Spread Prospects Holdings Limited

展鴻控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 572)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

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 (collectively referred to as the "Group") for the year ended 31 December 2005 together with comparative figures for the previous year as follows:-

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	NOTES	**2005** *RMB'000*	2004 *RMB'000* *(restated)*
Turnover	4	**470,789**	425,716
Cost of sales		**(333,155)**	(284,573)
Gross profit		**137,634**	141,143
Other operating income		**2,577**	1,179
Selling expenses		**(14,268)**	(13,967)
Administrative expenses		**(12,760)**	(10,978)
Finance costs	5	**(5,351)**	(2,717)
Profit before taxation	6	**107,832**	114,660
Income tax expense	7	**(14,491)**	(24,502)
Profit for the year		**93,341**	90,158
Earnings per share	8		
- Basic		**RMB0.221**	RMB0.223
- Diluted		**RMB0.202**	RMB0.222

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	NOTES	**2005**	2004
		RMB'000	*RMB'000*
			(restated)
Non-current assets			
Property, plant and equipment		**128,458**	125,900
Deposits paid for acquisition of property, plant and equipment		**9,089**	495
Prepaid lease payments		**2,064**	2,063
		139,611	128,458
Current assets			
Inventories		**15,207**	13,787
Trade receivables	10	**103,224**	87,456
Other receivables, deposits and prepayments		**3,572**	10,856
Prepaid lease payments		**48**	47
Pledged bank deposits		**12,962**	4,282
Bank balances and cash		**336,841**	241,223
		471,854	357,651
Current liabilities			
Trade payables	11	**20,976**	12,723
Bills payable		**33,666**	15,920
Receipt in advance, other payables and accrued charges		**14,010**	14,571
Amount due to ultimate holding company		**3,120**	—
Amounts due to directors		**381**	63
Taxation payable		**4,339**	7,345
Bank loans - amount due within one year		**53,150**	50,000
Convertible notes - amount due within one year		**30,727**	—
Derivative financial instrument		**627**	—
		160,996	100,622
Net current assets		**310,858**	257,029
		450,469	385,487

	NOTES	2005	2004
		RMB'000	*RMB'000*
			(restated)
Capital and reserves			
Share capital		**44,817**	44,817
Reserves		**389,662**	308,870
Equity attributable to equity holders of the parent		**434,479**	353,687
Non-current liabilities			
Bank loans - amount due after one year		**15,990**	—
Convertible notes - amount due after one year		**—**	31,800
		15,990	31,800
		450,469	385,487

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 address of the registered office and principal place of business of the Company are disclosed in the corporate information of the annual report.

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. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, 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 ("INT(s)") (hereinafter collectively referred to as "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and consolidated statement of changes in equity. The changes in presentation have been applied retrospectively. 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. The impact on basic and diluted earnings per share is discussed in note 8.

Share-based payments

In the current year, 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 retrospectively in accordance with the relevant transitional provisions. Accordingly, no comparative figures have been restated.

Financial instruments

In the current year, 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. HKAS 39 requires derivatives embedded in a non-derivative host contract to be accounted for separately when the economic risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The principal impact of HKAS 32 and HKAS 39 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. Upon application of HKAS 32 and HKAS 39, 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. Comparative figures have been restated to derecognise the capital reserve of RMB861,000 and the corresponding deferred tax liabilities of RMB178,000 and resulted in an increase in profit for the year ended 31 December 2004 amounting to RMB23,000 (net of decrease in finance costs of RMB27,000 and increase in income tax expense of RMB4,000).

Derivative financial instrument

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. During the current year, there is a change in the fair value of the derivative financial instrument amounting to RMB389,000 (included in other operating income) recognised in the income statement.

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 year, 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. The unamortised prepaid lease payments for property interest in land has been separately shown in the consolidated balance sheet.

