Printing Industrial Co Ltd.) Mr. Deng graduated from Southwest University of Finance and Economics and majored in economics management.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for promoting high standards of accountability, transparency and responsibility to our shareholders.

The Board considers that the Company has complied throughout the year ended 31 December 2007 with the Code on Corporate Governance Practices (the "CG Code") that was set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Yang Zongwang; and (ii) the independent non-executive Directors are not appointed for specific terms.

THE BOARD COMPOSITION AND BOARD PRACTICES

The Board is responsible for the oversight of the management of the Company's business and affairs of the organization with the objective of enhancing shareholder value including setting and approving the Company's strategic direction and planning, and all important matters such as financial results, dividends, annual financial budget, business and operation plan etc., while delegating day-to-day operations of the Group to management. Besides, each member of the Board is expected to make a full and active contribution to the Board's affairs and ensure that the Board acts in the best interests of the Company and its shareholders as a whole.

The Board currently consists of seven Directors, of whom four are executive directors namely, Mr. Yang Zongwang *(Chairman and Chief Executive Officer)*, Mr. Xue De Fa, Mr. Xie Xi and Mr. Liu Zhi Qiang, and three are independent non-executive directors namely, Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man.

The Board has maintained a balance of skills and experience appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. Each of the Directors' respective biographical details is set out in the "Biographical Details of Directors and Senior Management" of this annual report. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company.

In compliance of Rule 3.10(1) of the Listing Rules, the Board currently comprises three independent non-executive Directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man, representing over one-third of the Board. Pursuant to paragraph 12B of Appendix 16 to the Listing Rules, each of the independent non-executive Directors has confirmed by an annual confirmation that he complied with the independence criteria set out in Rule 3.13. The Directors considers that all the three independent non-executive Directors to be independent under these independence criteria and are capable to effectively exercise independent judgement in order to ensure that the interests of all shareholders of the Company have been duly considered. Amongst them, Mr. Tong Hing Wah and Mr. Ng Wai Man have the appropriate professional qualifications and accounting and related financial management expertise required under Rule 3.10(2). In addition, Mr. Li Yik Sang is a qualified accountant responsible for oversight of the Group's financial reporting procedures.

Moreover, the independent non-executive Directors take an active role in Board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations.

Besides, to the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors and each of the Directors also does not have any direct or indirect material relationship with the Group.

A summary of attendance of the Board and Committee meetings in 2007 are detailed as follows:

	Number of meeting(s) attended/ Number of meeting(s) held		
Directors	**Board**	**Remuneration Committee**	**Audit Committee**
Executive Directors			
Mr. Yang Zongwang *(Chairman and Chief Executive Officer)*	12/12	—	—
Mr. Xue De Fa	12/12	—	—
Mr. Xie Xi	9/12	—	—
Mr. Liu Zhi Qiang	12/12	—	—
Independent non-Executive Directors			
Mr. Tong Hing Wah	10/12	3/3	2/2
Mr. Chong Hoi Fung	9/12	3/3	2/2
Mr. Ng Wai Man	10/12	3/3	2/2

Directors can attend meetings in person or through telephone pursuant to the articles of association of the Company ("the Articles"). The Company Secretary assists the Chairman in establishing the meeting agenda, and each Director/committee member may request inclusion of items in the agenda.

Minutes of Board/committee meetings would be kept by the Company Secretary and shall open for inspection by Directors. Where Directors have a material or potential conflict of interests in any transaction to be discussed in the Board/committee meetings, such transaction would not be dealt with by way of written resolutions. The Directors concerned could express views but would not be counted as part of the quorum they shall be abstained from voting on the relevant resolutions.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information, when required. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in discharging their duties to the Company. All Directors have unrestricted access to the Company Secretary whose responsible for ensuring the Board/committee procedures are complied with the Listing Rules and various internal measures, and for advising the Board/committee on compliance matters.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

Since the full Board is involved in the appointment of new Directors, the Company has not established a Nomination Committee. The Board will take into consideration criteria such as expertise, experience, integrity and commitment when considering new director appointments.

In accordance with the Articles, all Directors are subject to retirement by rotation at least once in every three years.

Each of the executive Directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year.

The independent non-executive Directors were not appointed for a specific term but subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the Articles.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry with all Directors, the Company confirmed that all the Directors have complied with the required standard of dealings set out in the Model Code throughout the year ended 31 December 2007.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code stipulates that the roles of Chairman and Chief Executive Officer should be separated and should not be performed by the same person. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Yang Zongwang currently holds both position. Mr. Yang, is the founder and a substantial shareholder of the Group and has considerable industry experience, therefore, the Board is of the view that it is in the best interests of the Group to have an executive Chairman so that the Board, and in particular the independent non-executive Directors, can have the benefit of a Chairman who is knowledgeable about the business of the Group and is most capable to guide discussions and brief the Board in a timely manner on pertinent issues and developments to facilitate open dialogue between the Board and management. He is also motivated to contribute to the growth and profitability of the Group. The Board also believes that vesting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership, allows for more effective planning and execution of long-term business strategies and enhances the efficiency of decision-making process in response to the changing environment.

COMMITTEES OF THE BOARD

Nomination Committee

According to the CG Code, the Company shall set up a nomination committee with a majority of the members thereof being independent non-executive directors. However, the Company did not establish a nomination committee.

The Company has established a formal and transparent process for the Company in the appointment of new Directors and re-nomination and re-election of Directors at regular intervals. The selection of individuals to become executive or non-executive Directors are based on assessment of their professional qualifications and experience. The Board is responsible for determining the independence of each independent non-executive Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board provided that Directors cannot vote on the matters in which they are interested in.

In accordance with Article 108 of the Articles, Mr. Liu Zhi Qiang, Mr. Chong Hoi Fung and Mr. Ng Wai Man will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-elections.

Remuneration Committee

The Remuneration Committee was established on 21 September 2005 with written terms of reference in compliance of the code provision in B.1 of the CG Code. The terms of reference of the Remuneration Committee are available from the Company Secretary at any time. The Remuneration Committee currently comprises three independent non-executive Directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man. Mr. Ng Wai Man is the Chairman of the Remuneration Committee.

The duties of the Remuneration Committee includes making recommendations to the Board on the remuneration policy and structure of the Directors and senior management, approving the remuneration, determining the remuneration packages of all Directors and senior management and approving the compensation to Directors and senior management on termination or dismissal. The remuneration packages including basic salary, annual discretionary bonus, pension scheme, share option scheme and other benefit-in-kind such as private medical cover are commensurate with their performance, job nature and experience level. No Director was involved in deciding his own remuneration.

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence. The emoluments of the Directors are determined with reference to the Company's operating results, individual performance and the prevailing market rates. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in note 29 to the consolidated financial statements of this annual report.

The Remuneration Committee meets at least once a year. During the year, the Remuneration Committee has considered the remuneration of the newly appointed senior management recommend the salary increment of an executive director and reviewed the remuneration packages of each Directors and senior managements of the Company.

The attendance of each member of the Remuneration Committee, on named basis and by category, at committee meetings during the year is set out in the section "The Board Composition and Board Practices" of this report above.

Audit Committee

The Audit Committee currently comprises of three members, all of whom are independent non-executive Directors. The members are Mr. Tong Hing Wah *(the chairman of the committee)*, Mr. Chong Hoi Fung and Mr. Ng Wai Man, all of whom are not involved in the day-to-day management of the Company. In accordance with the requirements of the CG Code, the terms of reference of the Audit Committee were revised on 21 September 2005 in terms substantially the same as the provisions set out in the CG Code. The terms of reference of the Audit Committee are available from the Company Secretary at any time.

The primary duties of the Audit Committee are to review and supervise the Company's financial reporting process. The Audit Committee is also responsible for reviewing the auditor's appointment, the auditor's remuneration and any matters relating to the termination of, the appointment of and the resignation of the auditor. In addition, the Audit Committee also examines the effectiveness of the Company's internal controls, which involve regular reviews of the internal controls of various corporate structures and business processes on a continuous basis, and takes into account their respective potential risk and urgency, to ensure the effectiveness of the Company's business operations and the realization of its corporate objectives and strategies. The scope of such examinations and reviews include finance, operations, regulatory compliance and risk management. Each member of the Audit Committee has unrestricted access to the external auditor and all senior management of the Group in order to discharge its responsibilities. Save as disclosed above, the Audit Committee has reviewed the audited financial statements of the Company for the year ended 31 December 2007.

During the year ended 31 December 2007, the Audit Committee met two times together with the chief financial officer of the Company as well as with the external auditor, in appropriate, to discuss the financial statements for the year ended 31 December 2006 and for the six months ended 30 June 2007 respectively. Please refer to the table set out in the section "The Board Composition and Board Practices" of this report for the attendance record of individual Audit Committee members.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, *Certified Public Accountants* ("Deloitte"), be nominated for re-appointment as auditor of the Company at the forthcoming annual general meeting of the Company.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation of accounts for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing these accounts for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; made judgements and estimates that are prudent and reasonable; and have prepared the accounts on the going concern basis. The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group.

AUDITOR AND THEIR REMUNERATION

Deloitte has been appointed as the auditor of the Company for the year ended 31 December 2007 by shareholders at the annual general meeting held on 5 June 2007 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statement for the year ended 31 December 2007 has been audited by Deloitte.

