



展鴻控股有限公司
Spread Prospects Holdings Limited

(incorporated in the Cayman Islands with limited liability)

Interim Report 2004

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INDEPENDENT REVIEW REPORT

Deloitte.

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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 14.

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 the Statement of Standard Accounting Practice No. 25 “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 No. 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 group 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 2004.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
15 September 2004

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2004

| | Notes | Six months ended 30 June | |
|---------------------------|-------|--------------------------------|--------------------------------|
| | | 2004 RMB'000 (Unaudited) | 2003 RMB'000 (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 |

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2004

| | | 30 June 2004 | 31 December 2003 |
|---|--------------|-------------------------|---------------------|
| | | RMB'000 | RMB'000 |
| | <i>Notes</i> | (Unaudited) | (Audited) |
| Non-current assets | | | |
| Property, plant and equipment | 8 | 112,199 | 47,288 |
| Deposits paid for acquisition of property, plant and equipment | | 12,193 | 35,405 |
| | | 124,392 | 82,693 |
| Current assets | | | |
| Inventories | | 12,801 | 10,884 |
| Trade receivables | 9 | 70,428 | 68,130 |
| Other receivables, deposits and prepayments | | 2,244 | 3,243 |
| Pledged bank deposits | | — | 765 |
| Bank balances and cash | | 169,555 | 164,212 |
| | | 255,028 | 247,234 |
| Current liabilities | | | |
| Trade payables | 10 | 12,202 | 10,004 |
| Bills payable | | — | 2,550 |
| Receipt in advance, other payables and accrued charges | | 10,977 | 14,021 |
| Amounts due to directors | | 181 | 351 |
| Taxation payable | | 6,468 | 4,480 |
| Bank loans - amount due within one year | | 37,000 | 37,000 |
| | | 66,828 | 68,406 |
| Net current assets | | | |
| | | 188,200 | 178,828 |
| | | 312,592 | 261,521 |
| Capital and reserves | | | |
| Share capital | 11 | 44,817 | 40,577 |
| Reserves | | 260,775 | 213,944 |
| | | 305,592 | 254,521 |
| Non-current liabilities | | | |
| Bank loans - amount due after one year | | 7,000 | 7,000 |
| | | 312,592 | 261,521 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2004

| | Share capital | Share premium | Contributed surplus | Special reserve | Surplus reserve fund | Enterprise expansion fund | Accumulated profits | Total |
|--|------------------|------------------|------------------------|--------------------|----------------------------|---------------------------------|------------------------|-----------|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| At 1 January 2003 | 8 | 30,172 | — | (5,259) | 15,428 | 7,586 | 64,124 | 112,059 |
| Issue of shares at nil-paid and credited as fully paid on group reorganisation | 212 | — | 117,935 | — | — | — | — | 118,147 |
| Elimination on group reorganisation | (8) | (30,172) | (117,935) | 29,968 | — | — | — | (118,147) |
| New issue and placing of shares | 8,777 | 99,178 | — | — | — | — | — | 107,955 |
| Expenses incurred in connection with the issue of new shares | — | (14,211) | — | — | — | — | — | (14,211) |
| Capitalisation issue | 31,588 | (31,588) | — | — | — | — | — | — |
| Dividend for 2002 paid by a subsidiary | — | — | — | — | — | — | (30,000) | (30,000) |
| Net profit for the year | — | — | — | — | — | — | 78,718 | 78,718 |
| At 31 December 2003 | 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 paid by the Company | — | — | — | — | — | — | (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 |
| At 1 January 2003 | 8 | 30,172 | — | (5,259) | 15,428 | 7,586 | 64,124 | 112,059 |
| Issue of shares at nil-paid and credited as fully paid on group reorganisation | 212 | — | 117,935 | — | — | — | — | 118,147 |
| Elimination on group reorganisation | (8) | (30,172) | (117,935) | 29,968 | — | — | — | (118,147) |
| New issue and placing of shares | 8,777 | 99,178 | — | — | — | — | — | 107,955 |
| Expenses incurred in connection with the issue of new shares | — | (14,211) | — | — | — | — | — | (14,211) |
| Capitalisation issue | 31,588 | (31,588) | — | — | — | — | — | — |
| Dividend for 2002 paid by a subsidiary | — | — | — | — | — | — | (30,000) | (30,000) |
| Net profit for the period | — | — | — | — | — | — | 42,446 | 42,446 |
| At 30 June 2003 | 40,577 | 53,379 | — | 24,709 | 15,428 | 7,586 | 76,570 | 218,249 |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2004

| | Six months ended 30 June | |
|--|--------------------------|-------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| | (Unaudited) | (Unaudited) |
| Net cash from operating activities | 39,911 | 34,482 |
| Net cash (used in) from investing activities | (43,576) | 254 |
| Net cash from (used in) financing activities | 9,008 | (33,167) |
| | <hr/> | <hr/> |
| Net increase in cash and cash equivalents | 5,343 | 1,569 |
| Cash and cash equivalents at beginning of the period | 164,212 | 79,895 |
| | <hr/> | <hr/> |
| Cash and cash equivalents at end of the period, representing bank balances and cash | 169,555 | 81,464 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30 June 2004

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

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

| | |
|----------------------|----------------------|
| <u>11,075</u> | <u>11,049</u> |
|----------------------|----------------------|

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

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

| |
|-----------------------------|
| <u><u>30,000</u></u> |
|-----------------------------|

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.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB67,998,000 (2003: RMB372,000).

