

FOSHAN HUAXIN PACKAGING CO.,LTD

Annual Report 2003

April 8th, 2004

Important Statement:

The Board of Directors of FOSHAN HUAXIN PACKAGING CO. LTD. (hereinafter referred to as the Company) hereby confirms that there are no important omissions, fictitious statements or serious misleading information carried in this report, and shall take all responsibilities, individual and/or joint, for the reality, accuracy and completion of the whole contents. This document is prepared in both Chinese and English, in case of any discrepancy in interpretation, the Chinese version shall prevail.

Mr. Wang Qi - the Chairman of Board, Mr. Tan Shanghui - the chief financial officer, and Mr. Mao Zhizhu – the manager of accounting department, hereby declare: The truthfulness and integrity of the financial statements carried in this report are guaranteed.

Table of Contents

I. Company Profile	3
II. Financial Highlights	4
III. Changes in Share Capital and Particulars about the Shares Held by the Major Shareholders	7
IV. Particulars About the Directors, Supervisors, Senior Management and Employees	9
V. Management Structure	11
VI. Particulars about the Shareholders' General Meeting	12
VII. Report of the Board of Directors	14
VIII. Report of the Supervisory Committee	21
IX. Significant Events	23
X. Financial Report	25
XI. Documents Available for Inspection	25

I. Company Profile

- 1 . Legal Name in Chinese: 佛山华新包装股份有限公司
Legal Name in English: Foshan Huaxin Packaging Co., Ltd.
- 2 . Legal Representative: Wang Qi
- 3 . Secretary of the Board: Chen Haiyan
Liaison Address: 18/F., Jinghua Bldg., Jihua Rd., Foshan City
Tel.: 0757-83981729、 83992076
Fax: 0757-83992026
Email: chenhy@fshxp.com
- 4 . Registered Address: #18., Jihua Rd.5th, Foshan City
Office Address: 18/F., Jinghua Bldg., Jihua Rd., Foshan City
Post Code: 528000
Official website: <http://www.fshxp.com>
E-mail: zhuaxin@163.com
- 5 . Newspapers Designated for Information Disclosing:
Securities Times, Hong Kong Commercial Daily
Website Designated by China Securities Regulatory Commission:
<http://www.cninfo.com.cn>
The Place Where the 2001 Interim Report is Prepared and Placed:
Office of the Board of Directors of the Company
- 6 . Stock Exchange Listed with: Shenzhen Stock Exchange
Short Form of the Stock Name: Yue Huabao B
Stock Code: 200986
- 7 . Misc. Information:
 - (1) **Initial business registration was on:** June 21st, 1999
Registered with: Guangdong Provincial Industrial and Commercial Administrative Bureau
 - (2) **Tax registration number:** Guo-shui-zi No. 440601707682279
 - (3) **Business license number:** 19035257-5
 - (4) **CPAs invited by the Company**
Domestic CPA: Guangdong Guangdong Zhengzhong Pearl River CPA Ltd.
10/F, Yuehai Group Building, No.555, Dongfeng Rd. East, Guangzhou
Tel: 020-83859808
Fax: 020-83800977
Overseas CPA: KPMG Hong Kong
8/F Prince's Building, 10 Chater Road, Central, Hong Kong
Tel (852) 28267126
Fax (852) 2845 2588

II. Financial Highlights

1. Major Accounting and Business Data of the Current Year

In RMB

Gross profit	112,737,996.22
Net profit	96,453,236.65
Net profit less non-recurring gains and losses	92,549,396.12
Major business profit	99,991,910.78
Other business profit	1,729,218.41
Operation profit	44,646,845.60
Investment profit	67,264,680.17
Allowance	--
None-business income, net	826,470.45
Cash flow from business operation, net	50,244,743.93
Increasing of cash and cash equivalents, net	-2,936,133.47

Note: The Non-recurring gains and losses RMB 3,903,840.53 are including:

- (1) Investment income of RMB -99,465.72 from selling of the 70% share equity of Foshan Huahao Chemistry Co., Ltd.
- (2) Impact of the carrying back of bad debt provision on the investment income in connection with Lile Huaxin Co.: RMB 3,513,775.00
- (3) Net none business income amounted to RMB 826,470.45
- (4) Income tax and minority shareholders' equity amounted to RMB -336,939.20

2. Major Accounting and Business Data of Previous 3 Years

In RMB

Subjects	2003	2002		2001	
		Adjusted	Not adjusted	Adjusted	Not adjusted
Major business turnover	606,531,159.61	740,610,675.54	740,610,675.54	511,303,619.01	511,303,619.01
Net profit	96,453,236.65	95,711,067.10	95,711,067.10	118,696,950.89	118,696,950.89
Gross asset	1,289,959,140.57	1,382,039,889.06	1,382,039,889.06	1,301,343,919.70	1,301,343,919.70
Shareholders' equity (minority shareholders' equity excluded)	954,383,429.54	903,200,192.89	854,855,192.89	865,942,625.79	807,489,125.79
Income per share (fully amortized)	0.219	0.218	0.218	0.27	0.270

Income per share (weighted average)	0.219	0.218	0.218	0.27	0.270
Net income per share less non-recurring gains and losses (fully amortized)	0.211	0.209	0.209	0.160	0.160
Net asset per share	2.17	2.06	1.95	1.97	1.8366
Net asset per share adjusted	2.16	2.04	1.93	1.95	1.8198
Net cash flow per share generated from business operation	0.11	0.25	0.25	0.0613	0.0613
Net income/asset ratio (% , fully amortized)	10.11%	10.60%	11.20%	13.71%	14.70%
Net income/asset ratio (% , weighted average)	10.45%	10.88%	11.19%	14.30%	14.72%
Income ratio less non-recurring gains/losses (% , fully amortized)	9.70%	10.18%	10.76%	8.12%	8.71%

3. Results of Net Profit Provided by Domestic and Overseas Auditors and Their Discrepancy.

For the year of 2003, the net profit result provided upon the domestic accounting standard is RMB96,453,000, whereas upon the international accounting standard (IAS) is RMB96,555,000. The following is the analysis on the discrepancy between the two results:

	<u>Net profit (in RMB10 thousand)</u>
Upon IAS	9,655.50
1. Amortizing of equity investment balance	-89.29
2. Others	79.09
Upon “Enterprise Accounting Standard”	9,645.30

4. Profit Data Provided Upon “Rules of Information Disclosing for Public Companies” (No.9) Issued by China Securities Regulatory Commission

Profit of the report term	2003				2002			
	Net income/asset ratio (%)		Income per share (RMB)		Net income/asset ratio (%)		Income per share (RMB)	
	Fully amortized	Weighted average	Fully amortized	Weighted average	Fully amortized	Weighted average	Fully amortized	Weighted average
Major business income	10.477	10.831	0.228	0.228	16.50	16.94	0.339	0.339
Operation profit	4.678	4.836	0.102	0.102	7.08	7.27	0.146	0.146
Net profit	10.106	10.447	0.219	0.219	10.60	10.88	0.218	0.218
Net profit less non-recurring gains and losses	9.697	10.025	0.211	0.211	10.18	10.45	0.209	0.209

5. Movement of Shareholders' Equity in the Report Term

in RMB

Items	Share Capital	Capital Reserves	Surplus Reserves	Statutory Public	Profit not distributed	Shareholders' equity
Initial	439,500,000.00	250,531,482.00	64,162,692.28	21,387,564.10	149,006,018.61	903,200,192.89
Increased this term		3,075,000.00	14,467,985.50	4,822,661.83	96,453,236.65	113,996,222.15
Decreased this term					62,812,985.50	62,812,985.50
At the end	439,500,000.00	253,606,482.00	78,630,677.78	26,210,225.93	182,646,269.76	954,383,429.54

Causation of movement:

1. Increasing of capital reserves: was caused by carrying over of governmental supporting fund RMB 4,100,000.00 to capital reserves. The fund was approved by Foshan Environmental Protection Bureau for the 1st phase of the swage treatment project of the Company. Therefore the Company recognized the capital reserves RMB 3,075,000.00 corresponding to the investment ratio.
2. Increasing of surplus reserves and statutory public welfare: were caused by drawing of from annual profit of the current year.
3. Increasing of profit not distributed: was caused by the retaining of the profit of the current year.

4. Increasing of shareholders' equity: was caused by the retaining of profit of the current year.

III. Changes in Share Capital and Particulars about the Shares Held by the Major Shareholders

1. Changes in Share Capital

(1) Changes in share capital in 10 thousand shares

	Before	Changed in current term(+,-)						After
		Shares placed	Bonus shares	Public reserve	Shares	Other changes	Sub-total	
1. Unlisted shares								
(1) Promoters' shares	29000							29000
State-owned shares								
Domestic legal person shares	29000							29000
Overseas legal person shares								
Others								
(2) Legal person shares placed								
(3) Employees' shares								
(4) Preference shares and others								
Total unlisted shares	29000							29000
2. Listed shares								
(1) Domestically listed RMB common shares								
Incl. Shares held by directors and supervisors								
(2) Domestically listed foreign shares	14950							14950
(3) Foreign shares listed abroad								
(4) Others								
Total listed shares	14950							14950
3. Total shares	43950							43950

(2) Share placing and listing

Particulars about previous share placing and listing

(in RMB and 10 thousand shares)

Year	Type of Shares	Date of Issue	Price of Issue	Amount of issue	Date of Listing	Amount in Transaction	Total share capital
2000	B shares	2000.06.14	1.78	13000	2000.07.06	13000	42000
2000	Issuing of new B Shares	2000.07	1.78	1950	2000.07	1950	43950

Approved by China Securities Regulatory Commission with document Zheng-jian-fa-xing-zi [2000] No. 65, the company issued 149,500,000 B shares (domestic listed foreign shares), plus promoters' shares of 290,000,000 shares, the total

capital shares of the Company is 439,500,000 shares;

There was not any changes happened to the total capital shares and structures of the Company;

There was no employees' shares of the Company.