An amount of HK$1.6 million (2006: HK$1.1 million) was charged to the financial statements of the Company and subsidiaries for the year ended 31 December 2007 for Deloitte's statutory audit. The amount for other services, mainly related to the performance of review of the Group's financial statements and are not reported under audit fees, provided by Deloitte for the Company during the year was HK$0.16 million (2006: HK$0.4 million).

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring the effectiveness of the Group's internal control systems. The internal control systems are designed to meet the Group's particular needs and the risks to which it is exposed, and by their nature can only provide reasonable, but not absolute assurance against misstatement or loss.

Procedures have been set up for safeguarding assets against unauthorized use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial information used for business and publication. Qualified management throughout the Group maintains and monitors the internal control systems on an ongoing basis.

The Board and the audit committee have delegated an external independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Company and its subsidiaries, covering all material controls, including financial, operation, compliance controls, etc.

Based on the assessment made by the external independent professional body, the Board considered that the internal control systems of the Company and its subsidiaries are effective and the audit committee have found no material deficiencies on the internal control systems.

SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company encourages two-way communications with both its institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to shareholders of the Company. Press conferences were held on results announcement to explain the Company's activities, performance and future plans so as to enable better understanding of the Group by the public. The annual general meeting provides a forum for direct communication between the Board and the Company's shareholders. The Company maintains regular communication with media to disseminate financial and other information relating to the Group and its business to the public in order to foster effective communication.

The directors present their annual report and the audited financial statements of the Group for the year ended 31 December 2007.

CHANGE OF NAME

Pursuant to a special resolution passed at the extraordinary general meeting held on 24 December 2007, the name of the Company was changed from Spread Prospects Holdings Limited 展鴻控股有限公司 to China Packaging Group Company Limited 中國包裝集團有限公司 .

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 35 to the consolidated financial statements.

RESULTS AND APPROPRIATION

Details of the results of the Group for the year are set out in the consolidated income statement on page 35.

The directors recommend the payment of a final dividend of HK$0.045 (equivalent to approximately RMB0.042 per share to those shareholders whose names appear on the register of members on 13 June 2008, amounting to HK$27.1 million (equivalent to approximately RMB25.3 million).

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders, calculated in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, amount to RMB270.2 million (2006: RMB222.7 million). Under the Companies Law Chapter 22 of the Cayman Islands, the share premium and the special reserve of the Company are 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.

SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired plant and machinery of approximately RMB112.7 million for the expansion and improvement of its production capacity. Details of this and other movements in the property, plant and equipment of the Group during the year are set out in note 14 to the consolidated financial statements.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Yang Zongwang *(Chairman and Chief Executive Officer)*
Mr. Xue De Fa
Mr. Xie Xi
Mr. Liu Zhi Qiang
Mr. Ng Kin Sun (resigned on 8 January 2007)

Independent non-executive directors:

Mr. Tong Hing Wah
Mr. Chong Hoi Fung
Mr. Ng Wai Man

Each of the executive directors has entered into a service contract with the Company for an initial fixed term of three years commencing from 2 June 2003 and renewable automatically for successive terms of one year.

The term of office of each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Articles of Association.

In accordance with the provision of article 108(A) of the Company's articles of association, Mr. Liu Zhi Qiang, Mr. Chong Hoi Fung and Mr. Ng Wai Man shall retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Other than as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2007, the interests and short positions of the directors and chief executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange were as follows:

Long position in the shares of the Company

Name of directors	Type of interests	Number of issued ordinary shares held	Number of underlying shares held pursuant to share options	Total	Approximate percentage of the issued share capital of the Company
Mr. Yang Zongwang	Corporate *(note)*	221,510,000	—	221,510,000	37.64%
("Mr. Yang")	Beneficial owner	—	5,000,000	5,000,000	
Mr. Xue De Fa	Beneficial owner	—	2,000,000	2,000,000	0.33%
Mr. Xie Xi	Beneficial owner	—	2,000,000	2,000,000	0.33%

Note: These shares are registered in the name of and beneficially owned by Fu Teng Global Limited ("Fu Teng"), a company incorporated in the British Virgin Islands, and its entire issued share capital is owned by Mr. Yang.

Other than as disclosed above, none of the directors or chief executive or any of their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at 31 December 2007.

SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that, other than the interests disclosed above in respect of the directors and chief executive, the following shareholders had notified the Company that they were interested in 5% or more of the issued share capital of the Company.

Long positions in shares of the Company

Name of shareholder	Capacity	Number of issued ordinary shares held	Approximate percentage of the issued shares capital of the Company
Fu Teng	Beneficial owner	221,510,000 *(note a)*	36.81%
Ms. Yang Yunxian	Interest of spouse	226,510,000 *(note b)*	37.64%
The SFP Asia Master Fund Ltd.	Beneficial owner	46,917,000 *(note c)*	7.80%
The SFP Asia Fund Ltd.	Interest of a controlled corporation	46,917,000 *(note c)*	7.80%
The SFP Value Realization Co. Ltd.	Investment manager	49,392,000 *(notes c & d)*	8.21%
Concordia Advisors (Bermuda) Ltd.	Investment manager	30,790,000	5.12%

Notes:

a. Mr. Yang is the owner of the entire issued share capital of Fu Teng.

b. Mr. Yang is the owner of the entire issued share capital of Fu Teng. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 221,510,000 shares held by Fu Teng by virtue of the SFO. In addition, 5,000,000 share options owned by Mr. Yang are also taken to be interested by Ms. Yang by virtue of the SFO.

c. The SFP Asia Fund Ltd. interested in 81.91% of The SFP Asia Master Fund Ltd., while the entire issued share capital of The SFP Asia Fund Ltd. is wholly-owned by SFP Value Realization Co. Ltd. Accordingly, The SFP Asia Fund Ltd. and The SFP Value Realization Co. Ltd. are deemed to be interested in these 46,917,000 shares held by The SFP Asia Master Fund Ltd. by virtue of the SFO.

d. 2,475,000 shares are owned by The Lyxor Asia Value Realization Fund Ltd., which is wholly-owned by The SFP Value Realization Co. Ltd. Accordingly, The SFP Value Realization Co. Ltd. is deemed to be interested in these 2,475,000 shares held by The Lyxor Asia Value Realization Fund Ltd. by virtue of the SFO.

On 4 May 2006, the Company entered into the warrant instrument with ABN AMRO Bank N.V., pursuant to which the Company agreed to issue and ABN AMRO Bank N.V. agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK$0.10 each in the Company, subject to adjustments, at an initial subscription price of HK$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

The initial subscription price per share is HK$0.88 (equivalent to approximately RMB0.82) as at the date of issue of the Warrants until 18 May 2007, and thereafter will be adjusted downward by the Company on the first anniversary of the date of issue of the Warrants. The adjusted subscription price will be such price in Hong Kong dollars as equals the market price of shares determined on the first anniversary of the date of issue of the Warrants, but in no case will be less than HK$0.71 (equivalent to approximately RMB0.66). As at 31 December 2007, there is no adjustment in subscription price after the first anniversary of the date of issue of warrants.

No Warrants were exercised since the date of issue and up to 31 December 2007. Exercise in full of such Warrants would results in the issue of 38,000,000 additional ordinary shares of HK$0.1 each in the Company.

Save as disclosed above, the directors were not aware of any other person who had an interest or short position in the shares or underlying shares of the Company as at 31 December 2007, which would fall to be disclosed under Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEME

Particulars of the Company's share option scheme are set out in note 29 to the consolidated financial statements.

The following table shows movements in the Company's share options during the year:

Name or category of participant	Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.1.2007	Granted during the year ended 31.12.2007	Exercised during the year ended 31.12.2007	Lapsed during the year ended 31.12.2007	Outstanding at 31.12.2007
Directors of the Company, including ex-Director								
Mr. Yang Zongwang	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	5,000,000	—	—	5,000,000
Mr. Xue De Fa	25 May 2006	0.800	25 May 2006 to 24 May 2016	2,000,000	—	—	—	2,000,000
Mr. Xie Xi	25 May 2006	0.800	25 May 2006 to 24 May 2016	2,000,000	—	—	—	2,000,000
Mr. Ng Kin Sun	25 May 2006	0.800	25 May 2006 to 24 May 2016	2,000,000	—	—	(2,000,000)	—
				6,000,000	5,000,000	—	(2,000,000)	9,000,000
Senior management	10 February 2004	0.810	10 February 2004 to 9 February 2014	7,300,000	—	(3,500,000)	—	3,800,000
	2 January 2007	0.670	2 January 2007 to 1 January 2017	—	5,500,000	(4,770,000)	—	730,000
	1 February 2007	0.750	1 February 2007 to 31 January 2017	—	3,000,000	(3,000,000)	—	—
	2 May 2007	0.912	2 May 2007 to 1 May 2017	—	2,500,000	—	—	2,500,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	5,800,000	—	—	5,800,000

SHARE OPTION SCHEME *(Cont’d)*

Name or category of participant	Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.1.2007	Granted during the year ended 31.12.2007	Exercised during the year ended 31.12.2007	Lapsed during the year ended 31.12.2007	Outstanding at 31.12.2007
Employees	10 February 2004	0.810	10 February 2004 to 9 February 2014	19,000,000	—	(11,400,000)	—	7,600,000
	25 May 2006	0.800	25 May 2006 to 24 May 2016	2,280,000	—	—	—	2,280,000
	20 November 2006	0.708	20 November 2006 to 19 November 2016	7,660,000	—	(7,660,000)	—	—
	2 January 2007	0.670	2 January 2007 to 1 January 2017	—	9,400,000	(8,700,000)	—	700,000
	1 February 2007	0.750	1 February 2007 to 31 January 2017	—	6,000,000	(6,000,000)	—	—
	2 May 2007	0.912	2 May 2007 to 1 May 2017	—	8,000,000	—	—	8,000,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	38,870,000	—	—	38,870,000
				42,240,000	84,070,000	(45,030,000)	(2,000,000)	79,280,000

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the Warrants and options disclosed above, at no time during the year was the Company, its holding company or any of its subsidiaries, a party to any arrangements 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 and neither the directors nor chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

Pursuant to a tenancy agreement dated 1 November 2005 entered into between Mr. Yang as lessor and Fujian Fuwang Metal Products Co., Ltd., ("Fuwang") a wholly-owned subsidiary of the Company, as lessee, Fuwang agreed to lease an office unit from Mr. Yang for a term of three years from 1 December 2005 to 30 November 2008 at a monthly rental of RMB3,750. Rental paid by the Group under the tenancy agreement during the year amounted to RMB45,000.

