

The following is the text of a report prepared for the purpose of inclusion in this prospectus received from the auditors and reporting accountants of the Company, Deloitte Touche Tohmatsu.

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**Deloitte
Touche
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10 June 2003

The Directors
Spread Prospects Holdings Limited
Upbest Securities Company Limited
Deloitte & Touche Corporate Finance Ltd
CAF Securities Company Limited

Dear Sirs,

We set out below our report on the financial information regarding Spread Prospects Holdings Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for each of the three years ended 31 December 2002 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 10 June 2003 (the “Prospectus”).

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation (the “Reorganisation”) as fully explained in the paragraph headed “Group reorganisation” in the section headed “Further information about the Company and its subsidiaries” in Appendix IV to the Prospectus, the Company has since 2 June 2003 become the holding company of the subsidiaries now comprising the Group, which principally carried on the business of 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.

As at the date of this report, particulars of the Company's subsidiaries, both of which are private companies, are as follows:

Name of subsidiary	Date of incorporation/ establishment	Place of incorporation/ establishment	Paid-up share/ registered capital	Attributable equity interest of the Group	Principal activities
<i>Directly held</i>					
Bloxworth Enterprises Limited (博旺企業有限公司) ("Bloxworth")	6 September 2001	British Virgin Islands	US\$1,000	100%	Investment holding
<i>Indirectly held</i>					
福建福旺金屬製品有限公司 Fujian Fuwang Metal Products Co., Ltd. ("Fuwang")	5 November 1994	PRC	US\$3,000,000	100%	Manufacture and sale of tinplate cans for the packaging of food and beverage in the PRC, and provision of tinplate lacquering and printing services

No audited financial statements have been prepared for the Company since the date of its incorporation. The Company has not been involved in any business transactions since incorporation, except for the transactions related to the Reorganisation referred to herein. No audited financial statements have been prepared for Bloxworth since its incorporation. We have, however, reviewed all relevant transactions of these companies since their respective dates of incorporation.

The financial statements of Fuwang for each of the three years ended 31 December 2002, which were prepared in accordance with the accounting principles and the relevant financial regulations applicable to PRC companies, were audited by 福清鑫玉融有限責任會計師事務所 (Fuqing Xinyurong Certified Public Accountants Ltd.), certified public accountants registered in the PRC. For the purpose of this report, we have, however, undertaken our own independent audits of the financial statements, prepared in accordance with accounting principles generally accepted in Hong Kong, of Fuwang for the Relevant Periods in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants.

We have examined the audited financial statements or, where appropriate, management accounts of the companies now comprising the Group for the Relevant Periods, or since their respective dates of incorporation/establishment where this is a shorter period. Our examination was made in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Society of Accountants.

The financial information of the Group for the Relevant Periods set out in this report has been prepared from the audited financial statements or management accounts (the "Underlying Financial Statements") of the companies now comprising the Group on the basis set out in note 1 to section A below, after making such adjustments as we consider appropriate for the purpose of preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of those companies who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an opinion on the financial information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1 to section A below, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2000, 31 December 2001 and 31 December 2002 and that of the Company as at 31 December 2002 and of the combined results and cash flows of the Group for each of the three years ended 31 December 2002.

A. FINANCIAL INFORMATION

Combined Income Statements

	<i>Notes</i>	Year ended 31 December		
		2000	2001	2002
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover	3	117,604	161,695	262,506
Cost of sales		<u>(78,220)</u>	<u>(111,851)</u>	<u>(162,356)</u>
Gross profit		39,384	49,844	100,150
Other operating income		352	491	1,398
Bad and doubtful debts		3,803	443	53
Selling expenses		(4,046)	(4,697)	(7,170)
Administrative expenses		<u>(2,642)</u>	<u>(3,429)</u>	<u>(3,886)</u>
Profit from operations	4	36,851	42,652	90,545
Finance costs	6	<u>(3,383)</u>	<u>(3,435)</u>	<u>(3,265)</u>
Profit before taxation		33,468	39,217	87,280
Taxation	7	<u>(3,552)</u>	<u>(4,730)</u>	<u>(11,320)</u>
Net profit for the year		<u>29,916</u>	<u>34,487</u>	<u>75,960</u>
Dividend proposed	8	<u>19,536</u>	<u>25,965</u>	<u>30,000</u>
Earnings per share - basic (<i>RMB</i>)	9	<u>0.100</u>	<u>0.115</u>	<u>0.253</u>

