Spread Prospects Holdings Limited

展鴻控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Interim Report 2005

CONTENTS

INDEPENDENT REVIEW REPORT

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF SPREAD PROSPECTS HOLDINGS LIMITED
展鴻控股有限公司
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have been instructed by Spread Prospects Holdings Limited (the "Company") to review the interim financial report set out on pages 4 to 17.

DIRECTORS' RESPONSIBILITIES

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion 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.

REVIEW WORK PERFORMED

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 September 2005

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

		Six months ended 30 June	
		2005	2004
		RMB'000	RMB'000
	Notes	**(Unaudited)**	(Unaudited)
Turnover	4	**223,710**	190,617
Cost of sales		**(153,580)**	(124,978)
Gross profit		**70,130**	65,639
Other operating income		**911**	525
Selling expenses		**(6,448)**	(6,557)
Administrative expenses		**(5,398)**	(5,144)
Finance costs		**(2,440)**	(1,325)
Profit before taxation	5	**56,755**	53,138
Taxation	6	**(7,363)**	(11,075)
Net profit for the period		**49,392**	42,063
Dividends proposed	7	**—**	—
Earnings per share	8		
- Basic		**RMB0.117**	RMB0.109
- Diluted		**RMB0.107**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2005

	Notes	30 June 2005 RMB'000 (Unaudited)	31 December 2004 RMB'000 (Audited and Restated)
Non-current assets			
Property, plant and equipment	9	**122,536**	125,900
Deposits paid for acquisition of property, plant and equipment		**1,581**	495
Prepaid lease payments		**2,088**	2,063
		126,205	128,458
Current assets			
Inventories		**16,642**	13,787
Trade receivables	10	**74,979**	87,456
Other receivables, deposits and prepayments		**4,010**	8,789
Prepaid lease payments		**840**	2,114
Pledged bank deposits		**11,790**	4,282
Bank balances and cash		**333,031**	241,223
		441,292	357,651
Current liabilities			
Trade payables	11	**18,312**	12,723
Bills payable		**32,450**	15,920
Receipt in advance, other payables and accrued charges		**11,728**	14,571
Amount due to ultimate holding company	16	**7,102**	—
Amounts due to directors	16	**224**	63
Taxation payable		**3,595**	7,345
Bank loans - amount due within one year	12	**49,770**	50,000
		123,181	100,622
Net current assets		**318,111**	257,029
		444,316	385,487
Capital and reserves			
Share capital	13	**44,817**	44,817
Reserves		**345,713**	308,870
		390,530	353,687
Non-current liabilities			
Bank loans - amount due after one year	12	**21,730**	—
Convertible notes	14	**31,040**	31,800
Derivative financial instrument	15	**1,016**	—
		53,786	31,800
		444,316	385,487

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2005

	Share capital RMB'000	Share premium RMB'000	Special reserve RMB'000	Capital reserve RMB'000	Surplus reserve fund RMB'000	Enterprise expansion fund RMB'000	Accumulated profits RMB'000	Total RMB'000
At 1 January 2004	40,577	53,379	24,709	—	15,428	7,586	112,842	254,521
Issue of new shares	4,240	23,320	—	—	—	—	—	27,560
Expenses incurred in connection with the issue of new shares	—	(1,522)	—	—	—	—	—	(1,522)
Dividend for 2003	—	—	—	—	—	—	(17,030)	(17,030)
Net profit for the year	—	—	—	—	—	—	90,158	90,158
At 31 December 2004 - restated	44,817	75,177	24,709	—	15,428	7,586	185,970	353,687
At 1 January 2005								
- as previously reported	44,817	75,177	24,709	861	15,428	7,586	185,947	354,525
- effect of changes in accounting policies (note 3)	—	—	—	(861)	—	—	23	(838)
- as restated	44,817	75,177	24,709	—	15,428	7,586	185,970	353,687
Dividend for 2004	—	—	—	—	—	—	(12,549)	(12,549)
Net profit for the period	—	—	—	—	—	—	49,392	49,392
At 30 June 2005	44,817	75,177	24,709	—	15,428	7,586	222,813	390,530
At 1 January 2004	40,577	53,379	24,709	—	15,428	7,586	112,842	254,521
Issue of new shares	4,240	23,320	—	—	—	—	—	27,560
Expenses incurred in connection with the issue of new shares	—	(1,522)	—	—	—	—	—	(1,522)
Dividend for 2003	—	—	—	—	—	—	(17,030)	(17,030)
Net profit for the period	—	—	—	—	—	—	42,063	42,063
At 30 June 2004	44,817	75,177	24,709	—	15,428	7,586	137,875	305,592