9. 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 | 31 December |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Within 3 months | 70,426 | 68,108 |
| Over 3 months but not more than 6 months | <u>2</u> | <u>22</u> |
| | <u>70,428</u> | <u>68,130</u> |

10. TRADE PAYABLES

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

| | 30 June | 31 December |
|--|----------------------|---------------|
| | 2004 | 2003 |
| | RMB'000 | RMB'000 |
| Within 3 months | 12,166 | 9,922 |
| Over 3 months but not more than 6 months | 36 | 76 |
| Over 6 months but not more than 1 year | — | 6 |
| | <u>12,202</u> | <u>10,004</u> |

11. SHARE CAPITAL

| | Number | Amount |
|---|-----------------------------|-----------------|
| | of shares | HK\$'000 |
| Ordinary shares of HK\$0.10 each | | |
| Authorised: | | |
| At 1 January 2004 and 30 June 2004 | <u>2,000,000,000</u> | <u>200,000</u> |
| Issued and fully paid: | | |
| At 1 January 2004 | 382,800,000 | 38,280 |
| Issue of new shares | 40,000,000 | 4,000 |
| At 30 June 2004 | <u>422,800,000</u> | <u>42,280</u> |
| | | RMB'000 |
| Shown in the condensed financial statements | | |
| At 30 June 2004 | | <u>44,817</u> |
| At 31 December 2003 | | <u>40,577</u> |

As announced by the Company on 3 June 2004, the Company entered into a placing and subscription agreement dated 1 June 2004 (the “Agreement”) with Fu Teng and an independent placing agent (the “Placing Agent”). Pursuant to the Agreement, Fu Teng agreed to place a total of 40,000,000 existing shares of HK\$0.10 each in the share capital of the Company at a price of HK\$0.65 per share (the “Placing Price”) to not less than six independent professional and/or institutional investors through the Placing Agent, and Fu Teng also agreed to subscribe for 40,000,000 new shares of HK\$0.10 each of the Company at the price of HK\$0.65 per share, which is equal to the Placing Price. The directors are authorised to issue these new shares pursuant to the general mandates granted by the shareholders of the Company on 2 June 2003.

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

All the shares issued by the Company during the period rank *pari passu* with the existing shares in all respects.

12. RELATED PARTY TRANSACTIONS

Details of new shares issued to Fu Teng during the period ended 30 June 2004 are set out in note 11. The entire issued share capital of Fu Teng is owned by a director.

During the period ended 30 June 2003, a director provided certain office premises and motor vehicles for the Group's use without consideration. The running costs of these premises and motor vehicles were borne by the Group.

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

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.

13. CAPITAL COMMITMENTS

| | 30 June 2004 RMB'000 | 31 December 2003 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Capital expenditure in respect of acquisition of property, plant and equipment contracted for but not provided in the financial statements | 12,611 | 31,366 |

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% to approximately 22.1% as compared to that of the last corresponding period.

BUSINESS REVIEW

(1) 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.

(2) *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%.

(3) *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).

SEGMENT INFORMATION

Segment information of the Group is set out in note 3 to the condensed financial statements.

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2004, the Group made no material acquisition and disposal of subsidiaries and associated companies.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in elsewhere in this report and the section headed “Future plans and prospects” in the Company’s prospectus dated 10 June 2003, as at 30 June 2004, the Group had no other future plans for material investments or capital assets.

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).

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

As at 30 June 2004, 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) pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange 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 Zong Wang (“Mr. Yang”) | Corporate | 220,900,000 <i>(Note)</i> | 52.25% |

Note:

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

At no time during the six months ended 30 June 2004 were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in or any other body corporate.

Save as disclosed above, none of the Directors nor chief executives nor any of their respective associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 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) pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies relating to securities transactions by directors to be notified to the Company and the Stock Exchange as at 30 June 2004.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors and chief executives of the Company are aware, as at 30 June 2004, 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 <i>(Note 1)</i> | 52.25% |
| Ms. Yang Yunxian | Corporate | Interest of spouse | 220,900,000 <i>(Note 1)</i> | 52.25% |
| China Plaza Tradings Limited | Corporate | Beneficial owner | 24,000,000 <i>(Note 2)</i> | 5.68% |
| Mr. Lam Tun Kam | Corporate | Interest of a controlled corporation | 24,000,000 <i>(Note 2)</i> | 5.68% |
| Ms. Wong Wai Yan | Corporate | Interest of spouse | 24,000,000 <i>(Note 2)</i> | 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. Lam Tun Kam is the owner of the entire 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 of the SFO.

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 2004.

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 director), 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 2004 under the Scheme are as follows:

| Name or category of participant | Date of grant | Outstanding | | | | Outstanding | | Exercisable period | Subscription price per share of the Company HK\$ |
|---------------------------------|------------------|----------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|--------------------|------------------------------------|---|
| | | as at 1 January 2004 | Granted during the period | Exercised during the period | Cancelled during the period | Lapsed during the period | as at 30 June 2004 | | |
| Employees, in aggregate | 10 February 2004 | — | 30,000,000 | — | — | — | 30,000,000 | 10 February 2004 – 9 February 2014 | 0.81 (equivalent to RMB0.86) |

Note:

The closing price of the shares of the Company immediately before 10 February 2004 on which the share options were granted was HK\$0.80.

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

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 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.

By order of the Board

Yang Zongwang

Chairman

Hong Kong, 15 September 2004