Balance Sheets

	Notes	THE GROUP			THE
		At 31 December			COMPANY
		2000	2001	2002	At 31
		RMB'000	RMB'000	RMB'000	December
					2002
					RMB'000
Non-current assets					
Property, plant and equipment	10	43,454	38,898	37,965	—
Deposits paid for acquisition of property, plant and equipment		—	—	3,122	—
		<u>43,454</u>	<u>38,898</u>	<u>41,087</u>	<u>—</u>
Current assets					
Inventories	11	12,762	4,538	6,306	—
Trade receivables	12	22,887	27,929	67,111	—
Other receivables, deposits and prepayments		2,922	1,302	4,931	113
Amount due from a director	13	2,368	3,370	—	—
Amount due from a related party	14	—	—	—	—
Pledged bank deposits	15	1,254	586	765	—
Bank balances and cash		<u>30,559</u>	<u>52,975</u>	<u>79,895</u>	<u>—</u>
		<u>72,752</u>	<u>90,700</u>	<u>159,008</u>	<u>113</u>
Current liabilities					
Trade payables	16	2,408	2,527	15,704	—
Bills payable		3,500	1,953	2,305	—
Receipt in advance, other payables and accrued charges		4,879	7,197	12,782	—
Amounts due to directors	13	3,862	3,862	2,202	113
Taxation payable		3,552	1,463	5,123	—
Bank loans - amount due within one year	17	41,700	48,500	41,500	—
Unsecured borrowings	18	<u>2,192</u>	<u>2,032</u>	<u>1,420</u>	<u>—</u>
		<u>62,093</u>	<u>67,534</u>	<u>81,036</u>	<u>113</u>
Net current assets		<u>10,659</u>	<u>23,166</u>	<u>77,972</u>	<u>—</u>
Total assets less current liabilities		<u>54,113</u>	<u>62,064</u>	<u>119,059</u>	<u>—</u>

	<i>Notes</i>	THE GROUP			THE
		At 31 December			COMPANY
		2000	2001	2002	At 31
				December	
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	2002
					<i>RMB'000</i>
Capital and reserves					
Paid-in capital	19	24,921	24,921	8	—
Reserves	20	<u>22,192</u>	<u>37,143</u>	<u>112,051</u>	<u>—</u>
Shareholders' funds		47,113	62,064	112,059	—
Non-current liabilities					
Bank loans - amount due after one year	17	<u>7,000</u>	<u>—</u>	<u>7,000</u>	<u>—</u>
		<u>54,113</u>	<u>62,064</u>	<u>119,059</u>	<u>—</u>

