

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 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 Company’s ultimate holding company is Fu Teng Global Limited (“Fu Teng”), a company incorporated in the British Virgin Islands.

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

## 2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards (“HKFRSs”) (hereinafter collectively referred to as “new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

## 3. PRINCIPAL ACCOUNTING POLICIES

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

### Revenue recognition

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

Service income is recognised when services are rendered.

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

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

### Impairment

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

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

### Property, plant and equipment

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

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

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

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

### Investments in subsidiaries

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

### Inventories

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

### Convertible notes

Convertible notes are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes and the fair value assigned to the liability component, representing the embedded option to convert the liability into equity of the Group, is included in equity.

Issue costs are apportioned between the liability and equity components of the convertible notes based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly against equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate for similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes.

### Taxation

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

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

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

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

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

### **Foreign currencies**

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

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

### **Operating leases**

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

### **Retirement benefit cost**

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 4. TURNOVER AND SEGMENT INFORMATION

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

### Business segments

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

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
<b>Income statement</b>		
Turnover - external		
Manufacture and sale of tinplate cans	<b>371,444</b>	292,004
Tinplate lacquering and printing services	<b>54,272</b>	45,584
	<b><u>425,716</u></b>	<b><u>337,588</u></b>
Segment result		
Manufacture and sale of tinplate cans	<b>101,879</b>	86,230
Tinplate lacquering and printing services	<b>23,970</b>	20,753
	<b><u>125,849</u></b>	<u>106,983</u>
Unallocated corporate expenses	<b>(8,472)</b>	(5,576)
Profit from operations	<b>117,377</b>	101,407
Finance costs	<b>(2,744)</b>	(2,871)
Profit before taxation	<b>114,633</b>	98,536
Taxation	<b>(24,498)</b>	(19,818)
Net profit for the year	<b><u>90,135</u></b>	<b><u>78,718</u></b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

	2004 RMB'000	2003 RMB'000
<b>Balance sheet</b>		
Assets		
Segment assets		
Manufacture and sale of tinplate cans	197,416	97,089
Tinplate lacquering and printing services	9,520	8,474
Assets in common use	21,025	17,456
Unallocated corporate assets	258,148	206,908
	<u>486,109</u>	<u>329,927</u>
Liabilities		
Segment liabilities		
Manufacture and sale of tinplate cans	30,972	10,814
Tinplate lacquering and printing services	—	—
Liabilities in respect of assets in common use	2,351	4,539
Unallocated corporate liabilities	98,261	60,053
	<u>131,584</u>	<u>75,406</u>
<b>Other information</b>		
Capital additions:		
Manufacture and sale of tinplate cans	82,205	10,558
Tinplate lacquering and printing services	—	—
Assets in common use	4,605	3,589
Unallocated corporate assets	2,063	284
	<u>88,873</u>	<u>14,431</u>
Depreciation and amortisation:		
Manufacture and sale of tinplate cans	5,398	2,737
Tinplate lacquering and printing services	—	—
Assets in common use	2,348	2,006
Unallocated corporate assets	405	365
	<u>8,151</u>	<u>5,108</u>

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 5. PROFIT FROM OPERATIONS

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Profit from operations has been arrived at after charging:		
Directors' remuneration	<b>2,695</b>	1,787
Other staff costs	<b>7,896</b>	6,899
Retirement benefit cost, other than directors	<b>60</b>	51
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Total staff costs	<b>10,651</b>	8,737
	<hr/>	<hr/>
Auditors' remuneration	<b>879</b>	651
Depreciation and amortisation of property, plant and equipment	<b>8,151</b>	5,108
Minimum lease payments in respect of:		
- land and buildings	<b>1,114</b>	879
- machinery and equipment	<b>1,500</b>	1,500
and after crediting:		
Interest income	<b>1,027</b>	696
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# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 6. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

### Directors' emoluments

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Fees for		
- executive directors	—	—
- independent non-executive directors	<b>291</b>	138
	<u>291</u>	<u>138</u>
Other emoluments for executive directors		
- salaries, allowances and other benefits	<b>2,204</b>	1,486
- retirement benefit cost	<b>29</b>	23
- performance related incentive payments	<b>171</b>	140
	<u>2,404</u>	<u>1,649</u>
Other emoluments for independent non-executive directors	—	—
	<u>2,695</u>	<u>1,787</u>