2. Particulars about the Shareholders

- (1) At December 31, 2003, the Company has 22235 shareholders in total.
- (2) Particulars about the top 10 shareholders (at December 31, 2003)

In Shares:

No.	Name of shareholder	Increase/decrease in the report term	Number of current shares held	Number of none-current shares held	Takes the total capital shares by %	Type of share
01	Foshan Huaxin Development Co., Ltd.	0		286532200	65.20	Legal person
02	Dapu Investment Co., Ltd.	0	1267190		0.29	Current B share
03	Wu Haoyuan	0	1122599		0.26	Current B share
04	SURE WIDE INTERNATIONAL LIMITED		1000000		0.23	Current B share
05	Li Shunqin		975900		0.22	Current B share
06	CHAN PONG HUNG	-377,000	897900		0.20	Current B share
07	Huang Jianwei	+406,100	746960		0.17	Current B share
08	Chen Yuanfeng		710000		0.16	Current B share
09	SUMITOMO/DAIWA CHINA FUND	-30,000	710000		0.16	Current B share
10	Luo Manlin	0	690600		0.16	Current B share
	Total		8121149	286532200	67.0	

Note:

There was no related relationship between the Company and the top 9 shareholders of the Company. They are also not regarded as collaborated actors. The Company is not informed whether there is any collaborated action between any of the top 9 shareholders.

No shares held by the legal person shareholders holding over 5% (included 5%) of the total shares have ever been pledged or frozen in the report period.

- (3) About the controlling shareholder:
Foshan Huaxin Development Co., Ltd. holds 286532200 legal person shares (non-listed

shares) of the company, taking 65.2% of the total share capital. The Company was established on May 27, 1993, its legal representative is Liang Weidong, its registered capital is RMB457.93 million. Business scope: producing, manufacturing, distributing of packaging materials, paper, cable, wires, new materials; distributing of packaging machinery and repairing, etc. Foshan Huaxin Development Co., Ltd. has 7 legal person shareholders. Of them, Foshan Industrial Investment Management Co., Ltd. has contributed 62.1% of its capital. The actual controller of Foshan Industrial Investment Management Co., Ltd. is Foshan Municipal State-owned Assets Management Commission.

(4) At December 31, 2003, the top 10 holders of current shares are as the followings:

In Shares

No.	Name of the shareholder	Current shares held	Takes % of the total capital share	Type of share
1	Dapu Investment Co., Ltd.	1267190	0.29	Current B share
2	Wu Haoyuan	1122599	0.26	Current B share
3	SURE WIDE INTERNATIONAL LIMITED	1000000	0.23	Current B share
4	Li Shunqin	975900	0.22	Current B share
5	CHAN PONG HUNG	897900	0.20	Current B share
6	Huang Jianwei	746960	0.17	Current B share
7	Chen Yuanfeng	710000	0.16	Current B share
8	SUMITOMO/DAIWA CHINA FUND	710000	0.16	Current B share
9	Luo Manlin	690600	0.16	Current B share
10	PIAO J	687000	0.16	Current B share

IV. Particulars About the Directors, Supervisors, Senior Management and Employees

(I) Particulars about the directors, supervisors and senior management

1. Profiles

Name	Sex	Age	Position	Job Term	Shares held	
					Initial	End
Wang Qi	Male	50	Chairman	2002.6-2005.6	0	0
Liang Weidong	Male	41	Vice Chairman	2002.6-2005.6	0	0
Tan Shanghui	Male	53	Director/GM	2002.6-2005.6	0	0

Zhang Zhaoyang	Male	38	Director	2002.6-2005.6	0	0
He Jichang	Male	47	Director	2002.6-2005.6	0	0
Huang Xin	Male	42	Director	2003.6-2006.6	0	0
Ma Zhengwu	Male	40	Independent director	2002.6-2005.6	0	0
Tan Jinsong	Male	38	Independent director	2002.6-2005.6	0	0
Sun Shen'ai	Male	55	Independent director	2003.6-2005.6	0	0
Chen Zeqing	Female	52	Chairman of the supervisory committee	2003.6-2005.6	0	0
Feng Daming	Male	37	Supervisor	2002.6-2005.6	0	0
Huang Dabiao	Male	51	Supervisor	2002.6-2005.6	0	0
Zhang Zhe	Female	46	Supervisor	2003.6-2005.6	0	0
Wu Tie	Male	46	Supervisor	2003.6-2005.6	0	0
Zhou Qihong	Male	36	Vice GM	2002.6-2005.6	0	0
Chen Jiali	Male	46	Vice GM	2002.6-2005.6	0	0
Chen Haiyan	Male	38	Vice GM / secretary of the Board	2002.6-2005.6	0	0
Lu Liang	Male	31	Vice GM	2004.1-2005.7	0	0

Note: Particulars about the directors and supervisors who take jobs in shareholding companies:

Name	Take job in	Position
Wang Qi	Foshan Huaxin Development Co., Ltd.	Vice Chairman
Liang Weidong	Foshan Huaxin Development Co., Ltd.	Chairman
Chen Zeqing	Foshan Huaxin Development Co., Ltd.	Chief Secretary of CCCP, Vice GM

2. Annual Payrolls

- (1) An annual wage system is adopted by the Company for the directors, supervisors, and senior management, in according with the scheme set out by the shareholders' general meeting and the Board of Directors. The annual wages is decided according to the profitability of the Company. Currently, the annual wages of directors, supervisors and senior management are totalled to RMB1,780,000. The highest 3 directors are totalled to RMB 1,350,000, while the highest 3 management are totalled to RMB 1,350,000.
- (2) In the report term, the Company further improved its independent director system, the annual allowances for independent directors are totalled to RMB 38,000 /year. The necessary expenses of the independent directors for performing of responsibilities are undertaken by the Company.
- (3) As for the annual wages of directors, supervisors and senior management of the Company, there are 1 person ranged between RMB 500 thousand to RMB 600 thousand, and 3 people ranged between RMB300 thousand to RMB 400 thousand.
- (4) Current Chairman of Mr. Wang Qi, vice Chairman Liang Weidong, and directors of Zhang Zhaoyang, He Jichang, and Huang Xin are not taking wages from the Company; Supervisors of Chen Zeqing, Feng Daming, Zhang Zhe, and Wu Tie are not taking

wages from the Company. All of the above people takes wages from the company which they take jobs in.

3. Particulars about the Directors, Supervisors and Senior Management Who Left Their Positions

On the Shareholders' General Meeting 2002 held on May 20th, 2003, for the purpose of keeping the independent directors take more than 1/3 of the total members of the Board, directors of Chen Zeqing, Zhang Zhe, He Guozhu, Wu Tie and Luliang requested to quit from their positions. In the meantime, Mr. Sun Shen'ai and Mr. Huang Xin were elected the directors of the 2nd term Board of Directors, among them, Mr. Sun Shen'ai is an independent director.

On the above mentioned shareholders' general meeting, for the need of responsibility, the supervisors of Ms. Chen Guixing and Ms. Chen Lijie quitted from their positions. In the meantime, Ms. Chen Zeqing, Ms. Zhang Zhe and Mr. Wu Tie were elected the supervisors of the 2nd term Supervisory Committee.

(II) Particulars about the employees

Profession structure of the employees: there were totally 1131 employees of the Company, among them, 868 are production workers, 21 are sales persons, 194 are technical persons, 21 are accounting persons, and 27 are executive persons. In the meantime, there are 366 persons who are above intermediate vocational education, and 221 of retired workers.

V. Management Structure

1. About the Management of Company

Since it was listed, the Company is following with the requirement of the Company Law, Security Law and Public Company Management Regulations, the company kept optimizing the management structure and operate the Company in a standardized mean to ensure its healthy development. Relative criterions were produced and implemented. In the report term, 1 independent directors was engaged which made the number of independent directors reached the requirement of the "Instructions on the establishing of independent director system of public companies". There basically isn't any different between the practical situation of the Company and the regulatory documents issued by the Regulatory Council about the management of listed companies.

2. Performance of the Independent Directors

In accordance with the "Instructions on the establishing of independent directors system of public companies", the Company added one independent director. Currently the Company has 3 independent directors in the Board. They are, Mr. Ma Zhengwu, Mr. Tan Jingsong, and Mr. Sun Sheng'ai. The independent directors presented every single meeting of the Board in the report term, they performed their duties properly and took active role in the

decision-making processes of the Board. They also issued the independent statement on the issues of senior management movement and offering of guarantees to external parties. They were practically protecting the benefits of the investors and the entire company.

3. Relationship of the Company with the Major Shareholders

The Company is completely independent from the 1st shareholder – Foshan Huaxin Development Co., Ltd. in respect to business, personnel, asset, organization, and accounting:

- (1) **In the aspect of business:** The Company is completely independent from the controlling shareholder and has its independent and complete business operation capability.
- (2) **In personnel:** The Company is completely independent from the controlling shareholder. None of the managers, vice managers, secretary of the board, accountants and senior managements takes job in the shareholding party.
- (3) **In assets:** The assets invested by the controlling shareholder is complete and independent with clear ownership of equities. The controlling shareholder is not occupying, controlling, or interfering the asset and its management.
- (4) **In organization:** The company has a mature and independent organization structure, which completely separated from the controlling shareholder. The configuration of the Board of Directors, Supervisory Committee, and internal organizes are complying with the Company Law, Security Law and relative regulations and operated independently. The 1st shareholder is acting appropriately without interfering the decision-making and operation activities of the Company, directly or indirectly.
- (5) **In accounting:** The company has its own bank account. The controlling shareholder is not interfering any of the accounting activities of the Company. The accounting operations, accounting system, and taxation are completely independent.

4. Assessment and motivating mechanism of the senior management

In the report term, the Company performed assessment and motivation on the performance base. The Company hopes to realize a effective long-term motivation and restriction through establishing of a effective wage and shareholding scheme for the senior management team.

VI. Particulars about the Shareholders' General Meeting

The Shareholders' General Meeting 2002 was held on May 20th, 2003 in the meeting room of the company.

1. Holding of the Shareholders' General Meeting

The calling announcement for the Shareholders' General Meeting 2002 was published on the April 17th issues of Security Times and Hong Kong Commercial Daily, which was 30 days prior to the meeting.

The Board of Directors of the Company was responsible for the calling of the Shareholders' General Meeting 2002. There were totally 14 shareholders (or authorized representatives) attended the meeting, who were representing 290944000 shares which takes 66.20% of the total capital share; Among them, 6 were B share holders, representing 944000 shares takes 0.21% of the total capital share. The meeting received totally 14 valid votes, representing 290944000 shares. This was complying with the Company Law and the Article of Association.

2. Resolutions of the Shareholders' General Meeting

The following 12 resolutions were adopted by the Shareholders' General Meeting 2002 of the Company through voting procedures. The resolutions of the meeting were published by May 21st, 2003 issues of Security Times and Hong Kong Commercial Daily. The lawyer Ma Yunyan was sent by Shenzhen Xinda Law Firm to observed the meeting and issued a lawyer's statement. The statement took for the calling and holding procedures of the meeting, and the qualification of attendees as well as the voting procedures were complying with the relative laws, regulations and the Article of Association. The resolutions adopted by the meeting is legal and valid.