Combined Statements of Changes in Equity

	Paid-in capital	Share premium	Contributed surplus	Special reserve	Surplus reserve fund	Enterprise expansion fund	Accumulated profits	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 19)	(Note 20b)		(Note 20c)	(Note 20a)	(Note 20a)	(Note 20d)	
At 1 January 2000	24,921	—	—	—	1,519	1,519	634	28,593
Dividend for 1999 paid	—	—	—	—	—	—	(11,396)	(11,396)
Net profit for the year	—	—	—	—	—	—	29,916	29,916
Appropriations	—	—	—	—	2,605	2,605	(5,210)	—
At 31 December 2000	24,921	—	—	—	4,124	4,124	13,944	47,113
Dividend for 2000 paid	—	—	—	—	—	—	(19,536)	(19,536)
Net profit for the year	—	—	—	—	—	—	34,487	34,487
Appropriations	—	—	—	—	3,462	3,462	(6,924)	—
At 31 December 2001	24,921	—	—	—	7,586	7,586	21,971	62,064
Issue of shares by a subsidiary	8	30,172	9,920	—	—	—	—	40,100
Elimination on Reorganisation	(24,921)	—	(9,920)	(5,259)	—	—	—	(40,100)
Dividend for 2001 paid	—	—	—	—	—	—	(25,965)	(25,965)
Net profit for the year	—	—	—	—	—	—	75,960	75,960
Appropriations	—	—	—	—	7,842	—	(7,842)	—
At 31 December 2002	<u>8</u>	<u>30,172</u>	<u>—</u>	<u>(5,259)</u>	<u>15,428</u>	<u>7,586</u>	<u>64,124</u>	<u>112,059</u>

Combined Cash Flow Statements

	Year ended 31 December		
	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash flows from operating activities			
Profit before taxation	33,468	39,217	87,280
Adjustments for:			
Interest expense	3,372	3,360	3,255
Interest income	(6)	(6)	(126)
Depreciation and amortisation of property, plant and equipment	4,805	4,748	4,721
Bad and doubtful debts	<u>(3,803)</u>	<u>(443)</u>	<u>(53)</u>
Operating cash flows before movements in working capital	37,836	46,876	95,077
Decrease (increase) in inventories	4,574	8,224	(1,768)
Decrease (increase) in trade receivables	1,915	(4,599)	(39,129)
Decrease (increase) in other receivables, deposits and prepayments	8,928	1,620	(3,629)
(Increase) decrease in amount due from a director	(2,368)	(1,002)	3,370
(Decrease) increase in trade payables	(13,039)	119	13,177
Increase (decrease) in bills payable	1,023	(1,547)	352
(Decrease) increase in receipt in advance, other payables and accrued charges	(4,617)	2,318	5,585
Decrease in amounts due to directors	<u>(10,417)</u>	<u>—</u>	<u>(1,660)</u>
Cash generated from operations	23,835	52,009	71,375
Interest paid	(3,372)	(3,360)	(3,255)
PRC Enterprise Income Tax paid	<u>—</u>	<u>(6,819)</u>	<u>(7,660)</u>
Net cash from operating activities	<u>20,463</u>	<u>41,830</u>	<u>60,460</u>

	Year ended 31 December		
	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Cash flows from investing activities			
Interest received	6	6	126
(Increase) decrease in pledged bank deposits	(654)	668	(179)
Decrease in loans receivable (<i>Note</i>)	842	—	—
Purchase of property, plant and equipment	(217)	(192)	(3,788)
Deposits paid for acquisition of property, plant and equipment	—	—	(3,122)
Investment in a subsidiary on Reorganisation	—	—	(30,178)
Net cash (used in) from investing activities	<u>(23)</u>	<u>482</u>	<u>(37,141)</u>
Cash flows from financing activities			
Issue of shares by a subsidiary for cash on Reorganisation	—	—	30,178
Dividend paid	(11,396)	(19,536)	(25,965)
Bank loans repaid	(300)	(200)	—
Unsecured borrowings raised	110	—	—
Unsecured borrowings repaid	(2,813)	(160)	(612)
Amount due to a related party repaid	<u>(3,145)</u>	<u>—</u>	<u>—</u>
Net cash (used in) from financing activities	<u>(17,544)</u>	<u>(19,896)</u>	<u>3,601</u>
Net increase in cash and cash equivalents	2,896	22,416	26,920
Cash and cash equivalents at beginning of the year	<u>27,663</u>	<u>30,559</u>	<u>52,975</u>
Cash and cash equivalents at end of the year representing bank balances and cash	<u><u>30,559</u></u>	<u><u>52,975</u></u>	<u><u>79,895</u></u>

Note: Loans receivable as at 1 January 2000 represented the loans advanced to independent third parties which were unsecured and interest-free.