The emoluments were paid to the directors as follows:

	<b>2004</b>	2003
	<b>Number of</b>	Number of
	<b>directors</b>	directors
Nil to HK\$1,000,000 (equivalent to nil to RMB1,060,000)	7	7
HK\$1,000,001 to HK\$1,500,000 (equivalent to RMB1,060,001 to RMB1,590,000)	<b>1</b>	—
	<u>1</u>	<u>—</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

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

### Employees' emoluments

For the year ended 31 December 2004, the five highest paid individuals included four (2003: two) directors of the Company, details of whose emoluments are included above. The emoluments of the remaining one (2003: three) highest paid individual(s) are as follows:

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Salaries, allowances and other benefits	<b>254</b>	390
Retirement benefit cost	<b>13</b>	14
Performance related incentive payments	<b>21</b>	37
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	<b>288</b>	441
	<hr/> <hr/>	<hr/> <hr/>

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

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

## 7. FINANCE COSTS

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Interest on borrowings wholly repayable within five years		
- bank borrowings	<b>2,602</b>	2,850
- convertible notes	<b>94</b>	—
- other borrowings	<b>—</b>	1
	<hr/>	<hr/>
	<b>2,696</b>	2,851
Bank charges	<b>48</b>	20
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	<b>2,744</b>	2,871
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# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 8. TAXATION

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
The charge (credit) comprises:		
Income tax calculated at the rates prevailing in the PRC	<b>24,502</b>	19,818
Deferred tax (note 23)	<b>(4)</b>	—
	<b><u>24,498</u></b>	<b><u>19,818</u></b>

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

A PRC subsidiary has operations in the Fujian province. The applicable income tax rate for productive enterprises located at coastal cities is 24% with a local surtax of 3%. According to the letter issued by Fuqing State Tax Bureau on 28 March 2003, the local surtax of 3% is exempted. That subsidiary's operations in the Shanxi province is exempted from PRC Enterprise Income Tax commencing in 2003 for two years and thereafter a 50% tax relief for the next three years. The local surtax of 3% is exempted according to local tax preferential policy.

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b><u>114,633</u></b>	<b><u>98,536</u></b>
Tax at PRC income tax rate of 24%	<b>27,512</b>	23,649
Tax effect of expenses that are not deductible in determining taxable profit	<b>1,679</b>	990
Tax effect of income that is not taxable in determining taxable profit	<b>(1)</b>	(21)
Tax effect of income that is under tax holiday	<b>(5,034)</b>	(5,199)
Others	<b>342</b>	399
Tax charge for the year	<b><u>24,498</u></b>	<b><u>19,818</u></b>

In addition to the amount charged to the income statement, deferred tax relating to the equity component of convertible notes issued amounting to RMB182,000 has been charged directly to equity (notes 22 and 23) during the year ended 31 December 2004.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 9. DIVIDEND

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Ordinary shares:		
Interim, paid - nil	—	—
Final, proposed - RMB0.030 (2003: RMB0.040) per share	<u>12,549</u>	<u>17,030</u>
	<u><b>12,549</b></u>	<u><b>17,030</b></u>

During the year ended 31 December 2003, a subsidiary paid dividend for 2002 amounting to RMB30,000,000 to its then shareholders prior to the group reorganisation which took place in June 2003.

The final dividend for the year ended 31 December 2004 of HK\$0.028 (equivalent to approximately RMB0.030) (2003: HK\$0.038 (equivalent to approximately RMB0.040)) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

## 10. EARNINGS PER SHARE

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

	<b>2004</b>	2003
	<b>RMB'000</b>	RMB'000
Earnings:		
Net profit for the year for the purposes of basic earnings per share	<b>90,135</b>	<u>78,718</u>
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	<u>94</u>	
Net profit for the year for the purpose of diluted earnings per share	<u><b>90,229</b></u>	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 10. EARNINGS PER SHARE (Cont'd)

	2004	2003
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	404,767,213	<u>344,916,164</u>
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>1,557,377</u>	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>406,324,590</u>	

The 300,000,000 shares that were issued prior to the listing of the Company's shares on the Stock Exchange on 2 July 2003 and pursuant to the group reorganisation are treated as if they had been in issue throughout the year ended 31 December 2003.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of these options is higher than the average market price for the Company's shares for the year ended 31 December 2004.