- (1) 2002 Work Report of the Board of Directors
- (2) 2002 Work Report of the supervisory Committee
- (3) 2002 Financial Settlement Report
- (4) 2002 Profit Distribution Proposal
- (5) 2002 Annual Report and the Summary
- (6) Proposal on the Extension Project of Foshan Huafeng Paper Co., Ltd. (For the detail, please refer to Public Notice No. 2003-001)
- (7) Plan for Establishing the Salary and Equity Based Motivation System
- (8) Proposal on Changing of the Registered Business Address
- (9) Proposal of Amending the Articles of Association
- (10) Proposal on Replacing Partial Members of the 2nd Board and Adding Independent Directors (For the detail, please refer to Public Notices No. 2003-001 and 003)
- (11) Proposal for Replacing Partial Members of the Supervisory Committee
- (12) Proposal on Engaging Certified Public Accountants for the Year 2003

3. Election and Replacement of Directors and Supervisors

On the Shareholders' General Meeting 2002 held on May 20th, 2003, in accordance with the relative criterions about the independent directors issued by China Securities Regulatory Commission, and for the purpose of keeping the independent directors take more than 1/3 of

the total members of the Board, with the approval of the shareholders' general meeting, directors of Chen Zeqing, Zhang Zhe, He Guozhu, Wu Tie and Luliang requested to quit from their positions. In the meantime, Mr. Sun Shen'ai and Mr. Huang Xin were elected the directors of the 2nd term Board of Directors, among them, Mr. Sun Shen'ai is an independent director. The resumes of the new director and the independent director were published with the March 28, 2003 and April 17, 2003 issues of Security Times and Hong Kong Commercial Daily respectively.

On this shareholders' general meeting, for the need of responsibility, the supervisors of Ms. Chen Guixing and Ms. Chen Lijie quitted from their positions. In the meantime, Ms. Chen Zeqing, Ms. Zhang Zhe and Mr. Wu Tie were elected the supervisors of the 2nd term Supervisory Committee. The resumes of the new supervisors were published with the April 17, 2003 issues of Security Times and Hong Kong Commercial Daily.

VII. Report of the Board of Directors

(I) Financial Analysis

In the year of 2003, following with the reducing of consolidation range and the climbing of raw material prices, the major business turnover decreased. That lead to the decreasing of major business profit. Though both of the production and sales volume of high-class coated white paper board, the major product of the Company, increased than those of the previous year, but the climbing of raw material prices blocked the increasing of its profitability. Lile Huaxin (Foshan) Packaging Co., Ltd., in which the Company invested, has achieved a great increasing in profitability, that brings the Company an increasing in investment incomes.

(II) Business Review

1. Major Business Scope and Operation

The Company is engaged in paper-making, packaging and printing industry, mainly producing and selling high-grade and high-quality packaging materials and packaging products including coated white board, soft packing cases (Lile case) for liquid food, color-printed packaging, new-typed packing materials, aluminum-plastic compound paper cans, etc. The Company comes out in front among domestic enterprises in the same sector in terms of production and operation scale, product quality level, technology innovation ability and comprehensive profit-making ability.

The Company's key products include high-grade coated white board, color-printed packaging and aluminum-plastic compound paper cans and fine chemical products.

In the report period, the breaking out of Iraq war and SARS brought negative influence on the business environment of the Company. For the 2nd half of year 2003, the white paper board market of Pearl River Delta became severe, along with the increasing of raw material

prices, the cost of the Company was under great pressure. The Company was not pulling back in the difficult situation though. In stead, the Company pushed forward the internal management reforming and technical innovation to upgrade the products. An advanced sales and marketing strategy was established, and the operation and management were pushed up to a higher level. The color-printed packaging business was turning positively and realized an increasing.

In the report year, the income of the Company from the major business was RMB 607,000,000, an decrease of 18.10% over the same period of the previous year; its profit from the major business was RMB100,000,000.00, a drop of 32.90% from the same period of the previous year; the realized net profit was RMB96,000,000, an increase of 0.78% over the same period of the previous year, the net profit after deducting of non-recurring gain/loss was RMB93,000,000, which increased by 0.63% over the previous year.

The distribution of the income and profit from the major business based on the products/industries is as follows:

In RMB10 thousand

Classified based on product /sectors	Income from major businesses	Proportion in income from major businesses (%)	Profit from major businesses	Proportion in income from major businesses (%)
High-class coated white board	55,057.49	90.8%	9,558.07	95.6%
Color printed packaging	5,464.33	9%	309.32	3.1%
Aluminium-plastic compound paper cans and others	379.12	0.6%	131.80	1.3%

The distribution of the income and profit from the major business on regions

The income and profit from the major business are mostly from the region of South China.

Production of the leading products that take 10% of the income from the major businesses

The leading products that take 10% of the income from the major businesses are high-grade coated white board, its sales income, sales costs and gross profit rate are listed as follows:

In RMB10 thousand

Products	Sales income	Sales cost	Gross interest rate (%)
High-grade coated white board	55,057.49	45,499.42	17.36

Significant change taken place in the principal business and structure in the report period in comparison with the previous year.

During the report term, the Company sold out Huahao Chemistry Co., Ltd., which cut off the major business income of fine chemistry products that takes 29% of the major business income of the previous year.

2. Performance of the Primary Shareholding Subsidiaries of the Company

In the report period, the Company held 25% of the equity in Lile Huaxin (Foshan) Packing Co., Ltd. The company is mainly engaged in production and marketing of soft packing cases (Lile cases) for liquid food. The company achieved a break-through growth in all aspects of output, sales volume, sales income, and profit. It is the best record since it was formed. For Lile Company was greatly supporting the market of normal temperature milk package of China for the past few years, and in the meantime, healthy was becoming the best concerning of Chinese people, that strongly brought up the requirement on Lile cases. For the above facts, the sales volume increased dramatically over that of the previous year. It was playing an active role for the increasing of investment income of the Company.

3. Major Suppliers and Customers

In the report period, the accumulative purchase amount from the top five suppliers took 19.85% of the total; the total sales volume to the top five customers took 15.84% of the total sales income.

4. Problems and difficulties occurred in the operations and the solutions

Focusing on the problems of old equipment, technical and management problems encountered in the operation of color-printing packaging business, the Company reformed and enhanced the operation team of the section in November. The new team performed right away the enhancement on supervising of management and production site. The losing situation has been effectively controlled within the past few months. The section is showing a trend of recovering.

(III) Investment in the Report Term

1. Application of the Proceeds Raised through Share Offering

In the report period, the Company raised no proceeds through share offering. Ended the report period, the application of the proceeds raised through B-share offering in 2000 fully complied with the investment projects as committed in the Prospectus; the proceeds already invested took 92.28% of the total. In the report period, there was no new project invested with the proceeds raised through share offering; the unused proceeds amounting to RMB 19.01 million was deposited in the Company's special bank account and shall be invested in the projects as committed in the plan at right time. The application result of the proceeds was also disclosed in 2001 Annual Report.

2. Investment projects with funds raised not through share offering

The Company entered the equity transferring agreement with Foshan Industrial Investment Administrative Co., Ltd. (shown as “Foshan Industry” hereinafter) on March 28th, 2003. The agreement set out the transaction of the 70% of Foshan Huahao Chemistry Co., Ltd. which was held by the Company to Foshan Industry. This transaction is a related transaction. It was on the principles of impartiality, justice, double win, and free will, and harmed no interests of the shareholders of the Company. The details about the above transaction has been disclosed with the April 1st 2003 issues of Security Times and Hong Kong Commercial Daily.

On May 20th, 2003, the Shareholders’ General Meeting 2002 of the Company adopted the proposal of extension project of Foshan Huafeng Paper Co., Ltd. The details about this proposal has already been disclosed in the Semi-annual Report of year 2003. The extension project is now under progress as scheduled before. Purchase contracts for key equipment have been signed. The construction and other supplementary engineering are under progress smoothly.

(IV) Financial Position and Operation Results

Main causes of increase/decrease in fulfilment of the financial targets in comparison with the previous year.

In RMB				
Items	End of 2003	End of 2002	Increase/ decrease	Increase/decrease proportion %
Gross assets	1,289,959,140.57	1,382,039,889.06	-92,080,748.49	-6.66
Long-term liabilities	25,620,000.00	44,767,419.71	-19,147,419.71	-4.28
Shareholders’ Equity	954,383,429.54	854,855,192.89	+51,183,236.65	+5.67
Profit from major businesses	99,991,910.78	149,024,867.65	-49,032,956.87	-32.90
Net profit	96,453,236.65	95,711,067.10	+742,169.55	+0.78
Net increase of cash and cash equivalents	-2,936,133.47	29,028,373.92	-31,964,507.39	-110%

Reason of Change:

1. Decreasing of gross assets: consolidation range reduced;
2. Decreasing of profit from major businesses: consolidation range reduced. Although the business income of white paper board increased than previous year, the gross profit ratio decreased;
3. Increasing of shareholders’ equity: profit of the current term;
4. Decreasing of long-term liabilities: consolidation range reduced;

5. Decreasing of cash and cash equivalents: consolidation range reduced, bank loans reduced, and raw material inventory increased.

(V) 2004 Business Plan

For the year of 2004, the Company will keep enforce the internal management of the Company. Along with the enhancing of enterprise competitive, the Company will focus on the developing of core business to lay a good foundation for the future development.

1. Major forces of the Company will be concentrated on the extension project of high-class coated white paper board of Huafeng Paper Co., Ltd. With the hardworking of 2003, the construction was pushed onto the preset rails. Professional teams are going all out to push the project into fast lane within 2004. The project was planned to be invested with RMB1.2 billion in total. It will increase the productivity of high-class white paper board by 300 thousand ton over the existing 130 thousand ton.
2. As in the new stage of development, the Company is exploring the new ideas and strategies on the co-operation with Lile Company. The existing co-operation will be fine adjusted to enable Lile Huaxing Company being operated more successfully. A double win situation will be founded on the bases of mutual benefit and synchronistic development.
3. Further develop the functions of Packaging Engineering and Researching Centre to establish a technical innovation system on enterprise level. Emphasis will be laid on adjustment of product structure and upgrading of product. Keep developing new products, new techniques, and new materials. Strengthen the functions of paper and printing products. Technical supporting for the extension projects is also been stressed on.
4. The enterprise culture will be founded to fit with the new age. Education and preserving of manpower will be stressed in the meantime. In the new stage of development, the requirement for high quality personnel is also growing. Except recruiting high quality personnel and establishing of motivation system, a good enterprise culture can greatly brush up the spirit of the employees. The Company will keep motivating the employees through implementing of effective motivation system to fully develop their potential and prepare for the future development.