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2005

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
	(Unaudited)	(Unaudited and Restated)
Net cash from operating activities	**86,882**	39,481
Net cash used in investing activities	**(11,127)**	(43,146)
Net cash from financing activities	**16,053**	9,008
Net increase in cash and cash equivalents	**91,808**	5,343
Cash and cash equivalents at beginning of the period	**241,223**	164,212
Cash and cash equivalents at end of the period, representing bank balances and cash	**333,031**	169,555

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2005

1. BASIS OF PREPARATION

The Company is incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law of the Cayman Islands. Its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Company's ultimate holding company is Fu Teng Global Limited ("Fu Teng"), a company incorporated in the British Virgin Islands.

The condensed financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004, except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based payments

In the current period, the Group has adopted HKFRS 2 "Share-based Payment" which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of the directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the adoption of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. As the share options of the Group were granted after 7 November 2002 and had vested before 1 January 2005, the Group has not applied HKFRS 2 in accordance with the relevant transitional provisions. Accordingly, no comparative figures have been restated.

Financial instruments

In the current period, the Group has applied HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement". HKAS 32 requires retrospective application. HKAS 39, which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

Convertible notes

HKAS 32 requires an issuer of a compound financial instrument (that contains both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to the convertible notes issued by the Company on 13 December 2004. Previously, certain portion of the convertible notes was considered to constitute equity component and therefore recognised as a capital reserve. Deferred tax liabilities thereon were also recognised. According to HKAS 32, the conversion option should be classified as equity component only if the option can be converted by exchanging a fixed amount of cash or another financial asset for a fixed number of the entity's own equity instruments. During the current period, the Group re-visited the terms of the convertible notes and determined that the convertible notes do not contain any equity components because the conversion price for the convertible notes is subject to change and the convertible notes cannot be converted into a fixed number of the Company's shares. Instead the convertible notes contain an embedded conversion option which is not closely related to the host contract and is required to be separately accounted for under HKAS 39. Because HKAS 32 requires retrospective application, comparative figures have been restated to derecognise the capital reserve and the corresponding deferred tax liabilities (see note 3 for the financial impact).

Derivatives

From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date regardless of whether they are deemed as held for trading or designated as effective hedging instruments. Under HKAS 39, derivatives (including embedded derivatives separately accounted for from the host contracts) are deemed as held-for-trading financial assets or financial liabilities, unless they qualify and are designated as effective hedging instruments. The Group has applied the relevant transitional provisions in HKAS 39. The conversion option embedded in the convertible notes is separately accounted for and recorded as derivative financial instrument in the balance sheet. It was measured at fair value as at 1 January 2005 and the Group recognised the fair value amounting to RMB1,016,000 (see note 3 for the financial impact). During the current period, there is no material change in the fair value of the derivative financial instrument.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively (see note 3 for the financial impact).