In addition, as at 31 December 2007, a short-term bank loan of HK$10,000,000 (equivalent to approximately RMB9,360,000) of the Group is secured by a pledged bank deposit of HK$1,000,000 (equivalent to approximately RMB936,000) given by Mr. Yang.

Other than as disclosed above, no contracts of significance to which the Company, its holding company or any of its 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.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the aggregate turnover attributable to the Group's five largest customers was approximately 27.0% of the Group's total turnover and the Group's largest customer accounted for approximately 7.6% of the Group's turnover.

The aggregate purchases during the year attributable to the Group's five largest suppliers was approximately 65.9% of the Group's total purchases and the Group's largest supplier accounted for approximately 20.3% of the Group's total purchases.

None of the directors, their associates or any shareholder of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in any of the five largest customers or suppliers of the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of which are set out in note 29 to the consolidated financial statements.

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors, an annual confirmation of the independent pursuant to Rule 3.13 of the Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive directors are independent.

AUDIT COMMITTEE

The audit committee consists of all the independent non-executive directors. namely, Mr. Tong Hing Wah, Mr. Ng Wai Man and Mr. Chong Hoi Fung. The audit committee has revicwed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 December 2007 of the Company.

SUFFICIENCY OF PUBLIC FLOAT

As far as the information publicly available to the Company is concerned and to the best knowledge of the directors of the Company, at least 25% of the Company's issued share capital were held by members of the public as at the date of this report.

AUDITOR

A resolution will be submitted to the annual general meeting of the Company to re-appoint Messrs. Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Yang Zongwang
CHAIRMAN
Hong Kong

15 April 2008

Deloitte.
德勤

TO THE SHAREHOLDERS OF
CHINA PACKAGING GROUP COMPANY LIMITED
(FORMERLY KNOWN AS SPREAD PROSPECTS HOLDINGS LIMITED)
中國包裝集團有限公司（前稱展鴻控股有限公司）
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China Packaging Group Company Limited (formerly known as Spread Prospects Holdings Limited) (the "Company") and its subsidiary (collectively referred to as the "Group") set out on pages 35 to 81, which comprise the consolidated balance sheet as at 31 December 2007, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated 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 consolidated financial statements based on our audit and to report our opinion 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 this 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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 Group as at 31 December 2007 and of the profit and cash flows of the Group 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.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Turnover	7	**668,641**	518,093
Cost of sales		**(457,630)**	(359,632)
Gross profit		**211,011**	158,461
Other income		**4,637**	5,312
Loss on change in fair values of derivative financial instruments		**(35,895)**	(10,449)
Selling expenses		**(19,749)**	(15,691)
Administrative expenses		**(32,938)**	(17,231)
Finance costs	8	**(6,425)**	(6,306)
Profit before taxation	9	**120,641**	114,096
Income tax expense	11	**(28,141)**	(17,594)
Profit for the year		**92,500**	96,502
Earnings per share	13		
– Basic		**RMB0.167**	RMB0.224
– Diluted		**RMB0.158**	RMB0.219

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Non-current assets			
Property, plant and equipment	14	**277,845**	181,892
Deposits paid for acquisition of property, plant and equipment		**81,253**	12,110
Prepaid lease payments	15	**82,868**	2,016
Pledged bank deposits	19	**4,678**	5,252
		446,644	201,270
Current assets			
Inventories	16	**29,170**	13,660
Trade receivables	17	**179,681**	125,511
Other receivables, deposits and prepayments	18	**3,452**	6,765
Prepaid lease payments	15	**48**	48
Pledged bank deposits	19	**12,283**	16,413
Bank balances and cash	20	**400,060**	393,261
		624,694	555,658
Current liabilities			
Trade payables	21	**32,470**	14,310
Bills payable	22	**14,080**	39,205
Receipt in advance, other payables and accrued charges	23	**20,350**	16,431
Amounts due to directors	24	**154**	248
Taxation payable		**9,853**	3,876
Bank loans - amount due within one year	25	**88,382**	92,290
Derivative financial instruments	27	**113,656**	7,310
		278,945	173,670
Net current assets		**345,749**	381,988
		792,393	583,258

CONSOLIDATED BALANCE SHEET

At 31 December 2007

	NOTES	2007	2006
		RMB'000	RMB'000
Capital and reserves			
Share capital	28	**62,516**	52,287
Reserves		**718,962**	525,846
Equity attributable to equity holders of the parent		**781,478**	578,133
Non-current liabilities			
Bank loans – amount due after one year	25	**10,915**	5,125
		792,393	583,258

The consolidated financial statements on pages 35 to 81 were approved and authorised for issue by the Board of Directors on 15 April 2008 and are signed on its behalf by:

Yang Zongwang
DIRECTOR

Xue De Fa
DIRECTOR

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	Share capital RMB'000	Share premium RMB'000 *(note 30)*	Special reserve RMB'000 *(note 30)*	Share option reserve RMB'000	Surplus reserve fund RMB'000 *(note 30)*	Enterprise expansion fund RMB'000 *(note 30)*	Retained profits RMB'000	Total RMB'000
At 1 January 2006	44,817	75,177	24,709	—	25,847	7,586	256,343	434,479
Profit for the year and total recognised income	—	—	—	—	—	—	96,502	96,502
Transfer	—	—	—	—	11,839	—	(11,839)	—
Recognition of equity – settled share-based payments	—	—	—	2,424	—	—	—	2,424
Dividend for 2005	—	—	—	—	—	—	(10,553)	(10,553)
Exercise of share options	381	2,706	—	—	—	—	—	3,087
Issue of new shares	2,163	15,141	—	—	—	—	—	17,304
Transaction costs attributable to issue of new shares	—	(598)	—	—	—	—	—	(598)
Issue of new shares on conversion of convertible notes	4,926	30,562	—	—	—	—	—	35,488
At 31 December 2006	52,287	122,988	24,709	2,424	37,686	7,586	330,453	578,133
Profit for the year and total recognised income	—	—	—	—	—	—	92,500	92,500
Recognition of equity – settled share-based payments	—	—	—	16,464	—	—	—	16,464
Dividend for 2006 *(note 30(c))*	—	(22,726)	—	—	—	—	—	(22,726)
Exercise of share options	4,385	32,147	—	(4,143)	—	—	—	32,389
Lapse of share options	—	—	—	(302)	—	—	302	—
Issue of new shares	5,844	81,699	—	—	—	—	—	87,543
Transaction costs attributable to issue of new shares	—	(2,825)	—	—	—	—	—	(2,825)
At 31 December 2007	**62,516**	**211,283**	**24,709**	**14,443**	**37,686**	**7,586**	**423,255**	**781,478**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Cash flows from operating activities		
Profit before taxation	**120,641**	114,096
Adjustments for:		
Interest income	**(4,606)**	(2,805)
Interest expense	**6,158**	6,035
Release of prepaid lease payments	**48**	48
Depreciation of property, plant and equipment	**18,114**	14,377
Loss on disposal of property, plant and equipment	**—**	4
Loss on change in fair values of derivative financial instruments	**35,895**	10,449
Share-based payments	**16,464**	2,424
Effect of foreign exchange rate changes	**(3,057)**	(2,895)
Operating cash flows before movements in working capital	**189,657**	141,733
(Increase) decrease in inventories	**(15,510)**	1,547
Increase in trade receivables	**(54,170)**	(22,287)
Decrease (increase) in other receivables, deposits and prepayments	**3,313**	(3,202)
Increase (decrease) in trade payables	**18,160**	(6,666)
(Decrease) increase in bills payable	**(25,125)**	5,539
Increase in receipt in advance, other payables and accrued charges	**3,919**	1,908
Decrease in amounts due to directors	**(94)**	(133)
Cash generated from operations	**120,150**	118,439
PRC Enterprise Income Tax paid	**(22,164)**	(18,057)
Net cash from operating activities	**97,986**	100,382
Cash flows from investing activities		
Purchase of property, plant and equipment	**(101,957)**	(58,726)
Deposits paid for acquisition of property, plant and equipment	**(81,253)**	(12,110)
Increase in prepaid lease payments	**(80,900)**	—
Decrease (increase) in pledged bank deposits	**4,704**	(8,703)
Interest received	**4,606**	2,805
Net cash used in investing activities	**(254,800)**	(76,734)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
Cash flows from financing activities		
Proceeds from new issue and placing of shares	**87,543**	17,304
Proceeds from issue of derivative financial instruments	**78,000**	1,722
Bank loans raised	**57,332**	41,750
Proceeds from exercise of share options	**32,389**	3,087
Advance from a related company	**—**	10,657
Repayment to a related company	**—**	(13,703)
Expenses paid in connection with the issue of new shares	**(2,825)**	(598)
Interest paid	**(6,158)**	(5,047)
Payments for derivative financial instruments	**(7,549)**	—
Dividend paid	**(22,726)**	(10,553)
Bank loans repaid	**(52,393)**	(11,847)
Net cash from financing activities	**163,613**	32,772
Net increase in cash and cash equivalents	**6,799**	56,420
Cash and cash equivalents at beginning of the year	**393,261**	336,841
Cash and cash equivalents at end of the year representing bank balances and cash	**400,060**	393,261

1. GENERAL

The Company is incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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. The principal activities of its subsidiaries are set out in note 35 to the consolidation financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment of Hong Kong Accounting Standards ("HKAS"s) and interpretations ("INT"s) (hereinafter collectively referred to as "new HKFRS"s) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007.