(VI) Routine Work of the Board of Directors

1. Board meetings and resolutions in the report period

In the report year, the Company had held eight board meetings. The meetings and resolutions are summarized as follows:

(1) The 2nd term Board of Directors held its first meeting of 2003 on March 28, 2003. The following resolutions were examined and passed:

- The proposal of disposing the 70% of the share equity of Foshan Huahao Chemistry Co., Ltd. held by the Company.

- The proposal of extension project of Foshan Huafeng Paper Co., Ltd.
- The proposal of revising the Article of Association of the Company.
- The proposal of nominating the independent supervisors.

(2) The 2nd term Board of Directors held its 2nd meeting of 2003 on April 15, 2003. The following resolutions were examined and passed:

- 2002 Work Report of the Company
- 2002 Annual Report and the Summary
- 2002 Annual Report of the Board of Directors
- 2002 Profit Distribution Proposal
- Proposal on the Business Target and Plan of the Company for Year 2003
- Plan for Establishing the Salary and Equity Based Motivation System
- Proposal on Replacing Partial Members of the 2nd Board
- Proposal on Engaging Certified Public Accountants for the Year 2003
- Proposal on Holding of the Shareholders' General Meeting 2002.

(3) The 2nd term Board of Directors held its 3rd meeting of 2003 on April 25, 2003. The following resolutions were examined and passed:

- The 1st Quarterly Report of Year 2003
- The proposal of changing the registered business address, and revise of the Article of Association of the Company

(4) The 2nd term Board of Directors held its 4th meeting of 2003 on May 20, 2003. The following resolutions were examined and passed:

- The proposal for the layout of the professional commissions of the Board of Directors

(5) The 2nd term Board of Directors held its 5th meeting of 2003 on August 8, 2003. The following resolutions were examined and passed:

- Semi-annual Report 2003 and its summary version.

(6) The 2nd term Board of Directors held its 6th meeting of 2003 on October 29, 2003. The following resolutions were examined and passed:

- The 3rd Quarterly Report of 2003

2. Implementation of the Resolutions of the Shareholders' General Meeting by the Board of Directors:

In the report year, the Board carried out the work strictly according to the resolutions of the

Shareholders' General Meeting and seriously implemented all the resolutions of the Shareholders' General Meeting.

The important information of the aforesaid board meetings was timely disclosed and published on Securities Times and Hong Kong Commercial Daily according to the regulations and provisions concerning information disclosure.

(VII) 2003 Profit Distribution Proposal

As audited by Guangdong Zhengzhong Pearl River Certified Public Accountants, the Company's domestic auditor engaged and KPMG Certified Public Accountants, the Company's international auditor, according to the Chinese Accounting Standards (CAS) and the International Accounting Standards (IAS), the after-tax profit realized in 2003 was RMB96,453,236.65 and RMB96,555,000 respectively. In accordance with the Articles of Association, the profit distribution for the year 2003 should be based on the lower of the net profit as audited by the two auditors. The Company's net profit of RMB96,453,236.65 in 2002 as the basis for profit distribution. RMB9,645,323.67 is to be drawn as statutory public reserve and RMB4,822,661.83 as the statutory public welfare fund, plus the not distributed profit of accumulated at the beginning of current year amounted to RMB149,006,018.61, and less the profit distributed for common shares dividend amounted to RMB48,345,000 for year 2002, The profit available for distribution to shareholders is RMB182,646,269.76.

For the Company is investing on new projects and undertaking placing of new stock and applying for loan applying for the fund required. If the financing requests are approved by the authorities before the end of June 2004, then the profit distribution will be implemented upon the plan of RMB1.1 of cash dividend for each 10 shares (tax included); if the financing requests are not approved by the authorities before the end of June 2004, then the distribution plan shall not be implanted. So far the company has already raised. the financing request, but it is uncertain if it will be approved.

This profit distribution plan is subject to the examination and approval of the Shareholders' General Meeting.

(VIII) Other Matters Necessary to be Reported

1. In the report year, the newspapers chosen by the Company for disclosing its information remain unchanged, namely Securities Times and Hong Kong Commercial Daily.
2. Following with "The notifications for the standardizing of fund transactions between listed companies and related parties and providing of external guarantees" (hereinafter shown as "The Notification"), the CPA invited by the Company issued a special statement on the situation of fund adoption by the controlling shareholders and other related parties. As it stated, there is not any situation of the controlling shareholder or other related parties involved in adoption of the Company's fund till December 31,

2003.

The independent directors take for, till December 31, 2003, the Company didn't provide any significant guarantee to external parties. The Company keeps following with the regulations set out by the "Rules of Listing" and "Article of Association", performed its obligations on disclosing of the information about external guarantees. As required by Zheng-jian-fa [2003] No.56, the Company is about to revise the Article of Association of the Company, to improve the terms in connection with the approving procedures and qualifying procedures for external guarantees.

3. In the report term, the Company didn't involved in any of the material contracts such as providing of guarantees, financial entrustment, trusteeship, contracting or leasing of asset from (to) other companies.

VIII. Report of the Supervisory Committee

(I) Work Summary of the Report Term

In the year of 2003, for properly perform the duty of supervising on the operation of the Company, to keep the Company developing with a long term viewing, an adjustment was performed on the structure of the 2nd term Supervisory Committee, thus the Supervisory Committee was further enhanced. During the period of the report term, the members of the Supervisory Committee presented all of the Board meetings and shareholders' general meetings, and performed effective supervisory duty on the calling procedures, decision making procedures, resolutions, information disclosing, and fulfilling of the resolutions. The directors, managers and senior executives were also under the inspection of the committee for their legality and performance.

The committee held 4 meetings in year 2003, the followings are the details:

(1) The 2nd term Supervisory Committee held its 1st meeting of year 2003 on March 28th, 2003. All of the 4 supervisors presented the meeting. The following resolutions were adopted:

- The proposal of extension project of Foshan Huafeng Paper Co., Ltd.
- The proposal of disposing the 70% of the share equity of Foshan Huahao Chemistry Co., Ltd. held by the Company.

(2) The 2nd term Supervisory Committee held its 2nd meeting of year 2003 on April 15th, 2003. All of the 4 supervisors presented the meeting. The following resolutions were adopted:

- 2002 Annual Report and the Summary

- 2002 Work Report of the supervisory Committee
- 2002 Financial Settlement Report and 2002 Profit Distribution Proposal
- Proposal for Replacing Partial Members of the Supervisory Committee

For the need of responsibility, the supervisors of Ms. Chen Guixing and Ms. Chen Lijie quitted from their positions. In the meantime, Ms. Chen Zeqing, Ms. Zhang Zhe and Mr. Wu Tie were nominated the supervisors of the 2nd term Supervisory Committee.

The above resolutions were published with the April 17th 2003 issues of Securities Times and Hong Kong Commercial Daily

(3) The 2nd term Supervisory Committee held its 3rd meeting of year 2003 on April 25th, 2003. All of the 4 supervisors presented the meeting. The following resolutions were adopted:

- The 1st Quarterly Report of Year 2003
- The proposal of changing the registered business address, and revise of the Article of Association of the Company; It is approved to submit this proposal for the approval of the Shareholders' General Meeting 2002.

The above resolutions were published with the April 28th 2003 issues of Securities Times and Hong Kong Commercial Daily

(4) The 2nd term Supervisory Committee held its 4th meeting of year 2003 on May 20th, 2003. 4 of the 5 supervisors presented the meeting. One of the supervisors absent due business reason and entrusted another supervisor to exercise the voting rights. The proposal of nominating Ms. Chen Zheqing as the chairman of the Supervisory Committee was adopted.

The above resolution was published with the May 21st 2003 issues of Securities Times and Hong Kong Commercial Daily

(II) Opinion on Operation according to the Law

In the year 2003, members of the Supervisory Committees has played its due supervisory role. In the opinion of the Supervisory Committee: the Company conducted its operation strictly according to such laws and regulations as the Company Law, the Securities Law, and the Articles of Association. The Company has established a internal controlling system to further improved its internal control; The new accounting standard has been implemented in accordance with the relative laws and regulations. Directors, independent directors, managers and other senior executives have been doing their work with due diligence and in law-abiding and honest and self-regulatory way, and have never been involved in any action against the law, regulations and the Articles of Association or harmful to the Company's interest in implementing their duties.

(III) Opinion on Inspection over the Company's Financial Situation

In the opinion of the Supervisory Committee, the auditor's report for year 2003 and the notices to the relevant issues produced by Guangdong Zhengzhong Pearl River Certified Public Accountants and KPMG Certified Public Accountants have truly and objectively reflected the Company's financial position and operation result of the year.

(IV) Opinion on the Project Invested with the Proceeds Raised through Share Offering

The Supervisory Committee conducted inspection over the projects invested with the proceeds raised through share offering. In the opinion of the Supervisory Committee, the Company has strictly implemented the Rules concerning Application and Control of the Proceeds Raised through Share Offering. The actual application of the proceeds is in compliance with the Proceeds Application Plan as committed in the Prospectus. The unused proceeds amounting to RMB 19.01 million has been deposited in the Company's account and shall be invested to the relevant projects when necessary according to the plan.

(V) Opinion on Other Issues

1. The Company entered the equity transferring agreement with Foshan Industrial Investment Administrative Co., Ltd. (shown as "Foshan Industry" hereinafter) on March 28th, 2003. The agreement set out the transaction of the 70% of Foshan Huahao Chemistry Co., Ltd. which was held by the Company to Foshan Industry. This transaction is a related transaction. It was on the principles of impartiality, justice, double win, and free will, and harmed no interests of the shareholders of the Company. The details about the above transaction has been disclosed with the April 1st 2003 issues of Security Times and Hong Kong Commercial Daily.
2. In the report year, the Company had been involved in no material lawsuits or arbitration and offered no guarantee to controlling shareholders or related parties, neither to any nature person.

IX. Significant Events

1. In the report period, the Company was never involved in any material lawsuits or arbitrations.
2. Following with "the Notifications", the Company performed a self-check on

the situation of fund adoption by controlling shareholders and other related parties. Whereas no such situation was found.

