Spread Prospects Holdings Limited

展鴻控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004

The board of directors (the "Board" or the "Directors") of Spread Prospects Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2004 together with the comparative figures for the corresponding period in 2003 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2004 - UNAUDITED

		Six months ended 30 June	
	NOTES	**2004**	**2003**
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
Turnover	3	190,617	170,478
Cost of sales		(124,978)	(108,030)
Gross profit		65,639	62,448
Other operating income		525	730
Selling expenses		(6,557)	(5,481)
Administrative expenses		(5,144)	(2,723)
Profit from operations		54,463	54,974
Finance costs		(1,325)	(1,479)
Profit before taxation		53,138	53,495
Taxation	5	(11,075)	(11,049)
Net profit for the period		42,063	42,446
Dividends proposed	6	—	—
Earnings per share	7		
- Basic		RMB0.109	RMB0.139

NOTES

1. BASIS OF PREPARATION

The Company was incorporated as an exempted company with limited liability in the Cayman Islands on 21 October 2002 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a series of group reorganisation steps (the "Reorganisation"), the Company has since 2 June 2003 become the holding company of the subsidiaries now comprising the Group.

The group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the condensed financial statements of the Group have been prepared using the merger basis of accounting as if the Company had always been the holding company of the subsidiaries now comprising the Group in accordance with the Statement of Standard Accounting Practice No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

The Company's ultimate holding company is Fu Teng Global Limited, 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 of Hong Kong Limited (the "Stock Exchange") and with the Statement of Standard Accounting Practice No. 25 "Interim financial reporting" issued by the HKICPA.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared under the historical cost convention.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2003.

3. SEGMENT INFORMATION

	Six months ended 30 June	
	2004	**2003**
	RMB'000	*RMB'000*
Business segments		
Turnover - external		
Manufacture and sale of tinplate cans	165,933	146,459
Tinplate lacquering and printing services	24,684	24,019
	190,617	170,478
Segment result		
Manufacture and sale of tinplate cans	47,251	44,985
Tinplate lacquering and printing services	11,299	11,334
	58,550	56,319
Unallocated corporate expenses	(4,087)	(1,345)
Profit from operations	54,463	54,974
Finance costs	(1,325)	(1,479)
Profit before taxation	53,138	53,495
Taxation	(11,075)	(11,049)
Net profit for the period	42,063	42,446

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").

4. DEPRECIATION AND AMORTISATION

During the six months ended 30 June 2004, depreciation and amortisation of RMB3,087,000 (2003: RMB2,542,000) was charged in respect of the Group's property, plant and equipment.

5. TAXATION

	Six months ended 30 June	
	2004	**2003**
	RMB'000	*RMB'000*
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC		
- current period	11,075	11,049

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

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

6. DIVIDENDS

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 2004. No interim dividend was declared by the directors for the six months ended 30 June 2003.

The following dividends were paid by a subsidiary to its then shareholders prior to the Reorganisation:

	Six months ended 30 June 2003 *RMB'000*
Dividend for 2002 paid by Bloxworth Enterprises Limited	30,000

7. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit for the period of RMB42,063,000 (2003: RMB42,446,000) and on the weighted average of 386,536,264 shares (2003: weighted average of 306,404,420 shares) in issue throughout the period. The 300,000,000 shares issued prior to the listing of the Company's shares on the Stock Exchange on 2 July 2003 and pursuant to the Reorganisation are treated as if they had been in issue throughout the period ended 30 June 2003.

No diluted earnings per share for the period ended 30 June 2004 has been presented because the exercise price of the Company's outstanding share options is higher than the average market price of the Company's shares. There were no potential dilutive ordinary shares outstanding during the period ended 30 June 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2004, the unaudited turnover of the Group was approximately RMB190.6 million, representing a growth of 11.8% 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 2004 both decreased by approximately 0.9% to approximately RMB54.5 million and approximately RMB42.1 million respectively, as compared to that of the last corresponding period. The net profit margin for the six months ended 30 June 2004 slightly decreased by approximately 2.8% as to approximately 22.1% compared to that of the last corresponding period.

BUSINESS REVIEW

Manufacture and sale of tinplate cans

During the period under review, the Group's turnover derived from the manufacture and sale of tinplate cans increased by approximately 13.3% to approximately RMB165.9 million as compared to that of the last corresponding period. The increase in turnover was mainly attributable to the successful market development in Shanxi Province and its neighbouring areas by the Shanxi sub-plant. The number of customers almost doubled as compared to that of the last corresponding period.

In regard to the three-piece tinplate cans for beverages business, due to our customers' ever-growing businesses, the Group was directly benefited as their tinplate cans supplier. To accommodate the escalating demand for cans, the Group installed two additional three-piece tinplate cans production lines in June this year after conducting market research and feasibility studies. These production lines are in place and have commenced final fine-tuning and testing process. The above project is expected to commence production in the fourth quarter this year and the Group's existing annual production capacity would be increased by approximately 30%.