HKAS 1 (Amendment)	Capital disclosures
HKFRS 7	Financial instruments: Disclosures
HK(IFRIC)* – INT 7	Applying the restatement approach under HKAS 29 "Financial Reporting in Hyperinflationary Economies"
HK(IFRIC) – INT 8	Scope of HKFRS 2
HK(IFRIC) – INT 9	Reassessment of embedded derivatives
HK(IFRIC) – INT 10	Interim financial reporting and impairment

* *IFRIC represents the International Financial Reporting Interpretations Committee.*

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these new standard, amendments or interpretations will have no material impact on the results and the financial position of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Cont'd)*

HKAS 1 (Revised)	Presentation of financial statements [1]
HKAS 23 (Revised)	Borrowing costs [1]
HKAS 27 (Revised)	Consolidated and separate financial statements [2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations [1]
HKFRS 3 (Revised)	Business combinations [2]
HKFRS 8	Operating segments [1]
HK(IFRIC) – INT 11	HKFRS 2: Group and treasury share transactions [3]
HK(IFRIC) – INT 12	Service concession arranagements [4]
HK(IFRIC) – INT 13	Customer loyalty programmes [5]
HK(IFRIC) – INT 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction [4]

1 Effective for annual periods beginning on or after 1 January 2009.
2 Effective for annual periods beginning on or after 1 July 2009.
3 Effective for annual periods beginning on or after 1 March 2007.
4 Effective for annual periods beginning on or after 1 January 2008.
5 Effective for annual periods beginning on or after 1 July 2008.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions . The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments, which are measured at fair values, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special propose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Revenue recognition

Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and sales related tax.

Revenue from sales of goods are recognised when goods are delivered and the title has been passed.

Service income is recognised when services are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual value, using the straight line method.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

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

Property, plant and equipment *(Cont'd)*

Leasehold land and buildings under development for future owner-occupied purpose

When the leasehold land and buildings are in the course of development for production or for administrative purposes, the leasehold land component is classified as a prepaid lease payment and amortised over a straight-line basis over the lease term. During the construction period, the amortisation charge provided for the leasehold land is included as part of costs of buildings under construction. Buildings under construction are carried at cost, less any identified impairment losses. Depreciation of buildings commences when they are available for use (i.e. when they are in the location and condition necessary for them to be capable of operating in the manner intended by management).

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first-in, first-out method.

Financial instruments

Financial assets and financial liabilities are recognised in the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly loans and receivables.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, pledged bank deposits, bank balances and cash) are carried at amortised cost using the effective interest method, less any identified impairment losses.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and basis points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

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

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at each balance sheet date. Loans and receivables are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Loans and receivables assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days and observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, when the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

In a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities, including trade and other payables, bills payable, amounts due to directors and bank loans are subsequently measured at amortised cost, using the effective interest method.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Interest expense is recognised on an effective interest basis.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value with changes in fair value recognised in profit or loss.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

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

Impairment of tangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible 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. An 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.

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 profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable 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 profit 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 to profit or loss, 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. SIGNIFICANT ACCOUNTING POLICIES *(Cont'd)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Rental payable under operating leases are charged to profit or loss on a straight line basis over the term of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expenses over the lease terms on a straight line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the balance sheet date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the period in which they are incurred.

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

Share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expense on a straight line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share-option reserve will be transferred to share premium. When the share options are not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to retained profits.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes or the Mandatory Provident Fund Scheme are charged as an expense when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

The following are key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Fair value of derivative financial instruments

As described in note 27, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied. For derivative financial instruments, assumptions are made based on quoted market rates adjusted for specific features of the instrument. Details of the assumptions used are disclosed in note 27.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes equity attributable to equity holders of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends and new share issues.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

	2007	2006
	RMB'000	RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**597,387**	540,995
Financial liabilities		
Amortised costs	**145,945**	150,997
Derivative instruments	**113,656**	7,310

Financial risk management objectives and policies

The Group's major financial instruments include banks balances and cash, trade and other receivables, trade and other payables, derivative instruments and borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments are set out below. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Cont'd)*

Currency risk

The Group does not have significant currency exposure as most of the operating transactions are denominated in RMB which is the functional currency of the group entities, and the respective group entity except for certain bank balances and loans of the Group which are denominated in Hong Kong dollars and US dollars. The Group currently does not have a foreign currency hedging policy. The management conducts periodical review of exposures of various currencies and will consider hedging significant foreign currency exposures should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Assets		Liabilities	
Foreign currency	**2007**	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
US dollars	**80**	—	**29,589**	31,040
Hong Kong dollars	**25,368**	10,998	**40,708**	30,375

Sensitivity analysis

The Group is mainly exposed to the US dollar and Hong Kong dollar.

The following table details the Group's sensitivity to a 10% increase and decrease in Renminbi against the relevant foreign currencies. 10% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The analysis illustrates the impact for a 10% strengthening of Renminbi against the relevant currency and a positive and negative number below indicates an increase and decrease in profit and loss respectively. For a 10% weakening of Renminbi against the relevant currency, there would be an equal and opposite impact on the profit.

	U.S. dollars impact		Hong Kong dollars impact	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Increase (decrease) in profit				
– if RMB strengthens against	**2,951**	3,104(i)	**1,534**	1,938 (ii)
– if RMB weaken against	**(2,951)**	(3,104)(i)	**(1,534)**	(1,938)(ii)

(i) This is mainly attributable to the exposure outstanding on US dollar bank balances and loan.

(ii) This is mainly attributable to the exposure to outstanding Hong Kong dollar bank balances and loan.

6. FINANCIAL INSTRUMENTS *(Cont'd)*

Interest rate risk

The cash flow interest rate risk relates primary to the Group's bank and pledged deposits, floating-rate bank borrowings (set out in note 25), and the interest rate swaps (set out in note 27).

The interest incomes on the Group's current and fixed deposits are linked with the respective banking deposit rate of the Group's banks located in Hong Kong and the PRC.

The interest expenses on the Group's floating-rate bank borrowings are linked with Hong Kong Interbank Offered Rate (HIBOR), United States Dollars London Interbank Offered Rate (USD LIBOR), and The People's Bank of China Standard Loan Interest Rate respectively.

The fair values on the Group's interest rate swaps are linked with Constant Maturity Swap (CMS) rates and a Deutsche Bank Pan-Asia Forward Rate Bias Index respectively for fixed to floating swaps interest rates measurement.

The Company contracted the interest rate swaps derivative not under hedge accounting. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for both derivatives and non-derivatives instruments at the balance sheet data, and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. The management of the Group has considered that the fair value interest rate risk on non-current pledged deposits set out in note 19 is insignificant.

6. FINANCIAL INSTRUMENTS *(Cont'd)*

Interest rate risk *(Cont'd)*

The Group's sensitivity to interest rate risk at each balance sheet date while all other variables were held constant is as follows:

	2007	2006
	RMB'000	RMB'000
Increase/(decrease) in profit for the year if interest rate had been 50 basis points higher:		
– for bank and pledged deposits	**2,084**	2,072
– for floating-rate bank borrowings	**(496)**	(487)
– for swaps derivatives	**(2,418)**	—
	(830)	1,585
Increase/(decrease) in profit for the year if interest rate had been 50 basis points lower:		
– for bank and pledged deposits	**(2,084)**	(2,072)
– for floating-rate bank borrowings	**496**	487
– for swaps derivatives	**3,374**	—
	1,786	(1,585)

Apart from the changes in interest rate, the fair value of the swaps derivatives will be significantly affected by the applicable interest rate curve, the applicable interest rate curve projections, the volatility and correlation of the applicable interest rate market and the market expectations of the forward rates of the underlying composites. The management of the Group will regularly monitor the risks of swap derivatives and will consider terminating the risk exposure should the need arise.

It is not practicable without undue delay and cost to estimate how profit of the Group would have been affected by changes in each of these risk variable that were reasonably possible as at 31 December 2007. However, it is reasonably expected that such effects on profit of the Group would be significant.