In the report term, the Company didn't involved in any of the material contracts such as providing of guarantees, financial entrustment, trusteeship, contracting or leasing of asset from (to) other companies.

The independent directors take for, till December 31, 2003, the Company didn't provide any significant guarantee to external parties. The Company keeps following with the regulations set out by the "Rules of Listing" and "Article of Association", performed its obligations on disclosing of the information about external guarantees. As required by Zheng-jian-fa [2003] No.56, the Company is about to revise the Article of Association of the Company, to improve the terms in connection with the approving procedures and qualifying procedures for external guarantees.

3. In the report term, the Company revised the Article of Association of the Company. The details about the revising and the resolutions of the Shareholders' General Meeting on this issue have been disclosed properly with April 1st, 2003 and May 21st, 2003 issues of Securities Times and Hong Kong Commercial Daily.
4. The Company entered the equity transferring agreement with Foshan Industrial Investment Administrative Co., Ltd. (shown as "Foshan Industry" hereinafter) on March 28th, 2003. The agreement set out the transaction of the 70% of Foshan Huahao Chemistry Co., Ltd. which was held by the Company to Foshan Industry. This transaction is a related transaction. It was on the principles of impartiality, justice, double win, and free will, and harmed no interests of the shareholders of the Company. The details about the above transaction has been disclosed with the April 1st 2003 issues of Security Times and Hong Kong Commercial Daily.
5. On May 20th, 2003, the Shareholders' General Meeting 2002 of the Company adopted the proposal of extension project of Foshan Huafeng Paper Co., Ltd. The details about this proposal has already been disclosed in the Semi-annual Report of year 2003. The extension project is now under progress as scheduled before. Purchase contracts for key equipment have been signed. The construction and other supplementary engineering are under progress smoothly.
6. Engagement and Disengagement of the Certified Public Accountants and the Remuneration

In the report period, as approved at the Shareholders' General Meeting, the Company renewed engagement of Guangdong Zhengzhong Pearl River Certified Public Accountants and KPMG Certified Public Accountants as the domestic and international auditors. The procedure of deciding the remuneration to the certified public accountants: The Board determined the remuneration for audit based on the authorization of the Shareholders' General Meeting and according to relevant charging standard and work

volume. The auditing fee to the above auditors was: RMB310 thousand to Guangdong Zhengzhong Pearl River Certified Public Accountants and HK\$ 580 thousand to KPMG Certified Public Accountants.

7. In the report year, there existed no such events resulted in inspection, administrative punishment or notice of criticism from China Securities Regulatory Commission or open condemn from the Stock Exchange against any of the Company, the Board or any director.
8. In the report period, there was no other significant event in the Company.

X. Financial Report

(Attached Below)

XI. Documents Available for Inspection

The following documents and information are available at the Board office for investors and the relevant authorities to consult:

1. Accounting Statements with signatures and seals of the legal representative, Chief Accountant and person in charge of accounting affairs;
2. Auditors' Report under the seal of the accounting firm and signed by and under the seal of certified accountants.
3. Originals of all documents and manuscripts of Public Notices of the Company disclosed in public in the newspapers as designated by China Securities Regulatory Commission in the report period.
4. Original copy of 2003 Annual Report signed by the Chairman of the Board;

**The Board of Directors of Foshan Huaxin
Packaging Co., Ltd.**

April 8th, 2004



(Incorporated as a joint stock company in the People's Republic of China with limited liability)

Report of the auditors to the shareholders of Foshan Huaxin Packaging Company Limited

**Foshan Huaxin Packaging Company
Limited**

*(Incorporated as a joint stock company in the
People's Republic of China with limited liability)*

31 December 2003

Respective responsibilities of directors and auditors

We have audited the accompanying consolidated balance sheet of Foshan Huaxin Packaging Company Limited and its subsidiaries (the "Group") as of 31 December 2003 and the related consolidated statements of income and cash flows for the year then ended, set out on pages 2 to 30, which have been prepared in accordance with International Financial Reporting Standards. These consolidated financial statements are the responsibility of the directors. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing as promulgated by the International Federation of Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and

significant estimates made by the directors, as well as evaluating the overall financial

statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2003, and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

Certified Public Accountants

Hong Kong, 8 April 2004

(Expressed in Renminbi)

Consolidated income statement for the year ended 31 December 2003

	<i>Note</i>	2003 Rmb'000	2002 Rmb'000
Revenue	2	606,531	735,259
Cost of sales		<u>(506,539)</u>	<u>(585,987)</u>
Gross profit		99,992	149,272
Other operating income, net		3,047	3,032
Selling expenses		(14,796)	(22,286)
Administrative expenses		<u>(39,530)</u>	<u>(50,593)</u>
Profit from operations		48,713	79,425
Net financing costs	5	(3,119)	(12,817)
Share of profit of associate		<u>83,539</u>	<u>66,819</u>
Profit from ordinary activities before taxation		129,133	133,427
Income tax expense	7(a)		
- company and subsidiaries		(6,150)	(8,521)
- associate		<u>(16,275)</u>	<u>(11,551)</u>
Profit from ordinary activities after taxation		106,708	113,355
Minority interests		<u>(10,153)</u>	<u>(14,783)</u>
Profit attributable to shareholders	19	96,555	98,572
		=====	=====
Basic earnings per share	8	Rmb 0.22	Rmb 0.22
		=====	=====

No separate consolidated statement of recognised gains and losses has been prepared as the net profit for the year would be the only component of this statement.

The notes on pages 7 to 30 form part of these financial statements.

(Expressed in Renminbi)

Consolidated balance sheet at 31 December 2003

	<i>Note</i>	2003 Rmb'000	2002 Rmb'000
Assets			
Property, plant and equipment	9	666,011	721,681
Lease prepayments	10	40,241	41,124
Intangible assets	11	(2,829)	(3,515)
Construction in progress	12	23,318	28,289
Investment in associate	14	183,514	165,257
Other investments	15	<u>3,214</u>	<u>3,810</u>
Total non-current assets		913,469	956,646
		-----	-----
Inventories	16	86,931	90,989
Trade receivables		89,691	124,136
Bills receivable		32,865	29,017
Amount due from immediate holding company		-	2,843
Other receivables and prepayments		16,971	36,209
Cash and cash equivalents	17	<u>109,728</u>	<u>108,092</u>
Total current assets		336,186	391,286
		-----	-----
Total assets		<u>1,249,655</u>	<u>1,347,932</u>
		=====	=====

The notes on pages 7 to 30 form part of these financial statements.

(Expressed in Renminbi) **Consolidated balance sheet at
31 December 2003 (continued)**

	<i>Note</i>	2003 Rmb'000	2002 Rmb'000
Equity			
Share capital	18	439,500	439,500
Reserves	19	<u>476,635</u>	<u>428,425</u>
Total equity		916,135	867,925
		-----	-----
Minority interests		153,467	150,098
		-----	-----
Liabilities			
Non-current liabilities			
Interest-bearing bank loans	20	25,000	25,000
		-----	-----
Current liabilities			
Interest-bearing bank loans	20	57,470	133,327
Taxation	7(d)	1,315	9,092
Loan from associate	21	30,000	-
Amounts due to immediate holding company		176	-
Amounts due to related companies	22	-	23,672
Trade payables		40,192	53,240
Other payables and accrued expenses		<u>25,900</u>	<u>85,578</u>
		155,053	304,909
		-----	-----
Total liabilities		180,053	329,909
		-----	-----
Total equity, minority interests and liabilities		1,249,655	1,347,932
		=====	=====

Approved and authorised for issue by the board of directors on 8 April 2004

)
)
) Directors
)
)

The notes on pages 7 to 30 form part of these financial statements.

(Expressed in Renminbi)

Consolidated statement of cash flows for the year ended 31 December 2003

	<i>Note</i>	2003 Rmb'000	2002 Rmb'000
Operating activities			
Profit from ordinary activities before taxation		129,133	133,427
Adjustments for:			
- Depreciation		39,498	47,586
- Amortisation		453	421
- Interest income		(341)	(592)
- Interest expense		3,278	13,326
- (Gain)/loss on disposal of property, plant and equipment		(327)	500
- Net loss on disposal of subsidiaries	3	93	-
- Share of profit of associate		<u>(83,539)</u>	<u>(66,819)</u>
Cash flows from operating activities before changes in working capital		88,248	127,849
(Increase)/decrease in inventories		(25,140)	22,752
(Increase)/decrease in trade receivables and bills receivable		(2,100)	2,253
Decrease/(increase) in net amount due from immediate holding company		3,019	(2,843)
Decrease in other receivables and prepayments		5,096	78,845
(Decrease)/increase in amounts due to related companies		(18,003)	10,444
Increase/(decrease) in trade payables		7,487	(6,885)
Decrease in other payables and accrued expenses		(13,622)	(23,543)
PRC income tax paid		<u>(11,781)</u>	<u>(7,751)</u>
Cash flows from operating activities		<u>33,204</u>	<u>201,121</u>

Consolidated statement of cash flows for the year ended 31 December 2003 (continued)

(Expressed in Renminbi)

	<i>Note</i>	2003 Rmb'000	2002 Rmb'000
Investing activities			
Interest received		341	592
Dividends received		54,331	50,429
Payment for acquisitions of property, plant and equipment and construction in progress		(37,050)	(39,738)
Disposal of subsidiaries, net of cash disposed of	6	5,827	-
Acquisition of subsidiaries, net of cash acquired	6	-	(3,048)
Capital injection to associate		(3,725)	-
Proceeds from disposal of property, plant and equipment		2,669	4,582
Cash flows from investing activities		22,393	12,817
Financing activities			
Interest paid		(3,278)	(13,326)
New bank loans		-	145,000
Repayment of bank loans		(41,741)	(247,491)
New loan from associate		30,000	-
Capital injection from minority shareholder		20,602	-
Dividends paid		(48,345)	(58,453)
Dividends paid to minority shareholder		(11,199)	(6,413)
Cash flows from financing activities		(53,961)	(180,683)
Net increase in cash and cash equivalents		1,636	33,255
Cash and cash equivalents at 1 January		108,092	74,837
Cash and cash equivalents at 31 December		109,728	108,092

The notes on pages 7 to 30 form part of these financial statements.

(Expressed in Renminbi)

Notes to the consolidated financial statements

1 Significant accounting policies

Foshan Huaxin Packaging Company Limited (the “Company”) is a company incorporated in the People’s Republic of China (the “PRC”). The consolidated financial statements of the Company for the year ended 31 December 2003 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group is principally engaged in the production and sale of paper packaging products and printing and sale of packaging products.