3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	At 31.12.2004 RMB'000 (Originally stated)	Adjustments RMB'000	Reclassification RMB'000 (Note)	At 31.12.2004 RMB'000 (Restated)	Adjustments RMB'000	At 1.1.2005 RMB'000 (Restated)
Non-current assets						
Property, plant and equipment	128,010	(2,110)	—	125,900	—	125,900
Prepaid lease payments	—	2,063	—	2,063	—	2,063
Current assets						
Other receivables, deposits and prepayments	10,856	—	(2,067)	8,789	—	8,789
Prepaid lease payments	—	47	2,067	2,114	—	2,114
Non-current liabilities						
Convertible notes	(30,784)	(1,016)	—	(31,800)	1,016	(30,784)
Derivative financial instrument	—	—	—	—	(1,016)	(1,016)
Deferred tax liability	(178)	178	—	—	—	—
Total effects on assets and liabilities	107,904	(838)	—	107,066	—	107,066
Capital and reserves						
Capital reserve	861	(861)	—	—	—	—
Accumulated profits	185,947	23	—	185,970	—	185,970
Total effects on equity	186,808	(838)	—	185,970	—	185,970

Note: It represents the reclassification of the prepaid lease payments under other operating leases which were previously included in the other receivables, deposits and prepayments.

4. SEGMENT INFORMATION

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
<u>Business segments</u>		
Turnover - external		
Manufacture and sale of tinplate cans	**198,072**	165,933
Tinplate lacquering and printing services	**25,638**	24,684
	223,710	190,617
Segment results		
Manufacture and sale of tinplate cans	**50,424**	47,251
Tinplate lacquering and printing services	**12,587**	11,299
	63,011	58,550
Unallocated corporate expenses	**(3,816)**	(4,087)
Finance costs	**(2,440)**	(1,325)
Profit before taxation	**56,755**	53,138
Taxation	**(7,363)**	(11,075)
Net profit for the period	**49,392**	42,063

No geographical segment analysis is shown as the Group's operating businesses are substantially carried out in the People's Republic of China, other than Hong Kong (the "PRC").

5. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Profit before taxation has been arrived at after charging:		
Amortisation of prepaid lease payments	**1,299**	1,020
Depreciation of property, plant and equipment	**6,785**	3,067

6. TAXATION

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC		
- current period	**7,363**	11,075

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

A PRC subsidiary has operations in the Fujian province. The applicable income tax rate for productive enterprises located at coastal cities is 24%, and a reduced rate of 15% for the operational profits derived from the relevant economic development zones, with a local surtax of 3%. According to the letter issued by Fuqing State Tax Bureau on 28 March 2003, the local surtax of 3% is exempted. Another PRC subsidiary has operations in the Shanxi province, which is exempted from PRC Foreign Enterprise Income Tax commencing in 2005 for two years and thereafter a 50% tax relief for the next three years. The local surtax of 3% is exempted according to local preferential policy.

7. DIVIDENDS

At the annual general meeting of the Company held on 3 June 2005, a final dividend of HK$0.028 (equivalent to approximately RMB0.030) per share in respect of the year ended 31 December 2004, amounting to RMB12,549,000, was approved.

At the annual general meeting of the Company held on 18 June 2004, a final dividend of HK$0.038 (equivalent to approximately RMB0.040) per share in respect of the year ended 31 December 2003, amounting to RMB17,030,000, was approved.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2005. No interim dividend was declared by the directors for the six months ended 30 June 2004.

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2005	2004
	RMB'000	RMB'000
Earnings:		
Net profit for the period for the purposes of basic earnings per share	**49,392**	42,063
Effect of dilutive potential ordinary shares: Interest on convertible notes	**892**	
Net profit for the period for the purposes of diluted earnings per share	**50,284**	

	Six months ended 30 June	
	2005	2004
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**422,800,000**	386,536,264
Effect of dilutive potential ordinary shares: Convertible notes	**45,777,427**	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**468,577,427**	

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

9. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB3,421,000 (2004: RMB67,998,000).