Notes to the Financial Information**1. BASIS OF PRESENTATION OF FINANCIAL INFORMATION**

The combined income statements and combined cash flow statements include the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment where this is a shorter period. The combined balance sheets of the Group as at 31 December 2000, 31 December 2001 and 31 December 2002 have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at those dates.

All significant transactions, cash flows and balances between companies now comprising the Group have been eliminated on combination.

2. PRINCIPAL ACCOUNTING POLICIES

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

Revenue recognition

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

Service income is recognised when services are rendered.

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

Impairment

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

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

Property, plant and equipment

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

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

Land under medium-term leases in the PRC	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.

Government grants

Government grant that is related to an expense item is deducted from that item which it is intended to compensate. Government grant that is unconditionally approved and received is credited as income in the income statement. Government grant that is related to an asset is presented in the balance sheet by deducting the grant in arriving at the carrying amount of the related asset. Government grant that takes the form of a loan is recorded as a liability in the balance sheet.

Taxation

The charge for taxation is based on the results for the year after adjusting for items which are non-assessable or disallowed. Certain items of income and expense are recognised for tax purposes in a different accounting period from that in which they are recognised in the financial statements. The tax effect of the resulting timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Foreign currencies

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

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

Operating leases

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

Retirement benefit cost

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

3. TURNOVER AND SEGMENT INFORMATION

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

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:

	Year ended 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Income statement			
Turnover			
Manufacture and sale of tinplate cans	115,002	137,036	218,711
Tinplate lacquering and printing services	<u>2,602</u>	<u>24,659</u>	<u>43,795</u>
	<u>117,604</u>	<u>161,695</u>	<u>262,506</u>
Segment result			
Manufacture and sale of tinplate cans	36,883	33,768	72,064
Tinplate lacquering and printing services	<u>1,098</u>	<u>10,520</u>	<u>21,247</u>
	37,981	44,288	93,311
Unallocated corporate expenses	<u>(1,130)</u>	<u>(1,636)</u>	<u>(2,766)</u>
Profit from operations	36,851	42,652	90,545
Finance costs	<u>(3,383)</u>	<u>(3,435)</u>	<u>(3,265)</u>
Profit before taxation	33,468	39,217	87,280
Taxation	<u>(3,552)</u>	<u>(4,730)</u>	<u>(11,320)</u>
Profit after taxation	<u>29,916</u>	<u>34,487</u>	<u>75,960</u>

At 31 December

	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Balance sheet			
Assets			
Segment assets			
Manufacture and sale of tinplate cans	49,316	43,453	83,016
Tinplate lacquering and printing services	1,986	4,548	8,981
Assets in common use	22,778	17,407	15,305
Unallocated corporate assets	42,126	64,190	92,793
	<u>116,206</u>	<u>129,598</u>	<u>200,095</u>
Total assets			
	<u>116,206</u>	<u>129,598</u>	<u>200,095</u>
Liabilities			
Segment liabilities			
Manufacture and sale of tinplate cans	6,466	3,712	20,020
Tinplate lacquering and printing services	223	—	30
Liabilities in respect of assets in common use	1,377	1,337	3,183
Unallocated corporate liabilities	61,027	62,485	64,803
	<u>69,093</u>	<u>67,534</u>	<u>88,036</u>
Total liabilities			
	<u>69,093</u>	<u>67,534</u>	<u>88,036</u>