XII. (a) Statement of compliance

The accompanying consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”). IFRS includes International Accounting Standards (“IAS”) and related interpretations.

XIII. (b) Basis of preparation

The consolidated financial statements are presented in Renminbi Yuan, rounded to the nearest thousand. They are prepared on the historical cost basis. The accounting policies have been consistently applied by the Group.

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

XIV. (c) Basis of consolidation

(i) Subsidiaries

Subsidiaries are those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control effectively ceases.

1 Significant accounting policies (continued)

XV. (c) Basis of consolidation (continued)

(ii) Associate

An associate is an enterprise in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of the associate on an equity accounted basis, from the date that significant influence commences until the date that significant influence effectively ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred obligations in respect of the associate.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprises against the investment in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(d) Lease prepayments

Lease prepayments represent fees for land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the period of the rights of 50 years.

XVI. (e) Intangible assets

(i) Goodwill

Goodwill arising on an acquisition represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortisation and impairment losses (see note 1(m)).

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of 10 years.

1 Significant accounting policies (continued)

XVII. (e) Intangible assets (continued)

(ii) Negative goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition.

To the extent that negative goodwill relates to an expectation of future losses and expenses that are identified in the plan of acquisition and can be measured reliably, but which have not yet been recognised, it is recognised in the income statement when the future losses and expenses are recognised. Any remaining negative goodwill, but not exceeding the fair values of the non-monetary assets acquired, is recognised in the income statement over the weighted average useful life of those assets that are depreciable/amortisable. Negative goodwill in excess of the fair values of the non-monetary assets acquired is recognised immediately in the income statement.

Amortisation is credited to the income statement on a straight-line basis over the estimated useful lives of 10 years.

XVIII. (f) Investments

Unlisted investments held by the Group are classified as being available-for-sale and are stated at cost, less provision for impairment losses. A provision is made where, in the opinion of management, there is an impairment in value of an investment.

Investments available-for-sale are recognised/derecognised by the Group on the date it commits to purchase/sell the investments.

On derecognition, the difference between the net proceeds received or receivable and the carrying amount of the investments are accounted for in the income statement.

XIX. (g) Translation of foreign currencies

Transactions in foreign currencies are translated to Renminbi Yuan at the exchange rates ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Renminbi Yuan at the foreign exchange rates ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

1 Significant accounting policies (continued)

XX. (h) Property, plant and equipment

- (i) Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(m)). The cost of property, plant and equipment constructed by the Group includes the cost of materials, direct labour and an appropriate proportion of fixed and variable overheads.
- (ii) Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognised in the income statement as an expense as incurred.
- (iii) Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives, after taking into account their estimated residual values, of items of property, plant and equipment. The estimated useful lives are as follows:

Buildings	40 years
Plant and machinery	20 years
Furniture, fixtures and office equipment	5 years
Motor vehicles	8 years

Assets are depreciated from the date of acquisition or, in respect of internally constructed assets, from the time an asset is substantially completed and ready for its intended use.

- (iv) On disposal of fixed assets, the profit or loss is determined as the difference between the net sale proceeds and the carrying amount.

XXI. (i) Construction in progress

Construction in progress represents properties under construction and equipment purchased prior to installation, which includes construction and acquisition costs, less impairment losses (see note 1(m)). Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when substantially all the activities necessary to prepare the assets for their intended use are completed. No depreciation is provided in respect of construction in progress until it is completed and ready for its intended use.

1 Significant accounting policies (continued)

XXII. (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and manufactured inventories, cost includes an appropriate share of production overheads.

XXIII. (k) Trade and other receivables

Trade and other receivables are stated at their cost less allowance for any amounts expected to be irrecoverable. All allowance is provided for based upon the evaluation of the recoverability of these accounts at the balance sheet date.

XXIV. (l) Cash and cash equivalents

Cash and cash equivalents comprise cash balances, deposits with banks and other financial institutions with an initial term of less than three months.

XXV. (m) Impairment

The carrying amounts of the Group's assets, other than inventories (see note 1(j)), deferred tax assets (see note 1(p)) and financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement.

(i) Calculation of recoverable amount

The recoverable amount of assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

1 Significant accounting policies (continued)

XXVI. (m) Impairment (continued)

(ii) Reversals of impairment

An impairment loss in respect of goodwill is not reversed unless the loss was caused by a specific external event of an exceptional nature that is not expected to recur, and the increase in recoverable amount relates clearly to the reversal of the effect of that specific event.

In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognised.

XXVII. (n) Interest-bearing borrowings

Interest-bearing borrowings recognised initially at cost, less attributable transaction costs, are stated at their carrying amounts.

XXVIII. (o) Dividends

Dividends are recognised as a liability in the period in which they are declared.

XXIX. (p) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly to equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

1 Significant accounting policies (continued)

XXX. (p) Income tax (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

XXXI. (q) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

XXXII. (r) Revenue recognition

Revenue is recognised in the income statement as follows:

- (i) Revenue from sales of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding recovery of the consideration due, associated costs or the possible return of goods.
- (ii) Interest income is accrued on a time-apportioned basis on the principal outstanding and at the rate applicable.

XXXIII. (s) Expenses

- (i) Operating lease payments

Payments made under operating leases are recognised in the income statement on a straight-line basis over the terms of the respective leases.

- (ii) Net financing costs

Net financing costs comprise interest payable on borrowings, interest receivable on funds invested, foreign exchange gains and losses, that are recognised in the income statement.

All interest and other costs incurred in connection with borrowings are expensed as incurred as part of net financing costs, except to the extent that they are capitalised as being directly attributable to the acquisition or construction of an asset which necessarily takes a substantial period of time to get ready for its intended use.

1 Significant accounting policies (continued)

XXXIV. (t) Retirement benefits

The Group participates in a retirement scheme operated by the local authority and the annual cost of providing retirement benefits is charged to the income statement according to the contribution payable as determined by the scheme.

XXXV. (u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), which is subject to risks and rewards that are different from those of other segments.

XXXVI. (v) Discontinuing operations

A discontinuing operation is a clearly distinguishable component of the Group's business that is abandoned or terminated pursuant to a single plan, and which represents a separate major line of business.

2 Segment reporting

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure.

Inter-segment pricing is determined on an arm's length basis.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly, income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

The Group's principal activities are the production and sale of paper packaging products, the printing and sale of packaging products. The Group's profits are almost entirely attributable to its manufacture and sale of products in the PRC. Accordingly, no geographical segmental analysis is provided.

2 Segment reporting (continued)

The Group comprises the following main business segments.

	<i>Production and sale</i>		<i>Printing and sale</i>		<i>Production and sale</i>		Consolidated	
	of packaging products		of packaging products		of chemical products		2003	2002
	2003	2002	2003	2002	2003	2002	2003	2002
	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000	Rmb'000
Total revenue from external customers	551,888	480,188	54,643	52,915	-	202,156	606,531	735,259
Segment result	57,541	75,180	(4,494)	(593)	-	10,069	53,047	84,656
Net financing cost	-	-	-	-	-	-	(3,119)	(12,817)
Unallocated expenses	-	-	-	-	-	-	(4,334)	(5,231)
Share of profit of associate	83,539	66,819	-	-	-	-	83,539	66,819
Income tax expense	-	-	-	-	-	-	(22,425)	(20,072)
Minority interests	-	-	-	-	-	-	(10,153)	(14,783)
Profit attributable to shareholders							96,555	98,572
Segment assets	847,566	827,035	105,155	109,567	-	133,802	952,721	1,070,404
Investment in associate	183,514	165,257	-	-	-	-	183,514	165,257
Unallocated assets							113,420	112,271
Total assets							1,249,655	1,347,932
Segment liabilities	57,543	63,272	9,812	11,908	-	75,062	67,355	150,242
Unallocated liabilities							112,698	179,667
Total liabilities							180,053	329,909
Segment capital expenditure for the year	36,162	31,926	590	3,933	-	3,879	36,752	39,738
Unallocated capital expenditure for the year							298	-
Total capital expenditure							37,050	39,738
Segment depreciation charge for the year	34,796	32,604	4,688	6,601	-	8,381	39,484	47,586
Unallocated depreciation charge for the year							14	-
Total depreciation charge							39,498	47,586
Amortisation charge/(credit) for the year	661	247	222	202	-	(28)	883	421

3 Discontinuing operations

In March 2003, the Company entered into a binding agreement for the sale of its subsidiaries, Foshan Huahao Chemicals Co. Ltd. (“Huahao”) and HuaFeng Starch products(Foshan)Co.,Ltd (“HuaFeng Starch”), which are principally engaged in the production and sale of chemical products, a separate business segment (refer note 2). Control of the subsidiaries effectively ceased on 1 January 2003.

As at 31 December 2002, the subsidiaries had total assets of Rmb147,590,000 and total liabilities of Rmb108,522,000. The amounts of revenue, income tax expenses and the net profit for the year ended 31 December 2002 were Rmb202,156,000, Rmb1,907,000 and Rmb5,885,000 respectively. The subsidiaries were sold for Rmb19,020,000 and a net loss of Rmb93,000, after taking into account the final dividend of Rmb3,512,000 for the year ended 31 December 2002 entitled by the Company, to be received from Hua Hao, was incurred. Note 6 shows the effect of the disposal on individual assets and liabilities of the Group.

During 2002, the subsidiaries had cash inflows from operating activities of Rmb7,013,000, cash outflows from investing activities of Rmb91,000 and cash outflows from financing activities of Rmb9,054,000.

4 Personnel expenses

	2003	2002
	Rmb'000	Rmb'000
Wages, salaries and other staff costs	31,872	45,536
Contributions to retirement scheme	<u>1,891</u>	<u>1,664</u>
	33,763	47,200
	=====	=====

Certain employees of the Group participate in a defined contribution retirement scheme operated by the PRC municipal government. The Group is required to contribute to the staff retirement scheme at a rate of 15% (2002: 15%) of salary costs. Member of the retirement scheme is entitled to pension benefits equal to a fixed portion of the salary at the retirement date. The Group has no obligation to make payments in respect of pension benefits associated with this plan other than the annual contribution described above.

5 Net financing costs

	2003	2002
	Rmb'000	Rmb'000
Interest expense	3,278	13,326
Interest income	<u>(341)</u>	<u>(592)</u>
	2,937	12,734
Net foreign exchange loss	<u>182</u>	<u>83</u>
Net financing costs	<u><u>3,119</u></u>	<u><u>12,817</u></u>

6 Disposal and acquisition of subsidiaries

On 1 January 2003, the Group disposed of the subsidiaries, which were purchased in 2002, as mentioned in note 3.