There were no potential dilutive ordinary shares outstanding during the year ended 31 December 2003.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 11. PROPERTY, PLANT AND EQUIPMENT

	Land under medium- term leases RMB'000	Buildings RMB'000	Leasehold improvements RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment RMB'000	Total RMB'000
<b>THE GROUP</b>							
<b>COST</b>							
At 1 January 2004	1,253	22,292	4,103	52,296	1,293	668	81,905
Additions	1,004	14,551	142	70,854	1,473	849	88,873
At 31 December 2004	2,257	36,843	4,245	123,150	2,766	1,517	170,778
<b>DEPRECIATION AND AMORTISATION</b>							
At 1 January 2004	105	8,020	1,317	24,320	470	385	34,617
Provided for the year	42	1,279	411	6,156	172	91	8,151
At 31 December 2004	147	9,299	1,728	30,476	642	476	42,768
<b>NET BOOK VALUES</b>							
At 31 December 2004	2,110	27,544	2,517	92,674	2,124	1,041	128,010
At 31 December 2003	1,148	14,272	2,786	27,976	823	283	47,288

The land and buildings of the Group are situated in Fujian, the PRC and are held under medium-term leases. The Group is in the process of obtaining the land use right certificate in respect of certain pieces of land with a net book value of RMB989,000 (2003: nil).

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 11. PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	<b>Leasehold improvements</b>	<b>Office equipment</b>	<b>Total</b>
	RMB'000	RMB'000	RMB'000
<b>THE COMPANY</b>			
<b>COST</b>			
At 1 January 2004	110	125	235
Additions	—	15	15
	<hr/>	<hr/>	<hr/>
At 31 December 2004	110	140	250
	<hr/>	<hr/>	<hr/>
<b>DEPRECIATION</b>			
At 1 January 2004	13	14	27
Provided for the year	22	26	48
	<hr/>	<hr/>	<hr/>
At 31 December 2004	35	40	75
	<hr/>	<hr/>	<hr/>
<b>NET BOOK VALUES</b>			
At 31 December 2004	75	100	175
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2003	97	111	208
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 12. INVESTMENTS IN SUBSIDIARIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Unlisted shares, at cost	<u>118,147</u>	<u>118,147</u>

Particulars of the Company's subsidiaries at 31 December 2004 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 ("Bloxworth")	British Virgin Islands/ Hong Kong	US\$1,000	100%	—	Investment holding
Rich Victory Development Limited	Hong Kong	HK\$1	100%	—	Inactive
福建福旺金屬製品有限公司 Fujian Fuwang Metal Products Co., Ltd. ("Fuwang")	PRC	US\$4,654,518	—	100%	Manufacture and sale of tinsplate cans for the packaging of food and beverage in the PRC, and provision of tinsplate lacquering and printing services
山西展鵬金屬製品有限公司 Shanxi Zhanpen Metal Products Co., Ltd.	PRC	US\$150,000	—	100%	Inactive

None of the subsidiaries had any debt securities subsisting at 31 December 2004 or at any time during the year.

## 13. AMOUNTS DUE FROM/TO SUBSIDIARIES

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 14. INVENTORIES

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Raw materials	11,419	7,603
Packing materials	221	136
Finished goods	2,147	3,145
	<u>13,787</u>	<u>10,884</u>

All inventories were stated at cost.

## 15. TRADE RECEIVABLES

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

	THE GROUP	
	2004 RMB'000	2003 RMB'000
Within 3 months	87,456	68,108
Over 3 months but not more than 6 months	—	22
	<u>87,456</u>	<u>68,130</u>

## 16. PLEDGED BANK DEPOSITS

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



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 17. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Within 3 months	12,712	9,922
Over 3 months but not more than 6 months	9	76
Over 6 months but not more than 1 year	2	6
	<u>12,723</u>	<u>10,004</u>

## 18. AMOUNTS DUE TO DIRECTORS

The amounts at 31 December 2004 represent principally payments made by a director on behalf of the Group. The amounts at 31 December 2003 represented principally emoluments payable to directors. They are unsecured, interest-free and repayable on demand.