10. TRADE RECEIVABLES

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

The aged analysis of trade receivables at the reporting date is as follows:

	30 June 2005 RMB'000	31 December 2004 RMB'000
Within 3 months	**74,979**	87,456

11. TRADE PAYABLES

The aged analysis of trade payables at the reporting date is as follows:

	30 June 2005 RMB'000	31 December 2004 RMB'000
Within 3 months	**18,263**	12,712
Over 3 months but not more than 6 months	**34**	9
Over 6 months but not more than 1 year	**15**	2
	18,312	12,723

12. BANK LOANS

During the six months ended 30 June 2005, the Group obtained new bank loans amounting to RMB26,500,000 (six months ended 30 June 2004: nil) and repaid bank loans amounting to RMB5,000,000 (six months ended 30 June 2004: nil). The proceeds were used for general working capital.

13. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2005 and 30 June 2005	2,000,000,000	200,000
Issued and fully paid:		
At 1 January 2005 and 30 June 2005	422,800,000	42,280
		RMB'000
Shown in the condensed financial statements		
At 30 June 2005 and at 31 December 2004		44,817

14. CONVERTIBLE NOTES

As announced by the Company on 3 June 2005, the conversion price for the convertible notes in the principal sum of HK$30,000,000 (equivalent to RMB31,800,000) was adjusted from HK$0.66 (equivalent to approximately RMB0.700) per share to HK$0.63 (equivalent to approximately RMB0.668) per share pursuant to the subscription agreement as a result of the shareholders' approval for the payment of the final dividend for the year ended 31 December 2004 in cash. All the other terms of the convertible notes remain unchanged. The adjustment of the conversion price became effective from 4 June 2005.

At 30 June 2005, the maximum number of ordinary shares of HK$0.10 each in the capital of the Company which may be issued upon full conversion of the convertible notes is 47,619,047 shares. At 31 December 2004, the conversion rights are not exercisable.

15. DERIVATIVE FINANCIAL INSTRUMENT

The derivative financial instrument represents a conversion option that is embedded in the convertible notes (see note 14) and is measured at fair value.

16. RELATED PARTY TRANSACTIONS

The amount due to ultimate holding company represents short term advances made to the Group. It is unsecured, interest-free and repayable on demand. The entire issued share capital of the ultimate holding company, Fu Teng, is owned by a director.

The amounts due to directors represent principally emoluments payable and payments made on behalf of the Group. They are unsecured, interest-free and repayable on demand.

17. CAPITAL COMMITMENTS

	30 June 2005 RMB'000	31 December 2004 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment		
- contracted for but not provided	**17,687**	2,386
- authorised but not contracted for	**6,036**	9,905
	23,723	12,291

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2005, the unaudited turnover of the Group was approximately RMB223.7 million, representing a growth of 17.4% as compared to that of the last corresponding period.

The operating profit and net profit of the Group for the six months ended 30 June 2005 increased by approximately 8.7% and approximately 17.4% to approximately RMB59.2 million and approximately RMB49.4 million respectively as compared to that of the last corresponding period. The net profit margin for the six months ended 30 June 2005 stood at approximately 22.1% as compared to that of the last corresponding period.

BUSINESS REVIEW

In the first half of 2005, the Group's turnover derived from (i) the manufacture and sale of tinplate cans and (ii) tinplate lacquering and printing services increased by approximately 19.4% and approximately 3.9% to approximately RMB198.1 million and approximately RMB25.6 million respectively as compared to that of the last corresponding period. The Group's businesses maintained steady development in terms of operating income, business distribution and product mix - all of which demonstrated significant improvement when compared to that of the last corresponding period. The glowing results attained by the Group were mainly attributable to the adoption of a series of measures aimed at revitalizing the Group's operations and enhancing the Group's management standards. Such measures included the increase in market share and profitability of the Group's superior products; raising the revenue contribution from newly-launched products and newly-developed markets; hiring of a consultancy firm for resource integration; and improvement of operating efficiency. The Group expects that the above-mentioned measures will bring a positive impact on the Group's sustainable development in the forthcoming years.