6. FINANCIAL INSTRUMENTS *(Cont'd)*

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007 in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the consolidated balance sheet. In order to manage the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group has concentration of credit as 10.0% (2006: 9.9%) and 28.5% (2006: 30.5%) of the total trade receivables was due from the Group's largest customer and the five largest customers resectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliances with loan covenants.

As at 31 December 2007, the Group has RMB400,060,000 (2006: RMB393,261,000) cash and cash equivalents. Details of which are set out in note 20.

6. FINANCIAL INSTRUMENTS *(Cont'd)*

***Liquidity risk** (Cont'd)*

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk tables

	Weighted average effective interest rate %	**Less than 1 month RMB'000**	**1 - 3 months RMB'000**	**3 months to 1 year RMB'000**	**1 - 2 years RMB'000**	**Undiscounted cash flow RMB'000**	**Carrying amount at 31.12.2007 RMB'000**
2007							
Non-derivative financial liabilities							
Trade payables	**—**	**127**	**32,343**	**—**	**—**	**32,470**	**32,470**
Bills payable	**—**	**5,450**	**8,630**	**—**	**—**	**14,080**	**14,080**
Bank borrowings - variable rate	**5.83**	**484**	**7,421**	**75,254**	**21,082**	**104,241**	**99,297**
Other payables	**—**	**98**	**—**	**—**	**—**	**98**	**98**
		6,159	**48,394**	**75,254**	**21,082**	**150,889**	**145,945**

	Weighted average effective interest rate %	Less than 1 month RMB'000	1 - 3 months RMB'000	3 months to 1 year RMB'000	1 - 2 years RMB'000	Undiscounted cash flow RMB'000	Carrying amount at 31.12.2006 RMB'000
2006							
Non-derivative financial liabilities							
Trade payables	—	94	14,216	—	—	14,310	14,310
Bills payable	—	3,980	9,025	26,200	—	39,205	39,205
Bank borrowings - variable rate	6.35	516	39,634	55,567	5,239	100,956	97,415
Other payables	—	67	—	—	—	67	67
		4,657	62,875	81,767	5,239	154,538	150,997

7. 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:

	2007	2006
	RMB'000	RMB'000
Income statement		
Turnover – external		
Manufacture and sale of tinplate cans	**604,575**	462,961
Tinplate lacquering and printing services	**64,066**	55,132
	668,641	518,093
Segment result		
Manufacture and sale of tinplate cans	**156,734**	113,398
Tinplate lacquering and printing services	**31,189**	25,823
	187,923	139,221
Interest income	**4,606**	2,805
Unallocated corporate expenses	**(29,568)**	(11,175)
Loss on change in fair values of derivative financial instruments	**(35,895)**	(10,449)
Finance costs	**(6,425)**	(6,306)
Profit before taxation	**120,641**	114,096
Income tax expense	**(28,141)**	(17,594)
Profit for the year	**92,500**	96,502

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

Business segments *(Cont'd)*

	2007 RMB'000	2006 RMB'000
Balance sheet		
Assets		
Segment assets		
Manufacture and sale of tinplate cans	**457,974**	293,146
Tinplate lacquering and printing services	**15,893**	9,665
Assets in common use	**30,183**	28,498
Unallocated corporate assets	**567,288**	425,619
Total assets	**1,071,338**	756,928
Liabilities		
Segment liabilities		
Manufacture and sale of tinplate cans	**50,741**	57,494
Tinplate lacquering and printing services	**—**	—
Liabilities in respect of assets in common use	**5,415**	3,297
Unallocated corporate liabilities	**233,704**	118,004
Total liabilities	**289,860**	178,795
Other information		
Capital additions:		
Manufacture and sale of tinplate cans	**113,788**	54,888
Tinplate lacquering and printing services	**164**	8,700
Assets in common use	**101**	4,227
Unallocated corporate assets	**14**	—
	114,067	67,815
Depreciation of property, plant and equipment:		
Manufacture and sale of tinplate cans	**12,705**	10,991
Tinplate lacquering and printing services	**—**	—
Assets in common use	**4,900**	2,984
Unallocated corporate assets	**509**	402
	18,114	14,377

No geographical segment analysis is shown as the Group's operating businesses are substantially carried out in the PRC, and the revenue from sales are substantially to PRC customers.

8. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest on borrowings wholly repayable within five years		
– bank borrowings	**6,158**	4,423
– convertible notes	**–**	1,612
	6,158	6,035
Bank charges	**267**	271
	6,425	6,306

9. PROFIT BEFORE TAXATION

	2007 RMB'000	2006 RMB'000
Profit before taxation has been arrived at after charging:		
Directors' remuneration (note 10)	**2,176**	2,776
Other staff costs	**10,770**	10,253
Retirement benefit cost, other than directors	**145**	113
Share-based payments (note 29)	**16,464**	2,424
Total staff costs	**29,555**	15,566
Auditor's remuneration	**1,639**	1,093
Cost of inventories recognised as an expense	**457,630**	359,632
Depreciation of property, plant and equipment	**18,114**	14,377
Loss on disposal of property, plant and equipment	**—**	4
Minimum lease payments in respect of:		
– land and buildings	**1,905**	1,085
– machinery and equipment	**1,500**	2,000
Release of prepaid lease payments	**48**	48
and after crediting:		
Interest income	**4,606**	2,805
Net foreign exchange gain	**709**	2,344

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

The emoluments paid or payable to each of the eight (2006: eight) directors were as follows:

Year ended 31 December 2007

	Yang Zongwang RMB'000	Xie Xi RMB'000	Xue De Fa RMB'000	Ng Kin Sun* RMB'000	Liu Zhi Qiang RMB'000	Tong Hing Wah RMB'000	Ng Wai Man RMB'000	Chong Hoi Fung RMB'000	Total RMB'000
Fees	—	—	—	—	—	118	118	118	354
Other emoluments									
Salaries and other benefits	1,238	195	193	13	127	—	—	—	1,766
Contributions to retirement benefits schemes	13	1	1	1	—	—	—	—	16
Performance related incentive payments *(note)*	14	12	14	—	—	—	—	—	40
Total emoluments	1,265	208	208	14	127	118	118	118	2,176
Share-based payments	1,184	—	—	—	—	—	—	—	1,184

Year ended 31 December 2006

	Yang Zongwang RMB'000	Xie Xi RMB'000	Xue De Fa RMB'000	Ng Kin Sun* RMB'000	Liu Zhi Qiang RMB'000	Tong Hing Wah RMB'000	Ng Wai Man RMB'000	Chong Hoi Fung RMB'000	Total RMB'000
Fees	—	—	—	—	—	124	124	124	372
Other emoluments									
Salaries and other benefits	1,081	191	189	619	124	—	—	—	2,204
Contributions to retirement benefits schemes	14	1	1	12	—	—	—	—	28
Performance related incentive payments *(note)*	64	23	24	51	10	—	—	—	172
Total emoluments	1,159	215	214	682	134	124	124	124	2,776
Share-based payments	—	191	191	191	—	—	—	—	573

* *Resigned on 8 January 2007.*

Note: The performance related incentive payment is determined with reference to the operating results, individual performance and comparable market statistics during both years.

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

Employees' emoluments

For the year ended 31 December 2007, the five highest paid individuals included three (2006: four) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining two (2006: one) highest paid individual(s) are as follows:

	2007	2006
	RMB'000	RMB'000
Salaries, allowances and other benefits	**979**	254
Contributions to retirement benefits schemes	**24**	12
Performance related incentive payments	**—**	23
	1,003	289
Share-based payments	**123**	151

The emoluments of each of the aforesaid employees were less than HK$1,000,000 (equivalent to approximately RMB935,600).

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 both years.

11. INCOME TAX EXPENSE

	2007	2006
	RMB'000	RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC	**28,141**	17,594

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

11. INCOME TAX EXPENSE *(Cont'd)*

A PRC subsidiary has operations in the Fujian province, the PRC which is located in a coastal city economic development zone. The applicable income tax rate for this PRC subsidiary, being the rate for productive enterprises located in coastal cities is 24%, and a reduced rate of 15% for the operational profits derived from the relevant economic development zones, with a local enterprise tax rate of 3%. According to the letter issued by Fuqing State Tax Bureau on 28 March 2003, the local enterprise tax of 3% is exempted.

On 16 March 2007, the People's Republic of China ("PRC") promulgated the Law of the PRC on Enterprise Income Tax (the "New Tax Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The enactment of the New Tax Law is not expected to have any significant financial effect on the amounts accrued in the consolidated balance sheet in respect of taxation payable.