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

	At	Effect of applying		At	Effect of applying	At
	31.12.2004	**HKAS 17**	**HKAS 32**	**31.12.2004**	**HKAS 39**	**1.1.2005**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	(originally stated)			*(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						
Prepaid lease payments	—	47	—	47	—	47
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	97,048	—	(838)	96,210	—	96,210
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

The Group has not early applied the following new standards and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these Standards or Interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital disclosure [1]
HKAS 19 (Amendment)	Actuarial gains and losses, group plans and disclosures [2]
HKAS 21 (Amendment)	Net investment in a foreign operation [2]
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions [2]
HKAS 39 (Amendment)	The fair value option [2]
HKAS 39 and HKFRS 4 (Amendments)	Financial guarantee contracts [2]
HKFRS 6	Exploration for and evaluation of mineral resources [2]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 4	Determining whether an arrangement contains a lease [2]
HK(IFRIC) - INT 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds [2]
HK(IFRIC) - INT 6	Liabilities arising from participating in a specific market- - waste electrical and electronic equipment [3]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies [4]

1 Effective for annual periods beginning on or after 1 January 2007.

2 Effective for annual periods beginning on or after 1 January 2006.

3 Effective for annual periods beginning on or after 1 December 2005.

4 Effective for annual periods beginning on or after 1 March 2006.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Companies Ordinance.

The consolidated financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair value.

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:

	2005	2004
	RMB'000	*RMB'000*
		(restated)
Income statement		
Turnover - external		
Manufacture and sale of tinplate cans	**416,283**	371,444
Tinplate lacquering and printing services	**54,506**	54,272
	470,789	425,716
Segment result		
Manufacture and sale of tinplate cans	**95,587**	101,879
Tinplate lacquering and printing services	**26,108**	23,970
	121,695	125,849
Unallocated corporate expenses	**(8,512)**	(8,472)
Finance costs	**(5,351)**	(2,717)
Profit before taxation	**107,832**	114,660
Income tax expense	**(14,491)**	(24,502)
Profit for the year	**93,341**	90,158

	2005	2004
	RMB'000	*RMB'000*
		(restated)
Balance sheet		
Assets		
Segment assets		
Manufacture and sale of tinplate cans	**217,355**	197,416
Tinplate lacquering and printing services	**14,853**	9,520
Assets in common use	**22,053**	21,025
Unallocated corporate assets	**357,204**	258,148
Total assets	**611,465**	486,109
Liabilities		
Segment liabilities		
Manufacture and sale of tinplate cans	**62,486**	30,972
Tinplate lacquering and printing services	**—**	—
Liabilities in respect of assets in common use	**4,439**	2,351
Unallocated corporate liabilities	**110,061**	99,099
Total liabilities	**176,986**	132,422
Other information		
Capital additions:		
Manufacture and sale of tinplate cans	**14,036**	81,201
Tinplate lacquering and printing services	**—**	—
Assets in common use	**2,367**	4,605
Unallocated corporate assets	**34**	2,063
	16,437	87,869
Depreciation of property, plant and equipment:		
Manufacture and sale of tinplate cans	**10,437**	5,398
Tinplate lacquering and printing services	**—**	—
Assets in common use	**2,833**	2,306
Unallocated corporate assets	**609**	405
	13,879	8,109

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

5. FINANCE COSTS

	2005	2004
	RMB'000	*RMB'000*
		(restated)
Interest on borrowings wholly repayable within five years		
- bank borrowings	**3,428**	2,602
- convertible notes	**1,788**	67
	5,216	2,669
Bank charges	**135**	48
	5,351	2,717

6. PROFIT BEFORE TAXATION

	2005	2004
	RMB'000	*RMB'000*
		(restated)
Profit before taxation has been arrived at after charging:		
Directors' remuneration	**2,755**	2,695
Other staff costs	**8,274**	7,896
Retirement benefit cost, other than directors	**70**	60
Total staff costs	**11,099**	10,651
Auditors' remuneration	**1,053**	879
Depreciation of property, plant and equipment	**13,879**	8,109
Minimum lease payments in respect of:		
- land and buildings	**1,583**	1,114
- machinery and equipment	**1,500**	1,500
Release of prepaid lease payments	**48**	42
and after crediting:		
Interest income	**2,142**	1,027
Gain on decrease in fair value of derivative financial instrument	**389**	—
Net foreign exchange gain	**177**	—

7. INCOME TAX EXPENSE

	2005 RMB'000	2004 RMB'000 (restated)
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC	**14,491**	24,502

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 which located at coastal cities and economic development zones. 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. In addition, another PRC subsidiary operating in the Shanxi province is exempted from PRC Foreign Enterprise Income Tax commencing in 2005 for three years and thereafter a 50% tax relief for the next two years and the local surtax of 3% is exempted according to local preferential policy.