## 19. BANK LOANS

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
The maturity of the bank loans, which are unsecured and bear interest at prevailing market rates, is as follows:		
Within one year	50,000	37,000
After one year, but not exceeding two years	—	7,000
	<u>50,000</u>	<u>44,000</u>
Less: Amount due within one year and included in current liabilities	<u>(50,000)</u>	<u>(37,000)</u>
Amount due after one year	<u>—</u>	<u>7,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 20. SHARE CAPITAL

	Notes	Number of shares	Amount HK\$'000
Ordinary shares of HK\$0.10 each			
Authorised:			
Upon incorporation on 21 October 2002	(a)	1,000,000	100
Increase in authorised share capital	(b)	<u>1,999,000,000</u>	<u>199,900</u>
At 31 December 2003 and 31 December 2004		<u><u>2,000,000,000</u></u>	<u><u>200,000</u></u>
Issued and fully paid:			
Issue of shares at nil-paid on 30 October 2002 and credited as fully paid in accordance with group reorganisation	(a) & (c)	1,000,000	100
Issue of shares to the shareholders in accordance with group reorganisation	(c)	1,000,000	100
Issue of shares by way of capitalisation of share premium account	(d)	298,000,000	29,800
Placing of shares to professional and institutional investors	(e)	72,820,000	7,282
Issue of shares to the public	(e)	<u>9,980,000</u>	<u>998</u>
At 31 December 2003		382,800,000	38,280
Issue of new shares for cash	(f)	<u>40,000,000</u>	<u>4,000</u>
At 31 December 2004		<u><u>422,800,000</u></u>	<u><u>42,280</u></u>
			RMB'000
Shown in the financial statements			
At 31 December 2004			<u><u>44,817</u></u>
At 31 December 2003			<u><u>40,577</u></u>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 20. SHARE CAPITAL (Cont'd)

The movements in the Company's authorised and issued share capital during the period from 21 October 2002 (date of incorporation) to 31 December 2004 are as follows:

- (a) Upon incorporation, the authorised share capital of the Company was HK\$100,000 divided into 1,000,000 ordinary shares of HK\$0.10 each, all of which were allotted and issued at nil-paid on 30 October 2002.
- (b) On 2 June 2003, the authorised share capital of the Company was increased from HK\$100,000 to HK\$200,000,000 by the creation of an additional 1,999,000,000 ordinary shares of HK\$0.10 each.
- (c) On 2 June 2003, as part of the group reorganisation, the Company (i) issued to Fu Teng and certain private investors an aggregate of 1,000,000 new ordinary shares of HK\$0.10 each credited as fully paid at par, and (ii) credited as fully paid at par for the then existing 1,000,000 ordinary shares issued at nil-paid on 30 October 2002 held by Fu Teng as set out in (a) above, in consideration of and in exchange for the acquisition of the entire issued share capital of Bloxworth.
- (d) On 17 June 2003, 298,000,000 new ordinary shares of HK\$0.10 each were allotted and issued as fully paid at par to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 2 June 2003, by way of capitalisation of the sum of HK\$29,800,000 (equivalent to RMB31,588,000) standing to the credit of the share premium account of the Company, conditional on the share premium account being credited as a result of the new issue and placing of shares as set out in (e) below. For the purpose of preparing the financial statements, these shares were deemed to have been in issue throughout the year ended 31 December 2003.
- (e) On 17 June 2003, 82,800,000 new ordinary shares of HK\$0.10 each were issued by way of placing to professional and institutional investors and public offer to the public at a price of HK\$1.23 per share.

## 20. SHARE CAPITAL (Cont'd)

- (f) As announced by the Company on 3 June 2004, the Company entered into a placing and subscription agreement dated 1 June 2004 (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 40,000,000 existing shares of HK\$0.10 each in the share capital of the Company at a price of HK\$0.65 per share (the "Placing Price") to not less than six independent professional and/or institutional investors through the Placing Agent, and Fu Teng also agreed to subscribe for 40,000,000 new shares of HK\$0.10 each of the Company at the price of HK\$0.65 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 2 June 2003.