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

	2007 **RMB'000**	2006 RMB'000
Profit before taxation	**120,641**	114,096
Tax at PRC income tax rate of 24% (2006: 24%)	**28,954**	27,383
Tax effect of expenses that are not deductible in determining taxable profit	**16,196**	5,619
Tax effect of income that is not taxable in determining taxable profit	**(215)**	(30)
Tax effect of income that is under tax holiday	**—**	(5,201)
Tax effect of income that is under preferential tax rate	**(16,916)**	(10,556)
Others	**122**	379
Tax charge for the year	**28,141**	17,594

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

12. DIVIDEND

	2007	2006
	RMB'000	RMB'000
Ordinary shares:		
Interim, paid – nil	**—**	—
Final, paid for 2006 – RMB0.044 (2006: Final, paid for 2005 – RMB0.025) per share	**22,726**	10,553
	22,726	10,553

The final dividend for the year ended 31 December 2007 of HK$0.045 (equivalent to approximately RMB0.042) (2006: HK$0.045 (equivalent to approximately RMB0.044)) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

13. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	2007	2006
	RMB'000	RMB'000
Earnings:		
Profit for the year for the purposes of basic earnings per share	**92,500**	96,502
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**—**	1,612
Loss on change in fair value of conversion option derivative embedded in convertible notes	**—**	4,861
Gain on change in fair value of warrants	**(2,991)**	—
Profit for the year for the purposes of diluted earnings per share	**89,509**	102,975

13. EARNINGS PER SHARE *(Cont'd)*

	2007	2006
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**554,065,047**	431,573,664
Effect of dilutive potential ordinary shares:		
Convertible notes	**—**	38,268,475
Warrants	**3,741,215**	—
Share options	**8,596,851**	44,515
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**566,403,113**	469,886,654

For the year ended 31 December 2006, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding warrants as the exercise price of these warrants is higher than the average market price for the Company's shares for the year ended 31 December 2006.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Leasehold improvements	Plant and machinery	Motor vehicles	Office equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
At 1 January 2006	49,120	4,245	127,115	2,841	1,637	184,958
Additions	37,650	6,979	22,870	275	41	67,815
Disposals	—	—	—	—	(19)	(19)
At 31 December 2006	86,770	11,224	149,985	3,116	1,659	252,754
Additions	—	440	112,736	759	132	114,067
Disposals	—	(860)	—	—	—	(860)
At 31 December 2007	**86,770**	**10,804**	**262,721**	**3,875**	**1,791**	**365,961**
DEPRECIATION						
At 1 January 2006	11,002	2,355	41,557	892	694	56,500
Provided for the year	2,981	238	10,670	259	229	14,377
Eliminated on disposals	—	—	—	—	(15)	(15)
At 31 December 2006	13,983	2,593	52,227	1,151	908	70,862
Provided for the year	3,904	540	13,140	290	240	18,114
Eliminated on disposals	—	(860)	—	—	—	(860)
At 31 December 2007	**17,887**	**2,273**	**65,367**	**1,441**	**1,148**	**88,116**
NET BOOK VALUES						
At 31 December 2007	**68,883**	**8,531**	**197,354**	**2,434**	**643**	**277,845**
At 31 December 2006	72,787	8,631	97,758	1,965	751	181,892

14. PROPERTY, PLANT AND EQUIPMENT *(Cont'd)*

The above items of property, plant and equipment are depreciated 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:

Buildings	5%
Leasehold improvements	10% - 20%
Plant and machinery	10%
Motor vehicles	20%
Office equipment	20%

The buildings of the Group are situated in Fujian and Shanxi, the PRC and are held under medium-term leases. The Group is in the process of obtaining the building ownership certificates in respect of buildings with a net book value of RMB20,406,000 (2006: RMB21,401,000).

15. PREPAID LEASE PAYMENTS

The Group's prepaid lease payments represent medium-term land use rights situated in Fujian, the PRC.

	2007	2006
	RMB'000	RMB'000
Analysed for reporting purposes as:		
Current portion	**48**	48
Non-current portion	**82,868**	2,016
	82,916	2,064

During the year, the Group paid RMB80,900,000 to the local government authority for a medium term prepaid lease payments in relation to the Group's new project in PRC. The relevant land use right certificate is expected to be upon completion of the relocation and land clearing work by the local government authority.

16. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	**22,763**	9,672
Packing materials	**222**	368
Finished goods	**6,185**	3,620
	29,170	13,660

17. TRADE RECEIVABLES

The Group allows an average credit period of three months to its trade customers. An aged analysis of trade receivables is as follows:

	2007	2006
	RMB'000	RMB'000
Not yet due	**176,237**	123,644
Overdue within 30 days	**3,444**	1,867
	179,681	125,511

The Group allows an average capital period of 90 days to its trade customers. Before accepting any new customers, the Group will internally assess the credit quality of the potential customer and defines appropriate credit limits.

98% of trade receivables that are neither past due nor impaired are considered to be of a good credit quality. Management closely monitors the credit quality and does not provided any allowance for the receivables.

Included in the Group's trade receivable are debtors with aggregate amount of HK$3,444,000 (2006: HK$1,867,000) which are past due at the reporting date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 105 days (2006: 105 days). Based on the historial experience of the Group, trade receivables which are past due but not impaired are generally recoverable.

The directors of the Company consider that the carrying amount of trade receivables approximates its fair value.

18. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

The directors of the Company consider that the carrying amount of these assets approximates to its fair value.

19. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits pledged to banks to secure banking facilities granted to the Group. They carry at prevailing market interest rates which range from 2.07% to 4.77% per annum (2006: 3.3% to 4.765% per annum). The pledged bank deposits will be released upon the settlement of relevant bills payables and bank loans.

Deposits amounting to RMB12,283,000 (2006: RMB16,413,000) have been pledged to secure bills payables and short-term bank loans and are therefore classified as current assets. The remaining deposits amounting to RMB4,678,000 (2006: RMB5,252,000) have been pledged to secure long-term bank loans and are therefore classified as non-current assets.

The directors of the Company consider that the carrying amount of pledged bank deposits approximates its fair value.

20. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less at prevailing market interest rates which range from 0.72% to 3.34% per annum (2006: 0.72% to 3.39% per annum). The directors of the Company consider that the carrying amount of these assets approximates its fair value.

Included in bank balances and cash are the following accounts denominated in currency other than functional currency of the group entities.

	2007	2006
	RMB'000	RMB'000
US dollars	**80**	—
Hong Kong dollars	**25,368**	10,998
	25,448	10,998

21. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	2007 RMB'000	2006 RMB'000
Within 3 months	**32,343**	14,216
Over 3 months but less than 6 months	**20**	33
Over 6 months	**107**	61
	32,470	14,310

The average credit period on purchases of goods is 90 days. The Group has financial risk management policies in place to ensure that all payables are within the credit timeframe.

The directors of the Company consider that the carrying amount of trade payables approximates its fair value.

22. BILLS PAYABLE

Bills payable is aged within six months from the balance sheet date. The directors of the Company consider that the carrying amount of bills payable approximates its fair value.

23. RECEIPT IN ADVANCE, OTHER PAYABLES AND ACCRUED CHARGES

The directors of the Company consider that the carrying amount of these liabilities approximate to its fair value.

24. AMOUNTS DUE TO DIRECTORS

The amounts represent principally emoluments payable to directors. They are unsecured, interest-free and repayable on demand. The directors of the Company consider that the carrying amount of amounts due to directors approximates its fair value.

25. BANK LOANS

	2007 RMB'000	2006 RMB'000
The maturity of the bank loans, which are secured, is as follows:		
Within one year	**88,382**	92,290
After one year, but not exceeding two years	**10,915**	5,125
	99,297	97,415
Less: Amount due within one year and included in current liabilities	**(88,382)**	(92,290)
Amount due after one year	**10,915**	5,125

Bank loans of RMB40,708,000 (2006: RMB30,375,000), RMB29,589,000 (2006: RMB31,040,000) and RMB29,000,000 (2006: RMB36,000,000) are denominated in Hong Kong dollars, United States dollars and RMB respectively, and arranged at floating rates from 2% to 2.75% over HIBOR (2006: 2% to 2.75% over HIBOR) per annum, 1.75% over USD LIBOR per annum and 0.5% over The People's Bank of China Standard Loan Interest Rate (2006: 0.5% over The People's Bank of China Standard Loan Interest Rate) respectively.

Other bank loans are denominated in RMB and arranged at fixed interest rate of 5.85% to 7.29% (2006: 5.85%) per annum.

The directors of the Company consider that the carrying amount of bank loans within one year approximates its fair value and estimate the difference between the carrying amount and fair value of bank loans due after one year is insignificant.

At the balanced sheet date, the Group do not has any undrawn borrowing facilities.

26. CONVERTIBLE NOTES

On 13 December 2004, the Company issued Hong Kong dollars denominated convertible notes in the principal sum of HK$30,000,000 (equivalent to RMB31,800,000) (the "Notes"). The Notes are convertible into ordinary shares of the Company at any time between the day after the expiry of 6 months from the date of issue of the Notes and their maturity date at on initial conversion price of HK$0.660 equivalent to approximately RMB0.700) per share, subject to adjustments. On 17 October 2006, the conversion price was adjusted to HK$0.609 (equivalent to approximately RMB0.617) per share pursuant to the subscription agreement as a result of the placing and issuing of 21,000,000 new shares (note 28(a)).

26. CONVERTIBLE NOTES *(Cont'd)*

If the Notes had not been converted, they would be redeemed on 12 December 2006 at par. Interest of 4% per annum would be paid semi-annually in arrears until that maturity date.

The proceeds received from the issue of the Notes had been split between the liability element and the embedded conversion option (note 27) to convert the liability into equity of the Company.

The movement of the liability component of the convertible notes for the year ended 31 December 2006 was set out below:

	RMB'000
CARRYING AMOUNT	
At 1 January 2006	30,727
Interest charged	1,612
Interest payable	(1,147)
Effect of foreign exchange rate changes	(1,192)
Converted by the noteholders during the year	(30,000)
At 31 December 2006	—

The interest charged for the year ended 31 December 2006 was calculated by applying an effective interest rate of 5.841%.

On 6 December 2006, the convertible notes were converted into 49,261,081 shares of HK$0.10 each in the Company at the conversion price of HK$0.609 (note 28(b)).