I. Rapid Development of Metal Packaging Industry Keeps Up with Market Pace

The development of modern food industry has always placed strong emphasis on food safety, nutrition value, convenience and healthcare concerns, and there exists an intricate relationship among product quality, hygiene standards and food packaging. In the 21st century, competition within the food industry hinges on the food packaging. According to the information provided by the World Packaging Organization, revenue generated from the packaging industry has reached US$500 billion, representing 1% to 2% of the world's GDP. The metal packaging segment is experiencing the fastest growth amongst all the packaging materials. The packaging industry in China has been expanding rapidly at an annual rate of over 18%. On one hand the market share of carbonated drinks has been decreasing in China since 2002, whilst on the other hand the market share of tea beverages and fruit juices have been recording a remarkable increase. This change in consumers' demand is mainly attributable to the increasing emphasis on nutrition value and taste by consumers, which in turn lead to an increase in demand for tinplate-packaging products.

II. Excellence in Quality Control, Management and Service Standards to Spearhead Business Growth

The Group has been refining its quality control, management and service standards, in order to develop new prospects for its future business growth in the metal packaging industry. Major measures adopted by the Group include:

1) Enhancing Management Quality

Aimed at the continuous enhancement of management quality and the introduction of a modernized management system, the Group hired an international human resources and management consultancy firm in the first half of 2005, to provide consultancy and assistance services in the areas of corporate human resources management, development strategy, corporate culture development and finance management. With their assistance, significant improvements have been made with respect to the Group's management and an excellent management team with great development potential has been established. At the same time, improvements were also seen in the reduction of staff turnover, development of staff motivation and enhancement of staff creativity.

2) Enhancing Service Quality

The management of the Group implemented various measures to strengthen the effectiveness of its sales and marketing functions. Such measures included the improvement of customer services quality, implementation of stringent cost control and reorganization of operational procedures. As a result, there was a remarkable increase in both operating results and operating efficiency in the first half of 2005. With sales revenue generated from new clients and increase in sales revenue from existing clients, the Group's total revenue recorded an increase of 17.4% when compared to that of the last corresponding period.

3) Strengthening Quality Control Measures

To strengthen the quality control system, a three-step management module, including systematic management, procedural control and documentation analysis, was adopted by the Group to ensure that all its production are being carried out under the standardization of management and control. Besides, the Group has always been conducting internal inspection and management evaluation, solving problems within the quality control management, and enhancing the level of quality control.

III. Scientific and Rational Mix of New Products to Promote the Rapid Development of Business

Apart from the improvement in the management and operational procedures, the Group also adjusted its product mix in the first half of 2005. Such a move helped the Group to move a step forward in rationalizing resources allocation and product mix, enhancing its management skills, and improving its marketing and sales capabilities. Under the favourable environment of increasing demand for convenient food from mainland consumers, the Group has put effort in developing high quality tinplate cans for the high value canned food market. As a result, tinplate cans for beverages, tinplate cans for food, and tinplate lacquering and colour-printing have become the three pillars of the Group's product mix, which is the driving force behind the Group's future business development.

PROSPECTS

In the second half of 2005, the Group will provide more improved professional services to its clients by enriching its product mix and offering a variety of high quality products, in order to spearhead its business growth. Major plans of the Group include:

I. New Production Plants Meeting International Standards to Increase the Group's Future Production and Business Capabilities

To cater to market expansion, the Group will not only fully utilize its existing resources and expand its production capabilities, but also speed up the construction of plant expansion and increase the hardware facilities correspondingly. In May 2005, the Group commenced construction of two new plants in the newly leased production base in Fuqing and the existing production base in Fenyang, Shanxi, with a gross floor areas of 6,500 sq.m. and 6,700 sq.m. respectively. The constructions are expected to be completed in October 2005. These plants were constructed in compliance with ISO14001 standards so as to ensure that the production processes attain international standards, and this is currently not done by any other competitors within the same industry. These new plants will further increase the scale of the Group's production and improve the overall environment, in line with the Group's rapidly developing needs in operations and production in the coming years. In addition, the Group will also be able to offer more comprehensive and all-round services to its clients.