In regard to the two-piece tinplate cans for food, three production lines are in place and fine-tune and testing are in progress. The production lines are expected to commence production in the fourth quarter this year. The Group's two-piece tinplate cans are highly competitive in terms of product quality, choice of shapes and their delicate exterior appearance. The management believes that the new products would receive high recognition in the market. The customers of two-piece tinplate cans mostly come from the Group's existing customer base. In pursuit of new potential customers, the Group has formulated a long-term sales strategy, including the addition of a number of experienced sales personnel to strengthen the sales team, to ensure that the Group would be well-prepared for the subsequent product launch. The Group is determined to become the largest supplier of two-piece tinplate cans for food in the PRC.

During the period under review, the Group's gross profit margin of manufacture and sale of tinplate can business dropped by approximately 2.0% as compared to that of the last corresponding period and it was mainly attributable to the rising tinplate price over the year. The upsurge in the cost of tinplate, the Group's major raw material, has directly affected the Group's gross profit margin. To offset the pressure posed by the rising raw material cost, the Group has entered into negotiation with a majority of customers for the increase of selling price. However, the increase of selling price had not managed to counterbalance the surging raw material cost. The management is of the opinion that as the cost of tinplate stabilises in the second half of the year together with the launch of the new two-piece tinplate cans for food, the Group's overall gross profit margin would improve at the same time.

Tinplate lacquering and printing services

During the period under review, the Group's turnover derived from tinplate lacquering and printing services increased by approximately 2.8% to approximately RMB24.7 million as compared to that of the last corresponding period. The Group's tinplate lacquering and printing services maintained stable growth. The Group will continue to put effort on technological improvement and development to enhance product quality and increase production capacity in order to better serve the accelerating demand for high quality artwork from metal container producers.

The operation of the double-colour tinplate printing production line, which was originally planned to commence in the first half of the year, was postponed due to the delay in delivery of equipment in August. These production lines are now in place and the final fine-tuning and testing process have commenced. The production line is expected to commence production in the fourth quarter this year and the Group's overall colour printing production capacity would increase by approximately 40%.

Application for ISO14001 environmental protection system certification and establishment of garden-style plant

The Group has carried out an all-out reconstruction and repair in regard to the environmental protection facilities. Through the adoption of effective management and operational procedures, the Group endeavors to refine and enhance its corporate environment and management standards. Consequently, the environmental protection awareness amongst employees were effectively raised, cost control enhanced and the production resources were efficiently conserved, which should all conduce to the amplification of the Group's market share and the spontaneous inducement of a value-adding effect to its products. The Group has successfully accredited the ISO14001 environmental protection system certification in July this year which signifies the Group's success in advancing towards international environmental protection management level.

PROSPECTS

Looking ahead, given the burgeoning domestic consumption market and the continuous economic development in the PRC, it is expected that the Group's new projects would attain outstanding results in the second half of 2004. Notwithstanding the limited impact brought about by the macro-economic control and adjustment policies in the PRC, the management believes that there are tremendous potentials in the PRC food and beverage market. Leveraging on its sound reputation in the industry, experience and human resources, the Group is set to grasp the opportunities that arise to further expand its business and shall continue to advance to becoming the leading packaging enterprise in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

During the period under review, the Group financed its operations by internally generated cashflows, net proceeds from placing and new issue and banking facilities provided by its bankers.

As at 30 June 2004, the Group had cash and cash equivalents of approximately RMB169.6 million (31 December 2003: RMB164.2 million) and an aggregate bank loans of approximately RMB44.0 million (31 December 2003: RMB44.0 million), comprising short term bank loans of approximately RMB37.0 million which are repayable within one year and a long term bank loan of RMB7.0 million which is repayable in November 2005. The interest on the short-term bank loans and the long-term bank loan were at fixed rate of 5.841% per annum. All of the aforementioned bank loans were guaranteed by corporate guarantees from the Company.

The Group's current ratio (current assets to current liabilities) was approximately 3.8 (31 December 2003: 3.6) and the Group's gearing ratio (total interest-bearing borrowings to total assets) was approximately 11.6% (31 December 2003: 13.3%).

On 14 June 2004, the Company had issued 40,000,000 shares at HK$0.65 per share. The net proceeds were approximately HK$24.5 million of which HK$20.0 million will be applied for the purchase of additional machinery in the Shanxi Fenyang factory. The balance of the net proceeds will be applied as the general working capital for the Group.

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 2004, the Group had not pledged any asset to its bankers to secure banking facilities. As at 31 December 2003, bank deposit of RMB765,000 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 2004, the Group did not have any material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2004, 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 RMB12.6 million (31 December 2003: RMB31.4 million).

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2004, the Group had 333 employees (31 December 2003: 344 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 2004, the total staff costs (including Directors' emoluments) amounted to approximately RMB4.5 million (for the six months ended 30 June 2003: RMB3.8 million).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2004, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") throughout the period under review, except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

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 2004.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

As at this date of announcement, the Board comprises of:

Executive Directors
Yang Zongwang
(Chairman and Chief Executive Officer)
Xue Xi
Xue De Fa
Ng Kin Sun
Liu Zhi Qiang

Independent Non-Executive Directors
Tong Hing Wah
Chong Hoi Fung
Ng Wai Man

By order of the Board
Yang Zongwang
Chairman

Hong Kong, 15 September 2004

Please also refer to the published version of this announcement in The Standard.