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

	2005 RMB'000	2004 RMB'000 (restated)
Profit before taxation	**107,832**	114,660
Tax at PRC income tax rate of 24% (2004: 24%)	**25,880**	27,518
Tax effect of expenses that are not deductible in determining taxable profit	**2,263**	1,677
Tax effect of income that is not taxable in determining taxable profit	**(116)**	(1)
Tax effect of income that is under tax holiday	**(5,188)**	(5,034)
Tax effect of income that is under preferential tax rate	**(8,695)**	—
Others	**347**	342
Tax charge for the year	**14,491**	24,502

The Group did not have any significant unprovided deferred taxation arising during the year or at the balance sheet date.

8. EARNINGS PER SHARE

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

	2005 *RMB'000*	2004 *RMB'000* *(restated)*
Earnings:		
Profit for the year for the purposes of basic earnings per share	**93,341**	90,158
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**1,788**	67
Gain on decrease in fair value of derivative financial instrument	**(389)**	—
Profit for the year for the purpose of diluted earnings per share	**94,740**	90,225

	2005	2004
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**422,800,000**	404,767,213
Effect of dilutive potential ordinary shares:		
Convertible notes	**46,705,805**	1,557,377
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**469,505,805**	406,324,590

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 years.

Changes in the Group's accounting polices during the year are described in detail in note 2. To the extent that those charges have had an impact on results reported for 2005 and 2004, they did not have impact on the amounts reported for earnings per share.

9. DIVIDEND

	2005 *RMB'000*	2004 *RMB'000*
Ordinary shares:		
Interim, paid - nil	**—**	—
Final, proposed - RMB0.025 (2004: RMB0.030) per share	**10,553**	12,549
	10,553	12,549

The final dividend for the year ended 31 December 2005 of HK$0.024 (equivalent to approximately RMB0.025) (2004: HK$0.028 (equivalent to approximately RMB0.030)) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

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 trade receivables are aged within 3 months from the balance sheet date. The directors of the Company consider that the carrying amount of trade receivables approximates their fair value.

11. TRADE PAYABLES

An aged analysis of trade payables is as follows:

	2005	2004
	RMB'000	*RMB'000*
Within 3 months	**20,966**	12,712
Over 3 months but not more than 6 months	**—**	9
Over 6 months but not more than 1 year	**10**	2
	20,976	12,723

The directors of the Company consider that the carrying amount of trade payables approximates their fair value.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB470.8 million (2004: RMB425.7 million), representing a growth of approximately 10.6% as compared to that of the last year. The increase was largely attributable to the continued robust demand in the local beverage and convenient canned food market, persistent improvement in the Group's management standard and the expansion of operating scale.

The Group's gross profit amounted to approximately RMB137.6 million (2004: RMB141.1 million), representing an decrease of approximately 2.5% as compared to that of the last year. The decrease in gross profit was mainly due to the increase in the costs of tinplate and other raw materials.

Profit for the year under review amounted to approximately RMB93.3 million (2004: RMB90.2 million), which represented an increase of approximately 3.5% as compared to that of the last year. The profit margin for the year under review amounted to approximately 19.8% (2004: 21.2%), which represented a decrease of approximately 1.4% as compared to that of the last year. Basic earnings per share was RMB0.221 (2004: RMB0.223).

BUSINESS REVIEW

During the year of 2005, the Group continued to deliver satisfactory performance and achieve sustainable growth in both turnover and net profit, driven by the continued robust demand in the local beverage and convenient canned food market, as well as the support from local government by offering tax relief to the Group's production base in Fujian Province with its profits tax rate lowered from 24% to 15%. In addition, the Group's encouraging performance was resulted from a combination of factors, including strengthening of operation management, adjustment of product structure to cope with the market demand, and stepping up sales efforts to achieve equilibrium in the production and sales of goods, all of which led to an increase in sales revenue with a decrease in production costs.

1. Packaging Industry Riding on a New Wave of Blossoming Period

The production volume of soft drink in the PRC has grown rapidly in the recent years. In 2004, the production volume of soft drink including carbonate beverage, bottled water, vegetable and fruit juice and tea reached 29.12 million tonnes, representing an increase of 22.7% compared to last year, whilst the annual compound growth rate from 1997 to 2004 was approximately 16%.