Year ended 31 December

	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Other information			
Capital additions:			
Manufacture and sale of tinplate cans	—	—	3,680
Tinplate lacquering and printing services	—	—	—
Assets in common use	—	55	6
Unallocated corporate assets	217	137	102
	<u>217</u>	<u>192</u>	<u>3,788</u>
Depreciation and amortisation:			
Manufacture and sale of tinplate cans	2,260	2,260	2,260
Tinplate lacquering and printing services	—	—	—
Assets in common use	2,120	2,123	1,972
Unallocated corporate assets	425	365	489
	<u>4,805</u>	<u>4,748</u>	<u>4,721</u>
Bad and doubtful debts:			
Manufacture and sale of tinplate cans	(3,719)	(376)	(44)
Tinplate lacquering and printing services	(84)	(67)	(9)
	<u>(3,803)</u>	<u>(443)</u>	<u>(53)</u>

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

4. PROFIT FROM OPERATIONS

	Year ended 31 December		
	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Profit from operations has been arrived at after charging (crediting):			
Changes in allowance for bad and doubtful debts	(4,107)	(443)	(53)
Bad debts written off	<u>304</u>	<u>—</u>	<u>—</u>
Bad and doubtful debts	<u>(3,803)</u>	<u>(443)</u>	<u>(53)</u>
Directors' remuneration	26	89	329
Retirement benefit cost	6	30	38
Other staff costs	<u>1,461</u>	<u>3,633</u>	<u>5,193</u>
Total staff costs	<u>1,493</u>	<u>3,752</u>	<u>5,560</u>
Auditors' remuneration	15	8	639
Depreciation and amortisation of property, plant and equipment	4,805	4,748	4,721
Interest income	<u>(6)</u>	<u>(6)</u>	<u>(126)</u>

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Directors' emoluments

	Year ended 31 December		
	2000 <i>RMB'000</i>	2001 <i>RMB'000</i>	2002 <i>RMB'000</i>
Fees for			
- executive directors	—	—	—
- non-executive directors	—	—	—
- independent non-executive directors	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments for executive directors			
- salaries, allowances and other benefits	16	67	296
- retirement benefit cost	2	2	7
- performance related incentive payments	<u>8</u>	<u>20</u>	<u>26</u>
	<u>26</u>	<u>89</u>	<u>329</u>
Other emoluments for non-executive directors	<u>—</u>	<u>—</u>	<u>—</u>
Other emoluments for independent non-executive directors	<u>—</u>	<u>—</u>	<u>—</u>
	<u>26</u>	<u>89</u>	<u>329</u>

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

Employees' emoluments

During the years ended 31 December 2000, 31 December 2001 and 31 December 2002, the five highest paid individuals included nil, one and one director of the Company, details of whose emoluments are included above. Details of the remaining five, four and four highest paid individuals are as follows:

	Year ended 31 December		
	2000 RMB'000	2001 RMB'000	2002 RMB'000
Salaries, allowances and other benefits	48	189	337
Retirement benefit cost	5	5	6
Performance related incentive payments	21	45	36
	<u>74</u>	<u>239</u>	<u>379</u>

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

During the Relevant Periods, 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 or agreed to waive any emoluments during the Relevant Periods.

6. FINANCE COSTS

	Year ended 31 December		
	2000 RMB'000	2001 RMB'000	2002 RMB'000
Interest on borrowings wholly repayable within five years			
- bank borrowings	3,311	3,306	3,217
- other borrowings	61	54	38
Bank charges	11	75	10
	<u>3,383</u>	<u>3,435</u>	<u>3,265</u>

7. TAXATION

	Year ended 31 December		
	2000 RMB'000	2001 RMB'000	2002 RMB'000
The charge comprises:			
Income tax calculated at the rates prevailing in the PRC	3,552	4,730	11,320
	<u>3,552</u>	<u>4,730</u>	<u>11,320</u>

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

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

	Operations in the Fujian province	Operations in the Shanxi province
Year ended 31 December 2000	12%	N/A
Year ended 31 December 2001	12%	N/A
Year ended 31 December 2002	12%	24%

The Group and the Company did not have any significant unprovided deferred taxation in respect of each of the Relevant Periods.