The disposal in 2003 and acquisition in 2002 had the following effect on the Group's assets and liabilities.

	<i>Disposal</i> 2003 Rmb'000	<i>Acquisition</i> 2002 Rmb'000
Property, plant and equipment	40,640	(47,082)
Construction in progress	15,211	(17,294)
Other investments	596	(596)
Inventories	29,198	(25,518)
Trade receivables	32,697	(34,636)
Other receivables and prepayments	16,055	(40,106)
Cash and cash equivalents	13,193	(15,435)
Minority interests	(16,187)	14,483
Bank loans	(34,116)	27,818
Taxation	(2,146)	4,362
Amounts due to related companies	(5,669)	11,599
Trade payables	(20,535)	18,968
Other payables and accrued expenses	<u>(46,056)</u>	<u>84,670</u>
Net identifiable assets and liabilities	22,881	(18,767)
Negative goodwill (written off)/on acquisition	<u>(256)</u>	<u>284</u>
	22,625	(18,483)
	=====	=====
Total consideration received/(paid)	19,020	(18,483)
Less: Cash and cash equivalents (disposed of)/acquired	<u>(13,193)</u>	<u>15,435</u>
Net cash inflow/(outflow)	5,827	(3,048)
	=====	=====

7 Income tax expense

XXXVII. (a) Taxation in the consolidated income statement

represents:

	2003 Rmb'000	2002 Rmb'000
<i>Current tax expense</i>		
Provision for PRC income tax for the year	20,958	20,642
Under/(over)-provision of PRC income tax relating to previous years	<u>1,467</u>	<u>(570)</u>
Total income tax expense in the consolidated income statement	<u>22,425</u>	<u>20,072</u>

7 Income tax expense (continued)

XXXVIII. (a) Taxation in the consolidated income statement

represents: (continued)

(i) The Company

The statutory PRC income tax rate applicable to the Company is 33%. No provision for income tax has been made for the Company as it incurred a loss during the year.

(ii) Subsidiaries

Pursuant to the state tax regulations, income tax for the subsidiaries is calculated at a preferential tax rate of 27% ruling in coastal cities.

Pursuant to the relevant approvals from the local tax authority, a subsidiary of the Group is exempted from enterprise income tax and local income tax on operating profits for its first two profit making years and is thereafter entitled to a 50% reduction on income tax and exemption from local income tax for a period of three years. 2003 is the last year the subsidiary is entitled to the reduced income tax rate.

Another subsidiary of the Group sustained a loss during the year and no provision has been made for income tax.

(iii) The Associate

The associate of the Group was classified as a high technological enterprise by Department of Science & Technology of Guangdong Province in 1992. Pursuant to the state tax regulations, the income tax for 2003 has been provided at 15% of the taxable income, i.e. the rate ruling in Foshan high-tech research and development zone where the associate is incorporated.

(b) No provision for deferred taxation has been made as there have been no material temporary timing differences during 2002 and 2003.

XXXIX. (c) Reconciliation of effective tax rate:

	2003	2002
	Rmb'000	Rmb'000
Profit from ordinary activities before taxation	129,133	133,427
	=====	=====
Income tax at applicable tax rates	17,061	18,221
Non-deductible items	2,927	1,892
Effect of losses of the Company and a subsidiary	1,317	1,367
Under/(over)-provision of PRC income tax relating to previous year	1,467	(570)
Others	(347)	(838)
	_____	_____
Income tax expense	<u>22,425</u>	<u>20,072</u>

7 Income tax expense (continued)

XL. (d) Taxation in the consolidated balance sheet represents:

	2003 Rmb'000	2002 Rmb'000
Balance at 1 January	9,092	3,960
Through (disposal)/acquisition of subsidiaries	(2,146)	4,362
Provision for PRC income tax for the year	6,150	8,521
Payments made during the year	<u>(11,781)</u>	<u>(7,751)</u>
 Balance at 31 December	 1,315 =====	 9,092 =====

8 Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2003 was based on the profit attributable to shareholders of Rmb96,555,000 (2002: Rmb98,572,000) and the number of shares outstanding at 31 December 2003 of 439,500,000 (2002: 439,500,000).

Diluted earnings per share

No diluted earnings per share is calculated as there were no dilutive potential shares during 2002 and 2003.

9 Property, plant and equipment

	<i>Buildings</i> Rmb'000	<i>Plant and machinery</i> Rmb'000	<i>Furniture, fixtures and office equipment</i> Rmb'000	<i>Motor vehicles</i> Rmb'000	<i>Total</i> Rmb'000
Cost:					
At 1 January 2003	241,223	591,712	19,035	13,060	865,030
Additions	-	8,132	2,416	637	11,185
Transfer from construction in progress (note 12)	348	15,277	-	-	15,625
Through disposal of subsidiaries	(19,519)	(23,330)	(514)	(2,794)	(46,157)
Disposals	<u>(1,439)</u>	<u>(2,715)</u>	<u>-</u>	<u>(129)</u>	<u>(4,283)</u>
At 31 December 2003	<u>220,613</u>	<u>589,076</u>	<u>20,937</u>	<u>10,774</u>	<u>841,400</u>
Accumulated depreciation:					
At 1 January 2003	17,637	115,383	5,370	4,959	143,349
Charge for the year	4,177	30,285	3,852	1,184	39,498
Written back through disposal of subsidiaries	(1,754)	(3,339)	(77)	(347)	(5,517)
Written back on disposal	<u>(21)</u>	<u>(1,845)</u>	<u>-</u>	<u>(75)</u>	<u>(1,941)</u>
At 31 December 2003	<u>20,039</u>	<u>140,484</u>	<u>9,145</u>	<u>5,721</u>	<u>175,389</u>
Net book value:					
At 31 December 2003	<u>200,574</u>	<u>448,592</u>	<u>11,792</u>	<u>5,053</u>	<u>666,011</u>
At 31 December 2002	<u>223,586</u>	<u>476,329</u>	<u>13,665</u>	<u>8,101</u>	<u>721,681</u>

XLI. Security

Buildings, plant and machinery with a total carrying value of Rmb3,885,000 (2002: Rmb5,595,000) were pledged to secure bank loans (note 20).

10 Lease prepayments

	Rmb'000
Cost:	
At 1 January 2003 and 31 December 2003	43,466

Accumulated amortisation:	
At 1 January 2003	2,342
Charge for the year	<u>883</u>
At 31 December 2003	3,225

Carrying value:	
At 31 December 2003	40,241
	=====
At 31 December 2002	41,124
	=====

11 Intangible assets

	<i>Goodwill</i> Rmb'000	<i>Negative goodwill</i> Rmb'000	<i>Total</i> Rmb'000
Cost:			
At 1 January 2003	960	(5,548)	(4,588)
Through disposal of subsidiaries	<u>-</u>	<u>284</u>	<u>284</u>
At 31 December 2003	960	(5,264)	(4,304)
	-----	-----	-----
Accumulated amortisation:			
At 1 January 2003	128	(1,201)	(1,073)
Charge for the year	96	(526)	(430)
Write back through disposal of subsidiaries	<u>-</u>	<u>28</u>	<u>28</u>
At 31 December 2003	224	(1,699)	(1,475)
	-----	-----	-----
Carrying value:			
At 31 December 2003	736	(3,565)	(2,829)
	=====	=====	=====
At 31 December 2002	832	(4,347)	(3,515)
	=====	=====	=====

12 Construction in progress

	2003	2002
	Rmb'000	Rmb'000
At 1 January	28,289	6,250
Additions during the year	25,865	21,549
Through (disposal)/acquisition of subsidiaries	(15,211)	17,294
Transfer to property, plant and equipment (note 9)	<u>(15,625)</u>	<u>(16,804)</u>
At 31 December	23,318	28,289
	=====	=====

13 Group companies

Control of the Group

The Company is a subsidiary of Foshan Huaxin Development Company Limited, the immediate holding company, which in turn is a subsidiary of Foshan Municipal Industrial Investment Management Limited, the ultimate holding company.

Details of the Group's principal subsidiaries

<i>Name of company</i>	<i>Registered and paid up capital</i>	<i>Percentage of equity held by the Group</i>		<i>Place of establishment and operation</i>	<i>Principal activities</i>
		2003	2002		
Foshan Huafeng Paper Company Limited ("Foshan Huafeng")	US\$63,612,000	75%	75%	PRC	Manufacture and sale of high value coated white paper board
Huaxin (Foshan) Colour Printing Company Limited ("Huaxin Colour Print")	US\$6,007,688	75%	75%	PRC	Printing and sale of packaging products

During the year, the registered capital of Foshan Huafeng was increased to US\$63,612,000 which was fully paid up at 31 December 2003.

On 1 January 2003, the Group disposed of two subsidiaries, Foshan Huahao Chemicals Co. Ltd, and HuaFeng Starch products(Foshan)Co.,Ltd(refer note 3).

14 Investment in associate

	2003 Rmb'000	2002 Rmb'000
Share of net assets of the associate	183,514	165,257
	=====	=====

Details of the associate are as follows:

<i>Name of company</i>	<i>Place of establishment and operation</i>	<i>Percentage of effective equity held by the Group</i>		<i>Principal activity</i>
		<i>2003</i>	<i>2002</i>	
Tetra Pak (Foshan) Packaging Company Limited	PRC	25%	25%	Manufacture and sale of paper package for soft drinks

During the year the registered capital of the associate was increased from US\$55,000,000 to US\$67,000,000. As at 31 December 2003, the Company paid 15% of its portion of the additional capital contribution and the remaining amount of US\$2,550,000 is to be injected within three years from the date of issuance of the revised business license of the associate, i.e. 23 December 2003.

15 Other investments

	2003 Rmb'000	2002 Rmb'000
Unlisted equity investments available-for-sale, at cost	3,214	3,810
	=====	=====

16 Inventories

	2003 Rmb'000	2002 Rmb'000
Raw materials	58,940	46,318
Work in progress	2,853	3,813
Finished goods	25,253	41,904
Less: general provision for finished goods	(115)	(1,046)
	86,931	90,989
	=====	=====

17 Cash and cash equivalents

Cash and cash equivalents represent cash in hand and at bank.

