Spread Prospects Holdings Limited

展鴻控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

2004 FINAL RESULTS ANNOUNCEMENT

FINANCIAL SUMMARY

The Board of Directors (the "Board") of Spread Prospects Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2004 as follows:-

CONSOLIDATED INCOME STATEMENT

	NOTES	2004 *RMB'000*	2003 *RMB'000*
Turnover	4	425,716	337,588
Cost of sales		(284,573)	(216,955)
Gross profit		141,143	120,633
Other operating income		1,179	1,122
Selling expenses		(13,967)	(11,904)
Administrative expenses		(10,978)	(8,444)
Profit from operations	5	117,377	101,407
Finance costs	6	(2,744)	(2,871)
Profit before taxation		114,633	98,536
Taxation	7	(24,498)	(19,818)
Net profit for the year		90,135	78,718
Earnings per share	8		
- Basic		RMB0.223	RMB0.228
- Diluted		RMB0.222	N/A

Notes:

1. GENERAL

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 Company is an investment holding company. The principal activities of the Group are the manufacture and sale of tinplate cans for the packaging of food and beverage in the People's Republic of China (the "PRC"), and provision of tinplate lacquering and printing services.

2. POTENTIAL IMPACT ARISING FROM THE RECENTLY ISSUED ACCOUNTING STANDARDS

In 2004, the Hong Kong Institute of Certified Public Accountants issued a number of new or revised Hong Kong Accounting Standards and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended 31 December 2004.

The Group has commenced considering the potential impact of the new HKFRSs but is not yet in a position to determine whether the new HKFRSs would have a significant impact on how its results of operations and financial position are prepared and presented. The new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

3. PRINCIPAL ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention and in accordance with accounting principles generally accepted in Hong Kong.

4. TURNOVER AND SEGMENT INFORMATION

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

Business segments

For management reporting purposes, the Group is currently organised into two divisions - (a) manufacture and sale of tinplate cans; and (b) provision of tinplate lacquering and printing services in the PRC.

The Group's operation by business segment is as follows:

	2004	**2003**
	RMB'000	*RMB'000*
Income statement		
Turnover - external		
Manufacture and sale of tinplate cans	371,444	292,004
Tinplate lacquering and printing services	54,272	45,584
	425,716	337,588
Segment result		
Manufacture and sale of tinplate cans	101,879	86,230
Tinplate lacquering and printing services	23,970	20,753
	125,849	106,983
Unallocated corporate expenses	(8,472)	(5,576)
Profit from operations	117,377	101,407
Finance costs	(2,744)	(2,871)
Profit before taxation	114,633	98,536
Taxation	(24,498)	(19,818)
Net profit for the year	90,135	78,718

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

5. PROFIT FROM OPERATIONS

	2004	2003
	RMB'000	*RMB'000*
Profit from operations has been arrived at after charging:		
Directors' remuneration	2,695	1,787
Other staff costs	7,896	6,899
Retirement benefit cost, other than directors	60	51
Total staff costs	10,651	8,737
Auditors' remuneration	879	651
Depreciation and amortisation of property, plant and equipment	8,151	5,108
Minimum lease payments in respect of:		
- land and buildings	1,114	879
- machinery and equipment	1,500	1,500
and after crediting:		
Interest income	1,027	696

6. FINANCE COSTS

	2004	2003
	RMB'000	*RMB'000*
Interest on borrowings wholly repayable within five years		
- bank borrowings	2,602	2,850
- convertible notes	94	—
- other borrowings	—	1
	2,696	2,851
Bank charges	48	20
	2,744	2,871

7. TAXATION

	2004	2003
	RMB'000	*RMB'000*
The charge (credit) comprises:		
Income tax calculated at the rates prevailing in the PRC	24,502	19,818
Deferred tax	(4)	—
	24,498	19,818

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% 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. That 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.

The charge for the year can be reconciled to the profit before taxation for the year as follows:

	2004	2003
	RMB'000	*RMB'000*
Profit before taxation	114,633	98,536
Tax at PRC income tax rate of 24%	27,512	23,649
Tax effect of expenses that are not deductible in determining taxable profit	1,679	990
Tax effect of income that is not taxable in determining taxable profit	(1)	(21)
Tax effect of income that is under tax holiday	(5,034)	(5,199)
Others	342	399
Tax charge for the year	24,498	19,818

In addition to the amount charged to the income statement, deferred tax relating to the equity component of convertible notes issued amounting to RMB182,000 has been charged directly to equity during the year ended 31 December 2004.

8. EARNINGS PER SHARE

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

	2004	2003
	RMB'000	*RMB'000*
Earnings:		
Net profit for the year for the purposes of basic earnings per share	90,135	78,718
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	94	
Net profit for the year for the purpose of diluted earnings per share	90,229	

	2004	2003
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	404,767,213	344,916,164
Effect of dilutive potential ordinary shares:		
Convertible notes	1,557,377	
Weighted average number of ordinary shares for the purpose of diluted earnings per share	406,324,590	

The 300,000,000 shares that were issued prior to the listing of the Company's shares on the Stock Exchange on 2 July 2003 and pursuant to the group reorganisation are treated as if they had been in issue throughout the year ended 31 December 2003.

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 the year ended 31 December 2004.

There were no potential dilutive ordinary shares outstanding during the year ended 31 December 2003.

9. DIVIDEND

	2004	2003
	RMB'000	*RMB'000*
Ordinary shares:		
Interim, paid - nil	—	—
Final, proposed - RMB0.030 (2003: RMB0.040) per share	12,549	17,030
	12,549	17,030

During the year ended 31 December 2003, a subsidiary paid dividend for 2002 amounting to RMB30,000,000 to its then shareholders prior to the group reorganisation which took place in June 2003.

The final dividend for the year ended 31 December 2004 of HK$0.028 (equivalent to approximately RMB0.030) (2003: HK$0.038 (equivalent to approximately RMB0.040)) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2004, the Group recorded a turnover of approximately RMB425.7 million (2003: RMB337.6 million), representing a growth of approximately 26.1% as compared to that of the last year. The increase was largely attributable to the enhancement of the market competitiveness of the products by increasing the productivity and the use of new technology.

The Group's gross profit amounted to approximately RMB141.1 million (2003: RMB120.6 million), representing an increase of approximately 17.0% as compared to that of the last year. The improvement in gross profit was mainly due to the increase in turnover and adoption of effective cost cutting measures.

Net profit for the year under review amounted to approximately RMB90.1 million (2003: RMB78.7 million), which represented an increase of approximately 14.5% as compared to that of the last year. The net profit margin for the year under review amounted to approximately 21.2% (2003: 23.3%), which represented a decrease of approximately 2.1% as compared to that of the last year. Basic earnings per share was RMB0.223 (2003: RMB0.228).

BUSINESS REVIEW

Year 2004 marked a new start for the Group. With the competitive edges achieved in terms of brand name, market, quality and technology, the Group, as compared with its market peers in the industry, has enjoyed a rapid growth rate and has shown enormous potential for development, and has progressly emerged to become a sizable metal packaging enterprise with comprehensive product range and a relatively strong ability for profit generation in the PRC. In the second half of the year, with the commencement of operations of the two-piece tinplate can production lines and the substantial enhancement in the productivity of colour printing processing, the Group's composition of principal business and structures have experienced significant changes and diversification of product mix was achieved. The revenue and profit of the principal businesses were approximately RMB425.7 million and approximately RMB90.1 million respectively, representing a growth of 26.1% and 14.5% as compared with that of the last year. The outstanding results were attributable to the series of measures adopted by the Group, and the details of which are as follows:

I. **Enhancement of competitiveness of the products in the market through the increase in productivity and the adoption of new technology**

Three-piece tinplate cans:

In the second half of 2004, the Group's Fuqing plant acquired two additional production lines for three-piece tinplate cans, allowing the production capacity of cans for beverages to increase by approximately 50%. With such an improvement, the frequency for changing moulds and the time required for production were largely reduced, and thereby shortening the response time to order changes or increments, and allowing timely and flexible delivery of products. Meanwhile, the normal deliveries to customers were shortened by two to three days, the competitiveness of the products in the market was accordingly enhanced.

Two-piece tinplate cans:

In the second half of 2004, the Group's Fuqing plant acquired three production lines for two-piece tinplate cans for food. At present, most of the two-piece tinplate cans in the PRC do not have colour printing on surface of can body, and the common practice has been the use of sticker labeling method. Sticking labels by hand is slow and poses heavy reliance on the labour force. More often than not, the labels will fall off when coming into contact with water or oil, or may even be dampened and destroyed if the cans were kept in freezer for a period, which would seriously affect the appearance of the products eventually. After months of hard work, the Group finally worked out the solutions to two major problems, namely the irregular shift of picture developed and the fall off of the stretched paint film. Upon the launch of fine printed two-piece tinplate cans to the market in October 2004, it achieved a remarkable sales results for the Group.

Colour print processing:

The Group's Fuqing plan was the first in Fujian province to acquire a new sophisticated dual-colour printing production line in the second half of 2004, which is compatible with the latest computer image processing technology. It is equipped with various advanced technologies, such as precise colour measurement control, easy printing parameter control, accurate ink control, breaking the bottle neck of the traditional printing production lines, which typically include low colour saturation, narrow colour gamut, difficulties in precision and contrast control of printing products. The new technology helps to produce print-out images with finer texture, enriched colour and sharpness that are more detailed and more colourful, and that truly express the fluorescent colours which could not have been readily reproduced by traditional printing production lines in particular. In addition, among various printing technique, traditional printing production line require the use of spot colours; while the dual-colour printing production line could minimize such use, reducing the time required for changing colour plates, thereby largely enhancing the printing accuracy and efficiency, and effectively reducing the production cost.

II. **Adoption of various effective measures to raise the gross profit margin and stringent control on attributes to the rising cost**

In 2004, notwithstanding the significant increase in the price of tinplate, one of the raw materials, has contributed to a considerable rise in the production costs, the Group through the adoption of effective measures still managed to achieve a slight increase in profit. The major attributes to which are as follows:

1. The improvement made by the Group's technicians to the production techniques and moulds reduced the consumption of raw materials by approximately 10% while maintaining the excellence of pressure resistance of cans;

2. On the ground of the successful market penetration of two-piece tinplate cans that enjoy higher profit margin, the addition of new types of three-piece tinplate cans and the expansion of the coverage of colour printing, the Group's product portfolio and distribution channels were further strengthened and expanded. Such strategy helped to avoid and reduce the risk of reliance on single market and to serve complementary effects on cost, thereby raising the overall profit margin of the Group's product;

3. Appropriate adjustment of product prices; and

4. Enhancement of productivity, reduction of unit costs raised the competitiveness of products in the market.

Moreover, the Group's management believes that local suppliers would be raising their tinplate production capacity in the coming years, thereby increasing the local supply of tinplates. In view of such increase, the issue of soaring prices could be effectively resolved.

III. **Continuous enhancement of production environment to support sound development**

In October 2004, the Group leased a 20,000 square metres factory complex in a state-level economic development zone - Fuqing Rongqiao Economic and Technology Development Zone - as its new production base for further consolidating its foundation for future production capacity expansion. Through the improvement of the production environment and raising the cumulative productivity of the Group, laid a strong foundation for future production efficiency enhancement.

IV. **The successful business development strategies helped to maintain the competitive edges**

In 2004, given the intense market competition, the Group adjusted its development strategies and attained outstanding achievements by its strategy of expanding the scale of low cost operations through the establishment of marketing network with additional staff. The Group further recruited 15 well-experienced and talented marketing staff to expand the marketing team of the Fuqing and Shanxi plants. The Group adopted a flexible and innovative management approach that integrated the regional management with central deployment, allowing the Group to attain astonishing results in achieving rapid development without incurring extra costs.

With the enhancement in the Group's productivity and the rise of the Group's influence and renown in the industry, the Group redefined its target customers to those large scale fast-food enterprises. The management believed that such an initiative would further raise the Group's renown and recognition in the industry and turn the Group into one of the major suppliers of its customers.

PROSPECTS

Under the favourable development of the PRC's accession to the WTO and China's success to win the host of Olympic Games, the metal packaging industry is expected to achieve a growth in both the demand and the scale in future. The Group will continue to pursue for new products and technologies and adjust its production strategies for the persistent improvement in productivity and management. The main strategies are:

I. Nurturing new profit growth point

The Group, being a production enterprise which is capable of producing the largest volume of various types of two-piece tinplate cans for food in the packaging industry in the PRC, is able to offer the richest product mix and the best quality of products. With the persistent increase in demand for higher quality and safety standard of canned food, the demand of two-piece tinplate cans for food increased. Meanwhile, two-piece tinplate cans only comprise two parts, the top and the body, while the latter can be formed through the compression of the tinplate. As no additional tinplate is required for bottom lid, the consumption of tinplate by two-piece tinplate cans for food is less than the traditional ones by approximately 20-30%, effectively bringing down the overall costs. The management believes that the two-piece tinplate cans for food which enjoy a competitive edge, a strong growth and a high profit margin, would expect to be the Group's new profit growth point.

The Group's newly-introduced state-of-art double-colour printing production line, allows it to raise its capability in colour print processing by approximately 40%. Not only can the equipment satisfy the demand from the Group's newly acquired production lines, but also offer the Group with additional production capacity that allows it to expand the printing services to other clients.

II. Promotion of technology improvement

The Group will take an active approach to upgrade its technologies and will expand the scope of application of its products (to sugar or strong acidic beverages) by broadening the product mix through the alternation of height, diameter or the frequency of necks of the cans and by the improving and revising the raw materials or the processing technology of the internal or external layer of lacquer and the supplemental layer of lacquer for welding. Such efforts will help to fully manifest the potential of the existing equipment and to largely extend the applicability of the products in the market.

III. **Use of new production base and enhancement of productivity**

The new 20,000 square metres production base leased by the Group's Fuqing plant comprises two workshops, namely the manufacturing of lids and the printing workshop. All the bottom lids used in the beverage cans or food cans will be produced at the new factory complex while one of the Group's existing colour printing production lines will also be moved to the new factory.

Under the collective effort of operation and production staff, the company's market share of three-piece beverage cans in Shanxi area recorded a further growth which supplies about 70% of the total demand in the market. Shanxi plant is the only production enterprise which produces three-piece beverage cans in the Western China and our products are always over-demanded. Based on the long-term development needs, Shanxi plant is intended to establish one additional production line for three-piece beverage cans in 2005. The management believes that the enhancement of the production capacity will further promote its competitiveness.

IV. **Persistent fine tuning of business strategies to identify its own directions of development**

In 2005, the Group will adjust its business development strategy to identify the suitable direction of expansion, implying that the Group will reclassify the clients into different categories and will serve different clients under different strategies in customer services.

The Group's healthy growth has been well witnessed in the market. Supported by the competitive edges in customer base and in internal management, the Group is geared for further growth. Besides, the Group, being a leading enterprise in the metal packaging industry in the PRC, also enjoys a bright future, underpinned by the new development opportunities in packaging industry, arising from the growth in the domestic consumer market and which is expected to achieve a growth of more than 10% per year in the ten years to come. The Group, under such trend of development, will definitely enjoy the fruitful results brought from the growth momentum of the industry.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations by internally generated cashflow, net proceeds from placing and new issue and banking facilities provided by its bankers.

For the year ended 31 December 2004, the Group generated approximately RMB87.6 million (2003: RMB71.6 million) of cash from operations. As at 31 December 2004, the Group had cash and cash equivalents amounted to approximately RMB241.2 million (2003: RMB164.2 million).

As at 31 December 2004, the Group had total borrowings of approximately RMB80.8 million (2003: RMB44.0 million) comprising an aggregate short-term bank loans which will be repayable within one year of approximately RMB50.0 million (2003: RMB37.0 million) and convertible notes of approximately RMB30.8 million (2003:Nil). The short-term bank loans were at variable interest rates ranging from 5.580% to 5.841% per annum. The bank loans were guaranteed by corporate guarantees from the Company.

As at 31 December 2004, the Group's current ratio, as a ratio of current assets to current liabilities, was approximately 3.6 (2003: 3.6) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was approximately 16.6% (2003: 13.3%).

With respect to foreign exchange exposure, as the Group's transactions were mostly denominated in Renminbi and Hong Kong dollars and the exchange rate between Renminbi and Hong Kong dollar has been steady during the year under review, the Group's exposure to foreign exchange fluctuations was considered minimal and the Group therefore had not used any financial instruments for hedging purposes.

CAPITAL COMMITMENTS

As at 31 December 2004, the Group had capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately RMB2.4 million (2003: RMB31.4 million) and authorised but not contracted for amounting to approximately RMB9.9 million (2003: Nil).

PLEDGE OF ASSETS

As at 31 December 2004, bank deposit of approximately RMB4.3 million (2003: RMB765,000) was pledged to a bank for trade finance granted to the Group to the extent of the amount of deposits placed with the bank.

CONTINGENT LIABILITIES

As at 31 December 2004, the Group did not have any material contingent liabilities (2003: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed a total of 417 employees (2003: 344 employees). The Group's emoluments policies are formulated based on industry practices and performance of individual employees. During the year under review, the total staff costs (including Directors' emoluments) amounted to approximately RMB10.7 million (2003: RMB8.7 mllion).

The Group operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. For the year ended 31 December 2004, 30,000,000 share options were granted to certain employees by the Company under the Scheme.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

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 risk evaluation. The audited financial statements of the Company for the year ended 31 December 2004 have been reviewed by the audit committee.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 31 December 2004 with the then Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), which was in force prior to 1 January 2005 and remains applicable for the accounting periods commercing before 1 January 2005, 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.

The Company has received, from each of its independent non-executive directors, an annual written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers all of the independent non-executive directors are independent.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

A detailed results announcement containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which shall remain applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under the transitional arrangement, will be published on the website of the Stock Exchange in due course.

APPRECIATION

On the behalf of the Board, I would like to express my gratitude towards all our dedicated staff members for their devotion, commitment and precious contributions. At the same time, I would also like to thank all our shareholders, customers, suppliers and business partners for their support and faith in the Group. The Group will strive to move forward to attain even better results in the coming years.

As at the date of this announcement, the Board comprises of executive directors: Mr. Yang Zongwang, Mr. Xue Xi, Mr. Xue De Fa, Mr. Ng Kin Sun, Mr. Liu Zhi Qiang; and independent non-executive directors: Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man.

By Order of the Board
Yang Zongwang
Chairman

Hong Kong, 12 April 2005

Please also refer to the published version of this announcement in China Daily.