8. DIVIDEND PROPOSED

No dividend has been paid or declared by Company since its incorporation. However during the Relevant Periods, the following dividends were proposed by the subsidiaries to their then shareholders prior to the Reorganisation:

	Year ended 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Fuwang	19,536	25,965	32,000
Bloxworth	—	—	30,000
Less: Elimination of intra-group dividend	—	—	(32,000)
	<u>19,536</u>	<u>25,965</u>	<u>30,000</u>

The rates of dividend and the number of shares ranking for dividends proposed by the subsidiaries are not presented as such information is not meaningful having regard the purpose of this report.

9. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Periods is based on the combined net profit for the Relevant Periods and on the assumption that 300,000,000 shares of the Company are in issue and issuable, comprising 2,000,000 shares in issue at the date of the Prospectus and 298,000,000 shares to be issued pursuant to the Capitalisation Issue, as described in the paragraph headed "Resolutions in writing of all the shareholders of the Company passed on 2 June 2003" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus.

10. PROPERTY, PLANT AND EQUIPMENT

	Land under medium-term leases <i>RMB'000</i>	Buildings <i>RMB'000</i>	Leasehold improvements <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment <i>RMB'000</i>	Total <i>RMB'000</i>
THE GROUP							
COST							
At 1 January 2000	1,253	22,268	1,172	37,374	855	355	63,277
Additions	—	24	166	—	—	27	217
At 31 December 2000	1,253	22,292	1,338	37,374	855	382	63,494
Additions	—	—	130	55	—	7	192
At 31 December 2001	1,253	22,292	1,468	37,429	855	389	63,686
Additions	—	—	37	3,686	—	65	3,788
At 31 December 2002	1,253	22,292	1,505	41,115	855	454	67,474
DEPRECIATION AND AMORTISATION							
At 1 January 2000	23	4,008	346	10,519	149	190	15,235
Provided for the year	5	1,002	288	3,364	77	69	4,805
At 31 December 2000	28	5,010	634	13,883	226	259	20,040
Provided for the year	11	1,003	216	3,368	77	73	4,748
At 31 December 2001	39	6,013	850	17,251	303	332	24,788
Provided for the year	29	1,004	234	3,367	77	10	4,721
At 31 December 2002	68	7,017	1,084	20,618	380	342	29,509
NET BOOK VALUE							
At 31 December 2000	1,225	17,282	704	23,491	629	123	43,454
At 31 December 2001	1,214	16,279	618	20,178	552	57	38,898
At 31 December 2002	1,185	15,275	421	20,497	475	112	37,965

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

11. INVENTORIES

	THE GROUP		
	At 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials	5,552	2,553	3,630
Packing materials	208	124	143
Finished goods	<u>7,002</u>	<u>1,861</u>	<u>2,533</u>
	<u>12,762</u>	<u>4,538</u>	<u>6,306</u>
Included in the above are inventories which are carried at net realisable value as follows:			
Raw materials	658	116	—
Packing materials	<u>70</u>	<u>—</u>	<u>—</u>

12. 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		
	At 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	14,683	27,156	67,105
Over 3 months but not more than 6 months	6,868	765	4
Over 6 months but not more than 1 year	883	8	2
Over 1 year but not more than 2 years	<u>453</u>	<u>—</u>	<u>—</u>
	<u>22,887</u>	<u>27,929</u>	<u>67,111</u>

13. AMOUNTS DUE FROM/TO DIRECTORS

The amounts represent principally receipts and payments made on behalf of the Group. They are unsecured, interest-free and repayable on demand.