II. Leading the Industry in its Superior Inspection Technology in order to Maintain the Group's Competitive Advantages

In order to enhance its product quality control standard, the Group purchased an advanced inspection equipment from the United Kingdom in May 2005 which became operational in the second half of the year. The advantage of this newly purchased inspection equipment is that the inspection standard it employed was more stringent with higher accuracy than the existing inspection equipment.

In addition, when the new inspection equipment is used in conjunction with the automatic can inspection machine of the production line, the product inspection for tiny defects will be strengthened and the production level can be adjusted in a timely manner, which will result in a higher product rate. To date, none of the Group's competitors in the industry are equipped with such technology.

III. Expand Product Variety Incessantly to Further Consolidate its Leading Market Position in the Industry

At present, the Group's production scale, equipment standard, technology and product quality of two-piece tinplate cans occupied a leading position in the country. To cater for the rapid business development, the Group will purchase new equipment for the production of two-piece tinplate cans and 5 new types of cans will be added to its tinplate cans portfolio, thereby securing the Group's leading position in the industry.

Meanwhile, the Group has also purchased new equipment for the production of three-piece tinplate cans for food, and this added another 3 new types of cans to its tinplate cans portfolio. The existing production lines of three-piece tinplate cans for beverage will also be upgraded, to speed up the production and enhance its capabilities.

IV. Excellence and Rationalization of Operational Procedures for Market Expansion

As for market expansion, the Group will continue to reinforce a smooth operational flow to increase the quality of customer services. In order to consolidate its business relationships with major long-term clients, the Group has established a "Green Channel" to provide them with high-quality and highly efficient services. On the other hand, the Group has built up a new customer relationship management system for the registration of clients' background information, follow-up and response to new clients' basic developments in a timely manner. This system allows the statistical analysis of the clients' production capacity, which allows the Group to adopt different marketing strategies for different types of clients so as to stabilize their business relationships and expand its market share.

After several years of expansion, the Group's various development targets have already exceeded the market average. With rapid growth in the packaging industry in the next few years, the Group's ability to upgrade its technology, product innovation and market competitiveness will maintain a continuous upward trend.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its operations by internally generated cashflows and banking facilities provided by its bankers.

As at 30 June 2005, the Group had cash and cash equivalents of approximately RMB333 million (31 December 2004: RMB241.2 million) and had total borrowings of approximately RMB102.5 million (31 December 2004: RMB81.8 million), comprising bank loans of approximately RMB71.5 million (31 December 2004: RMB50 million) and convertible notes of approximately RMB31 million (31 December 2004: RMB31.8 million), of the total of approximately RMB71.5 million bank loans outstanding as at 30 June 2005, RMB45 million were fixed rate debts with interest rate ranging from 5.58% to 5.841% per annum. The remaining RMB26.5 million of bank loan was subject to floating rate of 2% over HIBOR. The maturity profile for the Group's total borrowings was approximately 49% within 1 year and approximately 51% after 1 year but within 3 years. All of the aforementioned bank loans were guaranteed by corporate guarantees and pledged bank deposit from the Company.

The Group's current ratio (current assets to current liabilities) was approximately 3.6 (31 December 2004: 3.6) and the Group's gearing ratio (total interest-bearing borrowings to total assets) was approximately 18.1% (31 December 2004: 16.8%).

Since the Group's transactions are mostly settled in Hong Kong dollars and Renminbi, the exposure to foreign exchange fluctuations is minimal, therefore no use of financial instruments for hedging purpose is considered necessary.

PLEDGE OF ASSETS

As at 30 June 2005, the Group had pledged bank deposits of approximately RMB11.8 million to its bankers to secure banking facilities. As at 31 December 2004, bank deposit of RMB4.3 million was pledged to a bank for trade finance granted to the Group to the extent of the amount deposits placed with the bank.