Since 1999, the export of canned food has been growing for 6 consecutive years. The production volume of cans in the PRC amounted to 3.13 million tonnes in 2004, representing a 17.4% growth compared to 2003. In 2005, the sales of canned food / beverage again hit the record high, with the annual production volume of approximately 3.6 million tonnes – 1.55 million for internal consumption and 2.05 million for export. As such, the PRC has become the largest export country of canned food / beverage in the world. These ever-growing internal consumption and exports provide a favorable business environment for the tinplate cans industry.

2. Tax Relief Facilitating Business Growth

In 2005, the profits tax rate imposed on the Group's production base in Fujian Province decreased from 24% to 15%, due to the relocation of main business operations to the economic development zone that offered preferential tax rate, which was a major source for the Group to achieve sustainable business growth during the year.

3. Incessant Enhancement of Management Standard to Compensate The Rise of Raw Material Cost

In order to minimize the risk of rising costs of tinplate and other raw materials in 2005, the Group continued to strengthen its operation management, adjust the product structure, increase the sales effort of premium products and raise the sales price of products by implementing a series of measures. As such, the Group successfully achieved the equilibrium for production and marketing and attained encouraging profit growth. Some of the major measures included:

(a) Enhancing Management Quality

During the first half of the year, the Group introduced a modernized management system to further enhance its management quality. Building on the foundation of the system, the Group adjusted its management model and arranged its management staff to enhance the smooth operation and management efficiency of the production departments, so as to reduce the production cost and further improve, strengthen and enhance the Group's production techniques and capabilities.

(b) Adjustment of Product Structure

In view of the ever-rising costs of raw material (i.e. tinplate), the Group strengthened its sales effort by increasing the sales of three-piece beverage cans which are comparatively mature in production techniques and well-received by the market and increasing the selling price appropriately to transfer part of the increased cost to the downstream customers.

(c) Enhancing Quality Control and Inspection Standard

During the second half of the year, the Group enhanced its inspection system by installing a set of imported inspection equipment. With the number of inspection lines increased from two to three, the Group can further secure the leading edge of its product appearance and quality, and maintain its market competitiveness.

4. Increasing Capital Investment to Enlarge Operation Scale

To further expand the operational scale, the Group increased its total capital investments. The construction works of new production plants in the leased production base in Fuqing, Fujian Province and the production base in Fenyang, Shanxi Province were completed and commenced operation. Such expansion enhanced the Group's production scale and improved the production environment significantly.

5. Continued Enhancement of Service Quality to Bring New Business Opportunities

To further enhance its service quality, the Group established a "Green Channel" to increase its service efficiency and built up a Customer Relationship Management system to consolidate and strengthen its customer relationship. As such, the sales of three-piece tinplate cans in the second half of 2005 increased by 20% as compared to the first half of the year, despite of the increased price level. Such moves have provided the Group with new business opportunities for future development.

PROSPECTS

In 2006, there are already positive signs of factors that affect the profit growth of the beverage packaging industry. The decline of raw material costs and gradual increase of utilization rate signify that the beverage packaging industry has entered a blossoming period and the Group's performance will then be benefited from. In addition, the implementation of various projects and adjustment of product structure will facilitate the Group's further business development.

A. Newly-Developed Products Make A Leap to The Group's Business

1. Possession of the Most Competitive Advantages

According to market information, well developed countries are using more two-piece tinplate cans to contain food and has been growing at a double-digit rate per year. This indicates that two-piece tinplate can is becoming a core product of can packaging market. The Group's existing two-piece tinplate cans business has already secured its leading edge in the industry, which is well-equipped with the largest production capacity, advanced equipment and the ability of producing over 10 models of two-piece tinplate cans.

The Group is planning to add new production lines and moulds for the three-piece tinplate cans for food in 2006, so as to expand its production capacity and enrich its product mix. It is expected that two-piece and three-piece tinplate cans for food will become the Group's highlight products in the future.

2. Decline In Tinplate Costs to Stimulate Sales Growth of The Group's Canned Food Products Significantly

Since the first quarter of 2006, the tinplate raw material costs have dropped by approximately 5% and the Group expects that it will continue to go downward consistently. This phenomenon will become a new driving force for developing the Group's two-piece and three-piece tinplate cans for food markets.

3. Join Hands With Potential Customers to Foster Business Development

Fujian is one of the major provinces in the PRC for the canned food and beverage industry, with a market share of approximately 20% in terms of total production capacity. It situates a large number of renowned, large-scale cans corporations like "Gulong" (古龍) – a cannery in Xiamen. In 2005, Gulong became the market pioneer to receive the Award of "China Top Brand", which resulted in a gradual increase of market share and larger room for business development.