The Placing Price represents a discount of approximately 4.41% to the closing price of the Company's shares as quoted on the Stock Exchange on 1 June 2004, being the date of the Agreement. The placing became unconditional on 11 June 2004. The new shares subscribed by Fu Teng, representing approximately 10.45% of the then existing issued share capital of the Company and approximately 9.46% of the enlarged share capital of the Company, were issued and allotted on 14 June 2004. Fu Teng's equity interest in the Company was reduced from approximately 57.31% immediately before the placing and the subscription to approximately 51.89% immediate thereafter.

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

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 21. RESERVES

	Share premium RMB'000	Contributed surplus RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
<b>THE COMPANY</b>					
Contributed surplus arising from issue of shares at nil-paid and credited as fully paid on group reorganisation	—	117,935	—	—	117,935
Premium arising from issue of shares for cash by way of new issue and placing	99,178	—	—	—	99,178
Expenses incurred in connection with the issue of new shares	(14,211)	—	—	—	(14,211)
Capitalisation issue	(31,588)	—	—	—	(31,588)
Net loss for the year	—	—	—	(4,034)	(4,034)
At 31 December 2003	53,379	117,935	—	(4,034)	167,280
Premium arising from issue of new shares for cash	23,320	—	—	—	23,320
Expenses incurred in connection with the issue of new shares	(1,522)	—	—	—	(1,522)
Recognition of equity component of convertible notes	—	—	1,043	—	1,043
Deferred tax liability on recognition of equity component of convertible notes	—	—	(182)	—	(182)
Dividend for 2003 paid	—	—	—	(17,030)	(17,030)
Net profit for the year	—	—	—	17,029	17,029
At 31 December 2004	<u>75,177</u>	<u>117,935</u>	<u>861</u>	<u>(4,035)</u>	<u>189,938</u>

The contributed surplus of the Company represents the difference between the combined net assets of the subsidiaries at the date on which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation taken place in June 2003.

The capital reserve of the Company represents the equity component of convertible debt instruments.

## 21. RESERVES (Cont'd)

Under the Companies Law Chapter 22 of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its Memorandum or Articles of Association and provided that immediately following the distribution or dividend, the Company is able to pay its debts as they fall due in the ordinary course of business. In the opinion of the directors of the Company, the Company's reserves available for distribution to shareholders at 31 December 2004 was RMB189,077,000 (2003: RMB167,280,000).

### THE GROUP

#### (a) Basis of appropriations to reserves

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

#### (b) Special reserve

The special reserve of the Group represents the difference between the nominal value of the shares of the acquired subsidiaries and the nominal value of the Company's shares issued for the acquisition at the time of the group reorganisation taken place in June 2003.

#### (c) Capital reserve

The capital reserve of the Group represents the equity component of convertible debt instruments.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 22. CONVERTIBLE NOTES

The convertible notes in the principal sum of HK\$30,000,000 (equivalent to RMB31,800,000) (the “Notes”) were issued on 13 December 2004. 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 an initial conversion price of HK\$0.66 (equivalent to approximately RMB0.700) per share, subject to adjustments. At 31 December 2004, the conversion rights are not exercisable. The maximum number of ordinary shares of HK\$0.10 each in the capital of the Company which may be issued upon full conversion of the Notes is 45,454,545 shares.

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

The net proceeds received from the issue of the Notes have been split between the liability element and an equity component, representing the fair value of the embedded option to convert the liability into equity of the Group, as follows:

	<b>THE GROUP AND THE COMPANY</b>
	RMB'000
Nominal value of convertible notes issued	31,800
Equity component (net of deferred tax)	(861)
Deferred tax liability (note 23)	(182)
	<hr/>
Liability component at date of issue on 13 December 2004	30,757
Interest charged	94
Interest accrued	(67)
	<hr/>
Liability component at 31 December 2004	<u>30,784</u>

The directors of the Company estimate the fair value of the liability component of the Notes at 31 December 2004 to be RMB30,784,000.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 23. DEFERRED TAX LIABILITY