CONTINGENT LIABILITIES

As at 30 June 2005, the Group did not have any material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2005, the Group had capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately RMB17.7 million (31 December 2004: RMB2.4 million) and authorised but not contracted for amounting to approximately RMB6 million (31 December 2004: RMB9.9 million).

SEGMENT INFORMATION

Segment information of the Group is set out in note 4 to the condensed financial statements.

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2005, the Group made no material acquisition and disposal of subsidiaries and associated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2005, the Group had 415 employees (31 December 2004: 417 employees) situated mainly in the PRC and Hong Kong. The Group's emoluments policies are formulated based on industry practices and performance of individual employees. During the six months ended 30 June 2005, the total staff costs (including Directors' emoluments) amounted to approximately RMB4.6 million (for the six months ended 30 June 2004: RMB4.5 million).

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, the interests and short positions of the Directors and Chief Executive in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) to be recorded in the register required to be kept pursuant to section 352 of the SFO; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Long positions in the shares of the Company

Name	Nature of Interests	Number of shares held	Approximate percentage of shareholding
Mr. Yang Zongwang ("Mr. Yang")	Corporate	220,900,000 (Note)	52.25%

Note:

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

Other than as disclosed above, none of the Directors or chief executives or any of their associates, had any interests or short position in any shares, underlying shares or debentures of the Company or any of its associated corporations at 30 June 2005.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors and chief executives of the Company are aware, as at 30 June 2005, other than the interests and short positions of the Directors or chief executives of the Company disclosed above, persons or companies who had interests or short positions in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO were as follows:

Long positions in shares

Name of shareholder	Type of interests	Capacity	Number of shares	Shareholder's interests
Fu Teng Global Limited	Corporate	Beneficial owner	220,900,000 (Note 1)	52.25%
Ms. Yang Yunxian	Corporate	Interest of spouse	220,900,000 (Note 1)	52.25%
Penta Investment Advisers Ltd	Corporate	Investment manager	25,562,000 (Note 2)	6.04%
Mr. Moore Michael William	Corporate	Interest of a controlled corporation	25,562,000 (Note 2)	6.04%
Mr. Zwaanstra John	Corporate	Interest of a controlled corporation	25,562,000 (Note 2)	6.04%
China Plaza Tradings Limited	Corporate	Beneficial owner	24,000,000 (Note 3)	5.68%
Mr. Lam Tun Kam	Corporate	Interest of a controlled corporation	24,000,000 (Note 3)	5.68%
Ms. Wong Wai Yan	Corporate	Interest of spouse	24,000,000 (Note 3)	5.68%

Notes:

1. Mr. Yang is the owner of the entire issued share capital of Fu Teng Global Limited. Mr. Yang and his spouse, Ms. Yang Yunxian, are taken to be interested in these 220,900,000 shares held by Fu Teng Global Limited by virtue of the SFO.

2. Mr. Moore Michael William and Mr. Zwaanstra John are taken to be interested in these 25,562,000 shares through their 50% interest each in Penta Investment Advisers Ltd by virtue of SFO.

3. Mr. Lam Tun Kam is the owner of the entired issued share capital of China Plaza Tradings Limited. Mr. Lam Tun Kam and his spouse, Ms. Wong Wai Yan are taken to be interested in these 24,000,000 shares held by China Plaza Tradings Limited by virtue by SFO.

Pursuant to the subscription agreement (the "Subscription Agreement") dated 1 December 2004 entered into between Value Partners Limited and the Company in respect of the issue of convertible notes in the principal sum of HK$30.0 million (equivalent to approximately RMB31.8 million) (the "Notes") to Value Partners Limited by the Company, Value Partners Limited is entitled to convert the Notes into ordinary shares of the Company at any time between the day after the expiry of 6 months from the date of issue of the Notes and their maturity date at an initial price of HK$0.66 (equivalent to approximately RMB0.70) per share, subject to adjustments. As a result of the approval from the shareholders of the Company for the payment of the final dividend of HK$0.028 (equivalent to approximately RMB0.030) per share at the annual general meeting of the Company held on 3 June 2005, the conversion price was adjusted to HK$0.63 (equivalent to approximately RMB0.668) pursuant to the Subscription Agreement.