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2007 **RMB'000**	2006 RMB'000
Warrants	**4,319**	7,310
Swap derivatives	**109,337**	—
	113,656	7,310

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

Warrants

As announced by the Company on 9 May 2006, the Company entered into a warrant instrument dated 4 May 2006 (the "Instrument") with an independent subscriber (the "Subscriber"). Pursuant to the Instrument, the Company agreed to issue and the Subscriber agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK$0.10 each in the Company, subject to adjustments, at an initial subscription price of HK$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

The initial subscription price per share is HK$0.88 (equivalent to approximately RMB0.82) as at the date of issue of the Warrants until 18 May 2007, and thereafter will be HK$0.88 as adjusted downward by the Company on the first anniversary of the date of issue of the Warrants. The adjusted subscription price will be such price in Hong Kong dollars as equals the market price of shares determined on the first anniversary of the date of issue of the Warrants, but in no case will be less than HK$0.71 (equivalent to approximately RMB0.66). As at 31 December 2007, there is no adjustment in subscription price after the first anniversary of the date of issue of warrants.

No Warrants have been exercised since the date of issue and carried at fair value. Exercise in full of such Warrants would results in the issue of 38,000,000 additional ordinary shares of HK$0.10 each in the Company. During the year, a gain on change in fair value of RMB2,991,000 (2006: loss on change in fair value of RMB5,588,000) was recognised in the consolidated income statement.

The fair value of Warrants was calculated using the Binomial model. The inputs into the model were as follows:

	Warrants	
	2007	2006
Share price at date of valuation	**HK$0.730**	HK$0.670
Exercise price	**HK$0.880**	HK$0.880
Expected volatility	**49.92%**	43.19%
Expected life	**1.38 years**	2.39 years
Risk-free rate	**2.577%**	3.55%
Expected dividend yield	**6.16%**	3.58%

Because the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

Swaps derivatives

During the year, the Company entered into two structured five-years interest rate swaps (the "Swaps") as a part of its financial management strategy with a commercial bank (the "Bank"). On effective date of respective Swaps, the Company received total upfront payments of approximately HK$78,000,000 from the Bank. The fair value of the Swaps at the balance sheet date is provided by the counterparty bank. Major terms of the Swaps are set out in below:

Notional amount	Upfront payments	Effective date	Maturity date	Swaps
HK$390,000,000	HK$39,000,000	28 February 2007	28 February 2012	The Company receives: 7.0% semi-annually for first 6 months; thereafter: 7.0% * n/m *(Notes i)*, The Company pays: 9.0% semi-annually
US$50,000,000	US$5,000,000	23 April 2007	23 April 2012	The Company receives: 8.0% semi-annually The Company pays: 10.0% semi-annually for first 6 months; thereafter: 10.0% minus 5* (Index of YoY Return – 1.0%) *(Notes ii)* coupon capped at 13.0% and floored at 0%

Notes:

(i) n : Number of business days in the calculation period that HK$ 10-years CMS# minus HK$ 2-years CMS^ ≥ 0%

m: Total number of business days in the calculation period

\# Mid-market quarterly swap rate expressed as a percentage for a HK$ interest rate swap transaction with a term equal to 10 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the Accrual Period.

^ Mid-market quarterly swap rate expressed as a percentage for a HK$ interest rate swap transaction with a term equal to 2 years which appears on the Reuters Screen ISDAFIX5 Page 11:00 a.m. Hong Kong time fixing on each day in the Accrual Period.

(ii) Index* of YoY Return: The closing level of the Index five business days prior to the end of the relevant coupon payment period/ closing level of the Index five business days prior to the payment date which is two coupon payment periods prior to the relevant coupon payment (or effective date in cash of the second coupon payment period) – 1.

* *Index means the "Deutsche Bank Pan-Asian Forward Rate Bias Index" (the "Index") as published on Bloomberg Page DBFRASI3 <Index>*

During the year, a loss on change in fair value of RMB38,886,000 was recognised in the income statement.

The Group has to repay the upfront payments and the interests to the bank, semi-annually. During the year, HK$7,549,000 was repaid to the bank.

27. DERIVATIVE FINANCIAL INSTRUMENTS *(Cont'd)*

Conversion option derivative

During the year 2006, a loss on change in its fair value of RMB4,861,000 in respect of the conversion options of the Notes was recognised in the consolidated income statement. The Notes were fully converted into the ordinary shares of the Company as at 31 December 2006.

28. SHARE CAPITAL

	Number of shares	Amount
		HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2006, 31 December 2006 and 31 December 2007	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2006	422,800,000	42,280
Exercise of share options	3,700,000	370
Issue of new shares of cash *(note a)*	21,000,000	2,100
Issue of new shares on conversion of convertible notes (note b)	49,261,081	4,926
At 31 December 2006 and at 1 January 2007	496,761,081	49,676
Exercise of share options	45,030,000	4,503
Issue of new shares for cash *(note c)*	60,000,000	6,000
At 31 December 2007	601,791,081	60,179
		RMB'000
Shown in the financial statements		
At 31 December 2007		62,516
At 31 December 2006		52,287

28. SHARE CAPITAL *(Cont'd)*

Notes:

(a) As announced by the Company on 6 October 2006, the Company entered into a placing and subscription agreement dated 5 October 2006 (the "Agreement") with Fu Teng and an independent placing agent (the "Placing Agent"). Pursuant to the Agreement, Fu Teng agreed to place a total of 21,000,000 existing shares of HK$0.10 each in the share capital of the Company at a price of HK$0.80 per share (the "Placing Price") to an institutional investor, The SFP Asia Master Fund Ltd., a then substantial shareholder of the Company, through the Placing Agent, and Fu Teng also agreed to subscribe for 21,000,000 new shares of HK$0.10 each of the Company at the price of HK$0.80 per share, which is equal to the Placing Price. The directors of the Company are authorised to issue these new shares pursuant to the general mandates granted by the shareholders of the Company on 6 June 2006.

The Placing Price represents a discount of approximately 2.44% to the closing price of the Company's shares as quoted on the Stock Exchange on 5 October 2006, being the date of the Agreement. The placing became unconditional on 19 October 2006. The new shares subscribed by Fu Teng, representing approximately 4.92% of the then existing issued share capital of the Company and approximately 4.69% of the enlarged share capital of the Company, were issued and allotted on 17 October 2006. Fu Teng's equity interest in the Company was reduced from approximately 51.79% immediately before the placing and the subscription to approximately 49.36% immediate thereafter.

(b) On 6 December 2006, the Company issued 49,261,081 shares of HK$0.10 each in the Company upon conversion of HK$30,000,000 convertible notes by the noteholders at the conversion price of HK$0.609 (note 26).

(c) As announced by the Company on 14 June 2007, the Company entered into a placing and subscription agreement dated 12 June 2007 (the "2007 Agreement") with Fu Teng, a substantial shareholder of the Company in which a director of the Company has entire interest, and an independent placing agent (the "Second Placing Agent"). Pursuant to the 2007 Agreement, Fu Teng agreed to place a total of 60,000,000 existing shares of HK$0.10 each in the share capital of the Company at a price of HK$1.498 per share (the "Second Placing Price") to five independent institutional investors, through the Placing Agent, and Fu Teng also agreed to subscribe for 60,000,000 new shares of HK$0.10 each of the Company at the price of HK$1.498 per share, which is equal to the Second Placing Price. The directors of the Company are authorised to issue these new shares pursuant to the general mandates granted by the shareholders of the Company on 5 June 2007.

The Second Placing Price represents a discount of approximately 9.76% to the closing price of the Company's shares as quoted on the Stock Exchange on 12 June 2007, being the date of the Agreement. The placing became unconditional on 19 October 2006. The new shares subscribed by Fu Teng, representing approximately 11.5% of the then existing issued share capital of the Company and approximately 10.3% of the enlarged share capital of the Company, were issued and allotted on 12 June 2007. Fu Teng's equity interest in the Company was reduced from approximately 42.5% immediately before the placing and the subscription to approximately 38.1% immediate thereafter.

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

29. 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 director (including independent non-executive director), 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.

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

The following table discloses details and movements of the Company's share options held by the directors of the Company and employees during both years:

	Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.1.2006	Granted during the year ended 31.12.2006	Exercised during the year ended 31.12.2006	Outstanding at 31.12.2006 and at 1.1.2007	Granted during the year ended 31.12.2007	Exercised during the year ended 31.12.2007	Lapsed during the year ended 31.12.2007	Outstanding at 31.12.2007
Directors of the Company, including ex-Director	25 May 2006	0.800	25 May 2006 to 24 May 2016	—	6,000,000	—	6,000,000	—	—	(2,000,000)	4,000,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	—	—	—	5,000,000	—	—	5,000,000
Senior management	10 February 2004	0.810	10 February 2004 to 9 February 2014	11,000,000	—	(3,700,000)	7,300,000	—	(3,500,000)	—	3,800,000
	2 January 2007	0.670	2 January 2007 to 1 January 2017	—	—	—	—	5,500,000	(4,770,000)	—	730,000
	1 February 2007	0.750	1 February 2007 to 31 January 2017	—	—	—	—	3,000,000	(3,000,000)	—	—
	2 May 2007	0.912	2 May 2007 to 1 May 2017	—	—	—	—	2,500,000	—	—	2,500,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	—	—	—	5,800,000	—	—	5,800,000
Employees	10 February 2004	0.810	10 February 2004 to 9 February 2014	19,000,000	—	—	19,000,000	—	(11,400,000)	—	7,600,000
	25 May 2006	0.800	25 May 2006 to 24 May 2016	—	2,280,000	—	2,280,000	—	—	—	2,280,000
	20 November 2006	0.708	20 November 2006 to 19 November 2016	—	7,660,000	—	7,660,000	—	(7,660,000)	—	—
	2 January 2007	0.670	2 January 2007 to 1 January 2017	—	—	—	—	9,400,000	(8,700,000)	—	700,000
	1 February 2007	0.750	1 February 2007 to 31 January 2017	—	—	—	—	6,000,000	(6,000,000)	—	—
	2 May 2007	0.912	2 May 2007 to 1 May 2017	—	—	—	—	8,000,000	—	—	8,000,000
	17 July 2007	1.316	17 July 2007 to 16 July 2017	—	—	—	—	38,870,000	—	—	38,870,000
				30,000,000	15,940,000	(3,700,000)	42,240,000	84,070,000	(45,030,000)	(2,000,000)	79,280,000

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

The Company received notional consideration for options granted during the year.