Particulars of the amount due from a director are as follows:

Name of director	THE GROUP					
	Maximum amount outstanding during the year ended		Maximum amount outstanding during the year ended		Maximum amount outstanding during the year ended	
	Balance at 31.12.2000	31.12.2000	Balance at 31.12.2001	31.12.2001	Balance at 31.12.2002	31.12.2002
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Mr. Yang Zongwang	<u>2,368</u>	<u>3,385</u>	<u>3,370</u>	<u>5,590</u>	<u>—</u>	<u>31,673</u>

14. AMOUNT DUE FROM A RELATED PARTY

The amount is unsecured, interest-free and repayable on demand. The amount is principally temporary advances made by the Group and is not operating in nature.

Particulars of the amount due from a related party are as follows:

Name of company	Name of interested director	THE GROUP					
		Maximum amount outstanding during the year ended		Maximum amount outstanding during the year ended		Maximum amount outstanding during the year ended	
		Balance at 31.12.2000	31.12.2000	Balance at 31.12.2001	31.12.2001	Balance at 31.12.2002	31.12.2002
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
福清市上巡鰻業 聯合公司第二鰻場	Mr. Yang Zongwang	<u>—</u>	<u>—</u>	<u>—</u>	<u>52</u>	<u>—</u>	<u>180</u>

15. 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.

16. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	THE GROUP		
	At 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within 3 months	1,751	2,464	15,685
Over 3 months but not more than 6 months	309	—	16
Over 6 months but not more than 1 year	165	29	3
Over 1 year but not more than 2 years	80	13	—
Over 2 years	103	21	—
	<u>2,408</u>	<u>2,527</u>	<u>15,704</u>

17. BANK LOANS

	THE GROUP		
	At 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
The maturity of the bank loans, which bear interest at prevailing market rates, is as follows:			
Within one year	41,700	48,500	41,500
After one year, but not exceeding two years	7,000	—	—
After two years, but not exceeding five years	—	—	7,000
	<u>48,700</u>	<u>48,500</u>	<u>48,500</u>
Less: Amount due within one year and included in current liabilities	<u>(41,700)</u>	<u>(48,500)</u>	<u>(41,500)</u>
Amount due after one year	<u>7,000</u>	<u>—</u>	<u>7,000</u>

The bank loans were guaranteed by 福建福銘食品有限公司 Fujian Fuming Food Co., Ltd. This company is indirectly 50% held by a brother of Mr. Yang Zongwang, who is also the chairman of this company. The Group has obtained consent, in principle, from the relevant banks that the above guarantee will be released and replaced by corporate guarantees from the Company shortly after the listing of the shares of the Company on the Stock Exchange of Hong Kong Limited.

18. UNSECURED BORROWINGS

	THE GROUP		
	At 31 December		
	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-free, one-year term loan from the local municipal government	1,242	1,242	1,242
Other borrowings from outside parties			
- One-year term loan (see note below)	840	790	178
- Interest-free loans with no fixed repayment terms	<u>110</u>	<u>—</u>	<u>—</u>
	<u>2,192</u>	<u>2,032</u>	<u>1,420</u>

Note: The one-year term loan from an outside party above bears interest at prevailing market rates and is guaranteed by 福建福銘食品有限公司 Fujian Fuming Food Co., Ltd. Subsequent to 31 December 2002, such loan was repaid in full.

19. PAID-IN CAPITAL

THE GROUP

For the purpose of this report, the paid-in capital as at 31 December 2000 and 31 December 2001 represented the registered capital of Fuwang as at the respective dates. The paid-in capital as at 31 December 2002 represented the paid-in capital of Bloxworth as at that date.

THE COMPANY

At 31 December 2002, issued capital of the Company comprised 1,000,000 nil-paid shares of nominal value of HK\$0.10 each. These shares were subsequently paid up in the manner described in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus.

20. RESERVES

(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) **Share premium**

For the purpose of this report, the share premium as at 31 December 2002 represented the share premium of Bloxworth as at that date.

(c) **Special reserve**

For the purpose of this report, the special reserve as at 31 December 2002 represented the difference between the registered capital of Fuwang and the consideration for the issue of shares of Bloxworth as part of the Reorganisation.