As at 30 June 2005, the conversion rights have not been exercised. The maximum number of ordinary shares of HK$0.10 each in the capital of the Company which may be issued upon full conversion of the Notes is 47,619,047 shares.

Save as disclosed above, the Directors or chief executives of the Company are not aware of any other person who had an interest or short position in the shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or substantial shareholders as recorded in the register required to be kept by the Company pursuant to section 336 of the SFO as at 30 June 2005.

SHARE OPTION SCHEME

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

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

Details of the movements in the share options granted and exercised during the six months ended 30 June 2005 under the Scheme are as follows:

Name or category of participant	Date of grant	Outstanding as at 1 January 2005	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2005	Exercisable period	Subscription price per share of the Company HK$
Senior Management	10 February 2004	11,000,000	—	—	—	—	11,000,000	10 February 2004 – 9 February 2014	0.81*
Employees	10 February 2004	19,000,000	—	—	—	—	19,000,000	10 February 2004 – 9 February 2014	0.81*

* Equivalent to approximately RMB0.859

No option was granted by the Company during the six months ended 30 June 2005.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2005, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors (the "Model Code"). Having made specific enquiry to all Directors, the Company confirmed that all the Directors have complied with the required standard set out in the Model Code throughout the six months ended 30 June 2005.

CORPORATE GOVERNANCE

The Board considers that the Company has complied throughout the six months ended 30 June 2005 with the Code of Best Practices that was set out in the Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), and was in force prior to 1 January 2005. Except that actions have been taken since 1 January 2005 to comply with the Code on Corporate Governance Practices (the "CG Code"), which has become effective from accounting periods commencing on or after 1 January 2005 to replace the then Appendix 14 of the Listing Rules.

The Board also considers that they have complied with the code provisions as set out in the CG Code throughout the six months ended 30 June 2005, except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Yang Zongwang; (ii) the independent non-executive Directors are not appointed for specific terms; (iii) the Directors retire by rotation less frequent than once every three years; (iv) the Company has not disclosed the terms of reference of the audit committee; and (v) the Company does not have a remuneration committee.

Code A.2.1

The Board believes that, it is in the best interest of the Company to have Mr. Yang Zongwang, who is knowledgeable about the Group's business and possesses the essential leadership skills to guide discussions of the Board in an effective manner, to continue to act as chairman and chief executive officer to ensure effectiveness and efficiency of the decision making process of the Board.

Code A.4.1

On 21 September 2005, the Company has signed with each of its independent non-executive Directors a service contract (with specific terms) for their offices held and shall continue to be subject to retirement by rotation.

Code A.4.2

The Board will propose appropriate amendments to the bye-laws of the Company for adoption by the shareholders of the Company latest at the next annual general meeting, in order to ensure compliance with this code and consistency with the bye-laws of the Company.

Code B.1.1

A remuneration committee was established on 21 September 2005 with written terms of reference and the three independent non-executive Directors as its members, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man, and Mr. Ng Wai Man as the Chairman of the committee.

Code B.1.4 and C.3.4

Appropriate actions are being taken to establish a website for the Company, whereat the written terms of reference of the audit committee and remuneration committee will be disclosed. These terms of reference are also available from the company secretary of the Company on request.

AUDIT COMMITTEE

The audit committee consists of three independent non-executive directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man. The audit committee has reviewed with management the accounting principles and practices adopted by the Group, and discussed auditing, internal control and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2005.

The written terms of reference of the audit committee was revised on 21 September 2005 to ensure compliance with the CG Code.

By order of the Board

Yang Zongwang
Chairman

Hong Kong, 21 September 2005