The closing price of the Company's shares immediately before 2 January 2007, 1 February 2007, 2 May 2007 and 17 July 2007, the date of grant of the options, were HK$0.670, HK$0.760, HK$0.900 and HK$1.300 respectively (equivalent to approximately RMB0.627, RMB0.711, RMB0.842 and RMB1.216 respectively).

The closing price of the Company's share immediately before 15 May 2007, 31 May 2007, 6 June 2007, 12 June 2007, 4 July 2007 and 24 July 2007, on which the share options were exercised at HK$0.960, HK$1.250, HK$1.520, HK$1.660, HK$1.380 and HK$1.440 respectively (equivalent to approximately RMB0.898, RMB1.170, RMB1.422, RMB1.553, RMB1.291 and RMB1.347 respectively).

The closing price of the Company's share immediately before 5 January 2007 on which the share options were lapsed was HK$0.71 (equivalent approximately RMB0.664).

The estimated fair value of the share options granted on those dates were HK$1,885,000, HK$1,344,000, HK$1,602,000 and HK$12,156,000 respectively (equivalent to approximately RMB1,836,000, RMB1,309,000, RMB1,560,000 and RMB11,759,000 respectively). Details of the fair value of the share options determined at the dates of grant on 2 January 2007, 1 February 2007, 2 May 2007 and 17 July 2007 using the Black-Scholes option pricing model with the inputs are as follows:

	2 January 2007	1 February 2007	2 May 2007	17 July 2007
Share price at date of grant	HK$0.670	HK$0.750	HK$0.900	HK$1.300
Exercise price	HK$0.670	HK$0.750	HK$0.912	HK$1.316
Expected volatility	43.16%	43.09%	36.05%	36.56%
Expected life of options	2 years	2 years	2 years	2 years
Risk-free rate	3.523%	4.012%	3.901%	4.209%
Expected dividend yield	6.72%	6%	5%	3.74%

Notes:

(i) The volatility measured at the standard deviation of expected share price returns is based on a statistical analysis of daily share prices over certain periods immediately preceding the grant date.

(ii) The above calculation is based on the assumption that there is no material difference between the expected volatility over the whole life of the options and the historical volatility of the shares in the Company set out above.

(iii) As the Black-Scholes model requires the input of highly subjective assumptions based on the directors' best estimate, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

During the year, the Group recognised an expense of RMB16,464,000 (2006: RMB2,424,000) in relation to share options granted by the Company.

30. RESERVES

(a) Basis of appropriations to reserves

As stipulated by the relevant laws and regulations in the PRC, Fujian Fuwang Metal Products Co., Ltd. ("Fuwang"), Sichuan Zhenwang Metal Products Co. Ltd. ("Zhenwang") and Shanxi Zhanpen Metal Products Co., Ltd. ("Zhanpen") are 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, Zhanwang and Zhanpen prepared in accordance with PRC Accounting Standards and the amount and allocation basis are decided by their respective board of directors annually. The surplus reserve fund can be used to make up prior year losses of Fuwang, Zhanwang and Zhanpen, 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, Zhanwang and Zhanpen 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 group reorganisation taken place in June 2003.

(c) Share premium

Under the Companies Law (Revised) 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 Associations and provided that immediately following the distribution or dividends, the Company is able to pay its debts as they fall due in the ordinary course of business.

The Company declared and paid its dividend in 2006 from share premium as there is a retained loss resulted in the Company.

31. OPERATING LEASE COMMITMENTS

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

	2007			2006		
	Land and buildings	**Machinery and equipment**	**Total**	Land and buildings	Machinery and equipment	Total
	RMB'000	**RMB'000**	**RMB'000**	RMB'000	RMB'000	RMB'000
Within one year	**2,866**	**1,500**	**4,366**	1,699	938	2,637
In the second to fifth year inclusive	**6,301**	**875**	**7,176**	3,034	—	3,034
Over five years	**5,721**	**—**	**5,721**	1,138	—	1,138
	14,888	**2,375**	**17,263**	5,871	938	6,809

The lease payments represent the rental payable by the Group for certain of the premises and machinery and equipment. The lease payments are fixed for an average of 5 years and no arrangements have been entered into for contingent rental payments.

At 31 December 2007, the Group had commitments to pay RMB80,900,000 to the local government authority for a medium term land use right in relation to the Group's new project in PRC.

32. CAPITAL COMMITMENTS

	2007	2006
	RMB'000	RMB'000
Capital expenditure in contracted for but not provided in financial statement in respect of the acquisition of property, plant and equipment	**65,507**	3,760

33. 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 RMB936) by the Group) on a monthly basis to the fund.

34. RELATED PARTY TRANSACTIONS

Other than the related party balances disclosed in note 24 to the consolidated financial statements, the Group also had the following material transactions with the related parties.

(a) Compensation of key management personnel

The remuneration of executive directors and other members of key management during the year was as follows:

	2007	2006
	RMB'000	RMB'000
Short-term benefits	**2,248**	2,807
Post-employment benefits	**21**	39
Share-based payments	**2,557**	573
	4,826	3,419

The remuneration of directors and key executives is determined by the remuneration committee and management respectively having regard to the performance of individuals and market trends.

(b) Details of new shares issued to Fu Teng during the year are set out in note 28(c). The entire issued share capital of Fu Teng is owned by a director of the Company.

(c) In 2006, the Group obtained a short-term fund from Fu Teng, amounting to HK$10,220,000 (equivalent to approximately RMB9,562,000) and repaid to Fu Teng, amounting to HK$13,260,000 (equivalent to approximately RMB12,406,000). It is unsecured, interest-free and repayable on demand. The advance was repaid in full in 2006.

(d) On 1 November 2005, the Group entered into a tenancy agreement with a director of the Company for the lease of an office unit for a term of three years commencing from 1 December 2005 to 30 November 2008. Rental paid by the Group under the tenancy agreement during the year amounted to RMB45,000 (2006: RMB45,000).

(e) As at 31 December 2007, a short-term bank loan of HK$10,000,000 (equivalent to approximately RMB9,360,000) (2006: HK$10,000,000) of the Group is secured by a pledged bank deposit of HK$1,000,000 (equivalent to approximately RMB936,000) (2006: HK$1,000,000) given by a director of the Company.

35. SUBSIDIARIES

Details of the Company's subsidiaries at 31 December 2007 and 2006 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		Principal activities
			Directly	Indirectly	
Bloxworth Enterprises Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	—	Investment holding
Chinawinner Enterprises Limited	British Virgin Islands/ Hong Kong	US$1,000	100%	—	Investment holding
Rich Victory Development Limited	Hong Kong	HK$1	100%	—	Inactive
Bloxworth Enterprises (HK) Limited (subsidiary incorporated in 2007)	Hong Kong	HK$1,000	100%	—	Inactive
Chinawinner Enterprises (HK) Limited (subsidiary incorporated in 2007)	Hong Kong	HK$1,000	100%	—	Inactive
福建福旺金屬製品有限公司 Fuwang	PRC – wholly owned foreign enterprise	US$20,100,000	—	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
山西展鵬金屬製品有限公司 Zhanpen	PRC – wholly owned foreign enterprise	US$8,100,000	—	100%	Manufacture and sale of tinplate cans for the packaging of good and beverage in the PRC
四川展旺金屬製品有限公司 Zhanwang (subsidiary incorporated in 2007)	PRC – wholly owned foreign enterprise	US$5,000,000	—	100%	Manufacture and sale of tinplate cans for the packaging of good and beverage in the PRC

None of the subsidiaries had any debt securities subsisting at 31 December 2007 or at any time during the year.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**668,641**	518,093	470,789	425,716	337,588
Profit before taxation	**120,641**	114,096	107,832	114,660	98,536
Income tax expense	**(28,141)**	(17,594)	(14,491)	(24,502)	(19,818)
Profit for the year	**92,500**	96,502	93,341	90,158	78,718

ASSETS AND LIABILITIES

	At 31 December				
	2007	2006	2005	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,071,338**	756,928	611,465	486,109	329,927
Total liabilities	**(289,860)**	(178,795)	(176,986)	(132,422)	(75,406)
Total equity	**781,478**	578,133	434,479	353,687	254,521