Currently, the Group is well-positioned with solid business foundation and customer resources. To cater for the increasing demand from customers, the Group will add a number of new production lines for some specific cans models in the first half of 2006. Such move will allow the Group to have a closer collaboration with its customers, so as to enhance its market competitiveness and increase its market share.

B. New Products to Stimulate Business Growth

The Group's production base in Shanxi Province is planning to install additional tinplate printing, lacquering production lines and three-piece tinplate cans for beverage production lines to expand the printing and processing business for external customers. The Fujian Plant and Shanxi Plant will add a number of beverage cans models which not only fulfills the different requirements from the customers, but also increases the usage of tinplate raw material by adopting special techniques (e.g. increasing the shrinkage of can necks) so as to reduce the production cost.

Currently, all of the Group's two-piece tinplate cans for food production lines have been relocated to the new production plant in Fuqing, Fujian Province to facilitate the expansion of two-piece tinplate cans business and further improve the production environment.

C. Food Cans to Become The New Driving Force in the Future

After the two-year market development, the Group's customer portfolio now covers a number of renowned mainland corporations, which provides ample room for market development and increase the product diversity in the market. As such, the Group's business development will focus on the production of three-piece tinplate cans for food and two-piece tinplate cans for food in 2006. In this regard, the Group will continue to closely monitor the business development of these well-established customers and provide them with comprehensive services strategically to achieve long-term business relationship and create a win-win situation, and on the other hand, the Group will make use of the influence brought by these renowned customers to spearhead the Group's business development in the SME customer sector.

In view of the favorable business environment of growing demand of beverage and convenient food in the PRC consumer market, the Group will continue to fortify its market development in the high-value products and enrich its product mix gradually, in order to form a key driving force for the Group's future business development.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations by internally generated cashflow and banking facilities provided by its bankers.

For the year ended 31 December 2005, the Group generated approximately RMB117.9 million (2004: RMB86.6 million) of cash from operations. As at 31 December 2005, the Group had cash and cash equivalents of approximately RMB336.8 million (2004: RMB241.2 million) and had total borrowings of approximately RMB99.9 million (2004: RMB81.8 million), comprising bank loans of approximately RMB69.2 million (2004: RMB50 million) and convertible notes of approximately RMB30.7 million (2004: RMB31.8 million), of the total of approximately RMB69.2 million bank loans outstanding as at 31 December 2005, RMB39.5 million were fixed rate debts with interest rate at 5.841% per annum. The remaining RMB29.7 million of bank loan was subject to floating rate of 2% over HIBOR per annum. The maturity profile for the Group's total borrowings was approximately 84% within one year and approximately 16% after one year but not exceeding three years. All of the aforementioned bank loans were guaranteed by corporate guarantees and pledged bank deposit from the Company.

As at 31 December 2005, the Group's current ratio, as a ratio of current assets to current liabilities, was approximately 2.9 (2004: 3.6) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was approximately 16.3% (2004: 16.8%).

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 2005, 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 RMB10.1 million (2004: RMB2.4 million) and did not have any authorised but not contracted for capital commitments (2004: RMB9.9 million).

PLEDGE OF ASSETS

As at 31 December 2005, bank deposit of approximately RMB13.0 million (2004: RMB4.3 million) was pledged to a bank for banking facilities granted to the Group to the extent of the amount of deposits placed with the banks.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities (2004: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total of 427 employees (2004: 417 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 RMB11.1 million (2004: RMB10.7 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. As at 31 December 2005, 30,000,000 share options remained outstanding, representing approximately 7.1% of the total issued number of shares of the Company.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 1 June 2006 to 6 June 2006, both days inclusive, during which period no transfer of shares will be effected.

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

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

AUDIT COMMITTEE

The audit committee consists of all the 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 interim and annual financial statements.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintain a high standard of corporate governance. It is believed that high standards of corporate governance provide a framework and solid foundation for promoting high standards of accountability, transparency and responsibility to our shareholders.

The Board considers that the Company has complied throughout the year ended 31 December 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 year ended 31 December 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; and (iii) the Directors retire by rotation less frequent than once every three years.

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 this date of announcement, the Board comprise 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, 12 April 2006

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