The following is the major deferred tax liability recognised by the Group and the Company and movement thereon during the year:

	<b>THE GROUP AND THE COMPANY</b>
	<b>Convertible notes - equity component</b>
	RMB'000
Charge to equity at date of issue of convertible notes (note 22)	182
Credit to income for the year (note 8)	(4)
	<hr/>
At 31 December 2004	<u>178</u>

## 24. MAJOR NON-CASH TRANSACTIONS

- (a) On 2 June 2003, the Company issued an aggregate of 1,000,000 new shares of HK\$0.10 each and credited as fully paid at par for the then existing 1,000,000 shares issued at nil-paid on 30 October 2002, as consideration for the exchange of investment in Bloxworth held by Fu Teng and certain private investors for the purpose of listing of its shares on the Stock Exchange.
- (b) On 17 June 2003, the Company allotted 298,000,000 new shares of HK\$0.10 each to the holders of the shares on the register of members of the Company in proportion to their then respective shareholdings at the close of business on 2 June 2003, by the way of capitalisation of the sum of HK\$29,800,000 (equivalent to RMB31,588,000) standing to the credit of the share premium account of the Company for the purpose of listing of its shares on the Stock Exchange.



## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 25. OPERATING LEASE COMMITMENTS

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

	THE GROUP						THE COMPANY	
	2004			2003			2004	2003
	Land and buildings	Machinery and equipment	Total	Land and buildings	Machinery and equipment	Total	Land and buildings	Land and buildings
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within one year	1,654	1,500	3,154	993	1,500	2,493	381	381
In the second to fifth year inclusive	3,898	2,438	6,336	1,400	4,125	5,525	406	25
Over five years	2,033	—	2,033	—	—	—	—	—
	<u>7,585</u>	<u>3,938</u>	<u>11,523</u>	<u>2,393</u>	<u>5,625</u>	<u>8,018</u>	<u>787</u>	<u>406</u>

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

### 26. CONTINGENT LIABILITIES

	THE COMPANY	
	2004 RMB'000	2003 RMB'000
Corporate guarantees given to banks to secure bank borrowings granted to a subsidiary	<u>50,000</u>	<u>44,000</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 27. CAPITAL COMMITMENTS

	THE GROUP	
	2004	2003
	RMB'000	RMB'000
Capital expenditure in respect of the acquisition of property, plant and equipment		
- contracted for but not provided in the financial statements	2,386	31,366
- authorised but not contracted for	9,905	—
	<u>12,291</u>	<u>31,366</u>

The Company did not have significant capital commitment.

## 28. 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.

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

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

## 28. SHARE OPTION SCHEME (Cont'd)

The following table discloses details of the Company's share options held by employees and movements in such holdings during the year ended 31 December 2004:

	Date of grant	Exercise price HK\$	Exercisable period	Outstanding at 1.1.2004	Granted during the year	Exercised during the year	Lapsed/ cancelled during the year	Outstanding at 31.12.2004
Senior management	10 February 2004	0.81*	10 February 2004 to 9 February 2014	—	11,000,000	—	—	11,000,000
Employees	10 February 2004	0.81*	10 February 2004 to 9 February 2014	—	19,000,000	—	—	19,000,000
				<u>—</u>	<u>30,000,000</u>	<u>—</u>	<u>—</u>	<u>30,000,000</u>

\* Equivalent to approximately RMB0.859

The Company received notional consideration for options granted during the year ended 31 December 2004.

The fair value of the Company's share at the date of offer of the above options, being the closing price of the Company's shares as stated in the daily quotation sheets issued by the Stock Exchange on the trading day immediately preceding that day, was HK\$0.80 (equivalent to approximately RMB0.848).

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

## 29. RETIREMENT BENEFITS PLANS

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

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

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 30. RELATED PARTY TRANSACTIONS

Details of new shares issued to Fu Teng during both years are set out in note 20. The entire issued share capital of Fu Teng is owned by a director of the Company.

During the year ended 31 December 2003, a director of the Company provided certain office premises and motor vehicles for the Group's use without consideration. The running costs of these premises and motor vehicles were borne by the Group.

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