18 Share capital

	2003 Rmb'000	2002 Rmb'000
<i>Registered, issued and paid up capital:</i>		
290,000,000 domestic shares of Rmb1 each	290,000	290,000
149,500,000 'B' shares of Rmb1 each	<u>149,500</u>	<u>149,500</u>
	439,500	439,500
	=====	=====

The registered capital of the Company comprises 290,000,000 domestic shares of Rmb1 each and 149,500,000 'B' shares of Rmb1 each. All shares rank pari passu in all material respects.

19 Reserves

	Capital reserve Rmb'000	Statutory surplus reserve Rmb'000	Statutory public welfare reserve Rmb'000	Retained earnings Rmb'000	Total Rmb'000
Balance at					
1 January 2002	210,233	34,830	17,415	125,828	388,306
Net profit for the year	-	-	-	98,572	98,572
Transfer to PRC statutory reserves, net of minority interests' share (note (b) & (c))	-	9,571	4,786	(14,357)	-
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(58,453)</u>	<u>(58,453)</u>
Balance at					
31 December 2002	210,233	44,401	22,201	151,590	428,425
	=====	=====	=====	=====	=====
Balance at					
1 January 2003	210,233	44,401	22,201	151,590	428,425
Net profit for the year	-	-	-	96,555	96,555
Transfer to PRC statutory reserves, net of minority interests' share (note (b) & (c))	-	9,645	4,823	(14,468)	-
Dividends paid	<u>-</u>	<u>-</u>	<u>-</u>	<u>(48,345)</u>	<u>(48,345)</u>
Balance at					
31 December 2003	210,233	54,046	27,024	185,332	476,635
	=====	=====	=====	=====	=====

19 Reserves (continued)

Notes:

(a) Capital reserve

This reserve represents the excess of net assets assumed and the net proceeds received from shares issued by the Company, over the nominal value of the shares issued by the Company.

(b) Statutory surplus reserve

According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer 10% of its profit after taxation to the statutory surplus reserve until the reserve reaches 50% of the registered capital. For the purpose of calculating the transfer to reserve, the profit after taxation shall be the amount determined under PRC accounting standards. The transfer to this reserve must be made before distribution of dividends to shareholders.

Statutory surplus reserve can only be used to make good previous years' losses, if any, and for capitalisation issue provided that the balance after such issue is not less than 25% of the registered capital.

(c) Statutory public welfare reserve

According to the current PRC Company Law and the Company's articles of association, the Company is required to transfer 5% to 10% (at the discretion of the Board of Directors) of its profit after taxation (determined under PRC accounting standards) to the statutory public welfare reserve. This reserve can only be used on capital expenditure for the collective benefits of the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. This reserve is non-distributable other than in liquidation. The transfer to this reserve must be made before distribution of dividends to shareholders. The Directors have resolved to transfer 5% (2002: 5%) of the current year's profit after tax to this reserve on 8 April 2004.

(d) Distributable retained earnings

According to the Company's Articles of Association, the retained earnings available for distribution are the lower of the amount determined under PRC accounting standards and amount determined under IFRS. As of 31 December 2003, the retained earnings available for distributions were Rmb 185,332,000 (2002: Rmb103,245,000), after taking into account of the current year's transfer to other reserves.

19 Reserves (continued)

(e) Dividend

(i) The following dividend has not been provided for in the financial statements:

	2003 Rmb'000	2002 Rmb'000
Proposed final dividend of Rmb Nil (2002: Rmb0.11 per ordinary share)	-	48,345
	=====	=====

Pursuant to a resolution passed at the Directors' meeting held on 8 April 2004, the directors do not recommend the payment of final dividend in respect of the year ended 31 December 2003, subject to the approval of the shareholders at the Company's Annual General Meeting.

(ii) Dividend paid during the year is as follows:

	2003 Rmb'000	2002 Rmb'000
Final dividend of Rmb0.11 per ordinary share for the year ended 31 December 2002 (2001: Rmb0.133)	48,345	58,453
	=====	=====

20 Bank loans

(i) *The bank loans of the Group were repayable as follows:*

	2003 Rmb'000	2002 Rmb'000
<i>Secured</i>		
Due within 1 year	2,470	2,477
	-----	-----
<i>Unsecured</i>		
Due within 1 year	55,000	130,850
Due after 1 year but within 2 years	-	-
Due after 2 years but within 5 years	25,000	25,000
	-----	-----
	80,000	155,850
	-----	-----
	82,470	158,327
	=====	=====

20 Bank loans (continued)

(i) ***The bank loans of the Group were repayable as follows: (continued)***

At 31 December 2003, certain bank loans were secured over buildings, plant and machinery with a carrying value of Rmb3,885,000. At 31 December 2002, certain bank loans were secured over buildings, plant and machinery with a carrying value of Rmb5,595,000 and investments with a carrying value of Rmb3,000,000.

Included in the loans is an amount of Rmb55,000,000 (2002: Rmb110,000,000) which is guaranteed by the immediate holding company. Bank loans totalling Rmb20,850,000 as of 31 December 2002 guaranteed by a fellow subsidiary were wholly repaid in 2003.

XLII. (ii) The interest rates and terms of repayment of bank loans of the Group are as follows:

	<i>Interest Rate</i>	<i>Interest type</i>	<i>At 31 December 2003 Rmb'000</i>
Renminbi denominated			
loans			
- Due in 2004	4.779% - 6.372%	Fixed	57,470
<i>Long term bank loans</i>			
Renminbi denominated			
loans			
- Due in 2007	5.022%	Variable	25,000

21 Loan from associate

The loan from associate is unsecured, interest-bearing at a rate of 3% per annum and repayable on 29 April 2004.

22 Amounts due to related companies

The amounts due to related companies in 2002 were unsecured, interest-free and repayable on demand.

23 Financial instruments and concentration of risks

Financial assets of the Group principally include cash and cash equivalents, trade, bills and other receivables and investments. Financial liabilities of the Group principally include trade and other payables and accrued expenses, loan from associate and bank loans. Accounting policies for financial assets and liabilities are set out in note 1.

XLIII. (a) Interest rate risk

The interest rates and terms of repayment of the bank loans of the Group are disclosed in note 20.

23 Financial instruments and concentration of risks (continued)

XLIV.(b) Credit risk

Credit risk represents the accounting loss that would be recognised at the reporting date if counterparties failed to perform completely as contracted. The Group does not have significant exposure to any individual customer or counterparty. To reduce exposure to credit risk, the Group performs ongoing credit evaluations of the financial condition of its customers but generally does not require collateral. The Group deposits substantially all the cash and cash equivalents with the four largest state-owned banks of the PRC. The Group is exposed to credit-related losses in the event of non-performance by counterparties to financial instruments but, based on the Group's credit assessment and the past repayment records of the counterparties, management does not expect any material counterparty to fail to meet its obligations.

At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet.

XLV.(c) Foreign currency risk

The Group incurs foreign currency risk on cash and cash equivalents of Rmb11,530,000 (2002: Rmb2,058,000) that are denominated in Hong Kong dollars and United States dollars. Fluctuation of the exchange rates of Hong Kong dollars and United States dollars against Renminbi Yuan will affect the Group's financial position.

XLVI.(d) Fair value

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of IAS 32 and IAS 39. Fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39, and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgement is required to interpret market data to develop the estimates of fair values. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following summarise the major methods and assumptions used in estimating the fair values of the Group's financial instruments.

The fair values of cash and cash equivalents, trade, bills and other receivables, trade and other payables and accrued expenses, loan from associate and bank loans are not materially different from their carrying values due to the short-term nature of these instruments.

23 Financial instruments and concentration of risks (continued)

XLVII. (d) Fair value (continued)

There are no quoted market prices for unlisted equity investments. Accordingly, a reasonable estimate of fair value not be made without incurring excessive costs. Unlisted equity investments are stated at cost less impairment losses.

The fair value of the long-term bank loan is Rmb24,593,000 (2002: Rmb24,500,999), which differs from its carrying amount of Rmb25,000,000 (2002: Rmb25,000,000) as shown in the balance sheet. The fair value has been determined by discounting the relevant cash flows using current interest rates for similar instruments.

24 Operating lease commitments

Minimum lease payments under non-cancellable operating leases in respect of properties are payable as follows:

	<i>2003</i>	<i>2002</i>
	Rmb'000	Rmb'000
<i>Operating lease charges payable:</i>		
Within 1 year	563	754
After 1 year but within 5 years	352	255
	915	1,009
	915	1,009

The leases typically run for an initial period of one to five years, with an option to renew the lease after that date. Lease payments are increased annually to reflect market rentals. None of the leases includes contingent rentals.

During the year ended 31 December 2003, Rmb1,522,000 was recognised as an expense in the income statement in respect of operating leases (2002: Rmb1,842,000).

25 Capital commitments

At 31 December 2003, the Group had capital commitments as follows:

	<i>2003</i>	<i>2002</i>
	Rmb'000	Rmb'000
Authorised and contracted for	21,106	-
Authorised but not contracted for	1,191,947	-
	1,213,053	-
	1,213,053	-

These capital commitments are for the construction of a new production plant and additional capital contribution to the associate.

26 Related party transactions

The following is a summary of the significant transactions carried out in the normal course of business between the Group and its holding companies:

	<i>Note</i>	<i>2003</i> Rmb'000	<i>2002</i> Rmb'000
Acquisition of Huahao and HuaFeng Starch	(a)	-	18,483
Disposal of Huahao and HuaFeng Starch	(b)	19,020	-
Interest expenses	(c)	600	-
Rental expenses	(d)	352	352
Bank loans guarantee	(e)	55,000	110,000
		=====	=====

Notes:

(a) Acquisition of Huahao and HuaFeng Starch

In 2002, the Company acquired 70% equity interests of Huahao, which held 45% equity interest in HuaFeng Starch, from its ultimate holding company for a cash consideration of Rmb18,483,500. The acquisition was completed on 8 January 2002 and the Company took control of Huahao and HuaFeng Starch with effect from the same date.

(b) Disposal of Huahao and HuaFeng Starch

The Company disposed of all of its equity interests of Huahao and HuaFeng Starch to its ultimate holding company with a cash consideration of Rmb19,020,000. The Company's control on Huahao and HuaFeng Starch ceased on 1 January 2003.

(c) In 2003, interest expenses arose from an interest-bearing loan at a rate of 3% was paid to the associate.

(d) Rental expenses represented the payment to the immediate holding company for the use of office by the Company.

(e) Included in the loans is an amount of Rmb55,000,000 (2002: Rmb110,000,000) which is guaranteed by the immediate holding company. Bank loans totalling Rmb20,850,000 as of 31 December 2002 guaranteed by a fellow subsidiary were wholly repaid in 2003.