(d) **Distributable reserves**

The Company was incorporated on 21 October 2002 and did not earn any income or incur any expenses since incorporation. At 31 December 2002, the Company did not have any reserve available for distribution to its shareholders.

21. MAJOR NON-CASH TRANSACTIONS

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

22. OPERATING LEASES

THE GROUP
Year ended 31 December

	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Minimum lease payments in respect of land and buildings recognised in the combined income statement for the year in respect of:			
Land and buildings	30	30	155
Machinery and equipment	<u>—</u>	<u>—</u>	<u>375</u>
	<u>30</u>	<u>30</u>	<u>530</u>

At 31 December 2002, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

THE GROUP
At 31 December

	2000	2001	2002		
	Land and buildings	Land and buildings	Land and buildings	Machinery and equipment	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Within one year	8	8	618	1,500	2,118
In the second to fifth year inclusive	<u>—</u>	<u>—</u>	<u>593</u>	<u>1,125</u>	<u>1,718</u>
	<u>8</u>	<u>8</u>	<u>1,211</u>	<u>2,625</u>	<u>3,836</u>

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

23. CAPITAL COMMITMENTS

THE GROUP
At 31 December

	2000	2001	2002
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided	—	—	1,634

24. RELATED PARTY TRANSACTIONS

During the Relevant Periods, Mr. Yang Zongwang provided certain office premises and motor vehicles for the Group's use for nil consideration. The running costs of these premises and motor vehicles were borne by the Group. Had rent been charged by Mr. Yang Zongwang to the Group for the use of such properties and motor vehicles based on the prevailing market rates during the Relevant Periods, the Group would have paid rental expenses of approximately nil, RMB59,000 and RMB119,000 for the properties used and rental expenses of approximately RMB360,000, RMB360,000 and RMB360,000 for the motor vehicles used for the years ended 31 December 2000, 2001 and 2002, respectively. Such assessment was made by the directors with reference to the valuation performed by BMI Appraisals Limited, a firm of independent property valuers.

On 16 September 2002, the Group entered into a tenancy agreement with Mr. Yang Zongwang for the lease of an office unit and a carparking space from him for a term of three years commencing from 1 January 2003 to 31 December 2005 at a quarterly rental of RMB27,300 (inclusive of management, sanitary, newspaper delivery, equipment depreciation fees but exclusive of all relevant outgoings (including water and electricity expenses, telephone expenses and carparking expenses)). BMI Appraisals Limited, 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.

During the year ended 31 December 2002 and as part of the Reorganisation, Mr. Yang Zongwang subscribed for and was allotted 749 new shares of US\$1 each in the capital of Bloxworth at an aggregate subscription price of US\$3,650,000 (equivalent to RMB30,178,000).

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

Save as disclosed above and in notes 13, 14 and 21, in the opinion of the directors of the Company, the Group had no material transactions with related parties.

25. 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)) on a monthly basis to the fund.

B. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of the Relevant Periods by the Company or any of its subsidiaries to the Company's directors.

Under the arrangements presently in force, the aggregate remuneration (excluding discretionary bonus) of the Company's directors for the year ending 31 December 2003 is estimated to be approximately RMB1,797,000, further details concerning the terms of which are set out in the section headed "Further information about directors, management, staff and experts" in Appendix IV to the Prospectus.

C. SUBSEQUENT EVENTS

Subsequent to 31 December 2002, in preparation of the listing of the Company's shares on The Stock Exchange of Hong Kong Limited, the companies comprising the Group underwent a reorganisation to rationalise the group structure. As a result of the Reorganisation, the Company became the holding company of the Group on 2 June 2003. The details of this reorganisation and other changes are set out in the paragraph headed "Group reorganisation" in the section headed "Further information about the Company and its subsidiaries" in Appendix IV to the Prospectus.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Group, the Company or any of its subsidiaries have been prepared in respect of any period subsequent to 31 December 2002.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong