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 2005

The board of directors (the "Board" or the "Directors") of Spread Prospects Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 together with the comparative figures for the corresponding period in 2004 as set out below. The interim results have been reviewed by the Audit Committee and the Company's auditors.

CONDENSED CONSOLIDATED INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2005

		Six months ended 30 June	
	Notes	**2005**	2004
		RMB'000	*RMB'000*
		(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		**7,102**	—
Amounts due to directors		**224**	63
Taxation payable		**3,595**	7,345
Bank loans - amount due within one year		**49,770**	50,000
		123,181	100,622
Net current assets		**318,111**	257,029
		444,316	385,487
Capital and reserves			
Share capital		**44,817**	44,817
Reserves		**345,713**	308,870
		390,530	353,687
Non-current liabilities			
Bank loans - amount due after one year		**21,730**	—
Convertible notes		**31,040**	31,800
Derivative financial instrument		**1,016**	—
		53,786	31,800
		444,316	385,487

NOTES

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	**Adjustments**	**Reclassification**	**At 31.12.2004**	**Adjustments**	**At 1.1.2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(Originally stated)		*(Note)*	*(Restated)*		*(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*
Business segments		
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

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).

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).

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.

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, 21 September 2005

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