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 2006

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 2006 together with the comparative figures for the corresponding period in 2005 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 2006

		Six months ended 30 June	
	NOTES	**2006**	2005
		RMB'000	*RMB'000*
		(Unaudited)	*(Unaudited)*
Turnover	3	**254,498**	223,710
Cost of sales		**(176,588)**	(153,580)
Gross profit		**77,910**	70,130
Other income		**1,498**	911
Loss on change in fair values of derivative financial instruments		**(10,800)**	—
Selling expenses		**(7,614)**	(6,448)
Administrative expenses		**(6,482)**	(5,398)
Finance costs		**(3,129)**	(2,440)
Profit before taxation	4	**51,383**	56,755
Taxation	5	**(8,655)**	(7,363)
Profit for the period		**42,728**	49,392
Dividends proposed	6	**—**	—
Earnings per share	7		
- Basic		**RMB0.101**	RMB0.117
- Diluted		**RMB0.101**	RMB0.107

CONDENSED CONSOLIDATED BALANCE SHEET
AT 30 JUNE 2006

	NOTES	**30 June 2006**	31 December 2005
		RMB'000	*RMB'000*
		(Unaudited)	*(Audited)*
Non-current assets			
Property, plant and equipment	8	**160,274**	128,458
Deposits paid for acquisition of property, plant and equipment		**12,872**	9,089
Prepaid lease payments		**2,040**	2,064
		175,186	139,611
Current assets			
Inventories		**15,223**	15,207
Trade receivables	9	**104,069**	103,224
Other receivables, deposits and prepayments		**3,257**	3,572
Prepaid lease payments		**48**	48
Pledged bank deposits		**15,506**	12,962
Bank balances and cash		**364,132**	336,841
		502,235	471,854
Current liabilities			
Trade payables	10	**24,625**	20,976
Bills payable		**36,115**	33,666
Receipt in advance, other payables and accrued charges		**15,900**	14,010
Amount due to ultimate holding company		**7,591**	3,120
Amounts due to directors		**219**	381
Taxation payable		**5,146**	4,339
Bank loans - amount due within one year		**65,508**	53,150
Convertible notes		**30,695**	30,727
Derivative financial instruments	11	**13,143**	627
		198,942	160,996
Net current assets		**303,293**	310,858
		478,479	450,469

	NOTES	**30 June 2006**	31 December 2005
		RMB'000	*RMB'000*
		(Unaudited)	*(Audited)*
Capital and reserves			
Share capital		**44,817**	44,817
Reserves		**423,104**	389,662
		467,921	434,479
Non-current liabilities			
Bank loans - amount due after one year		**10,558**	15,990
		478,479	450,469

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

The accounting policies used in the condensed consolidated 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 2005, 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 either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and financial position of the Group.

HKAS 1 (Amendment)	Capital disclosures [1]
HKFRS 7	Financial instruments: Disclosures [1]
HK(IFRIC) - INT 7	Applying the restatement approach under HKAS 29 “Financial reporting in hyperinflationary economies” [2]
HK(IFRIC) - INT 8	Scope of HKFRS 2 [3]
HK(IFRIC) - INT 9	Reassessment of embedded derivatives [4]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 March 2006.
3 Effective for annual periods beginning on or after 1 May 2006.
4 Effective for annual periods beginning on or after 1 June 2006.

3. SEGMENT INFORMATION

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. These divisions are the basis on which the Group reports its primary segment information.

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

	Six months ended 30 June	
	2006	2005
	RMB’000	*RMB’000*
Turnover - external		
Manufacture and sale of tinplate cans	**227,230**	198,072
Tinplate lacquering and printing services	**27,268**	25,638
	254,498	223,710
Segment results		
Manufacture and sale of tinplate cans	**57,656**	50,424
Tinplate lacquering and printing services	**12,795**	12,587
	70,451	63,011
Unallocated corporate expenses	**(5,139)**	(3,816)
Loss on change in fair values of derivative financial instruments	**(10,800)**	—
Finance costs	**(3,129)**	(2,440)
Profit before taxation	**51,383**	56,755
Taxation	**(8,655)**	(7,363)
Profit for the period	**42,728**	49,392

4. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	**7,149**	6,785
Minimum lease payments in respect of:		
– land and buildings	**794**	525
– machinery and equipment	**750**	750
Release of prepaid lease payments	**24**	24
and after crediting:		
Interest income	**1,406**	888

5. TAXATION

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
The charge comprises:		
Income tax calculated at the rates prevailing in the PRC		
– current period	**8,655**	7,363

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 PRC 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.

6. DIVIDENDS

At the annual general meeting of the Company held on 6 June 2006, a final dividend of HK$0.024 (equivalent to approximately RMB0.025) per share in respect of the year ended 31 December 2005, amounting to RMB10,553,000 was approved.

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.

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2006. No interim dividend was declared by the directors for the six months ended 30 June 2005.

7. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006	2005
	RMB'000	*RMB'000*
Earnings:		
Profit for the period for the purposes of basic earnings per share	**42,728**	49,392
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**—**	892
Profit for the period for the purposes of diluted earnings per share	**42,728**	50,284

	Six months ended 30 June	
	2006	2005
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**422,800,000**	422,800,000
Effect of dilutive potential ordinary shares:		
Share options	**28,088**	—
Convertible notes	**—**	45,777,427
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**422,828,088**	468,577,427

For the six months ended 30 June 2006, the computation of diluted earnings per share does not assume the exercise of the Company's outstanding convertible notes and warrants since their exercise would result in an increase in profit per share for the six months ended 30 June 2006.

For the six months ended 30 June 2005, 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 six months ended 30 June 2005.

8. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB38,965,000 (six months ended 30 June 2005: RMB3,421,000).

9. TRADE RECEIVABLES

The Group currently requires certain of its customers to settle in cash on delivery and allows an average credit period of two to three months to other trade customers. The trade receivables are aged within 3 months from the balance sheet date.

10. TRADE PAYABLES

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

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
Within 3 months	**24,571**	20,966
Over 3 months but not more than 6 months	**51**	—
Over 6 months but not more than 1 year	**3**	10
	24,625	20,976

11. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2006	31 December 2005
	RMB'000	*RMB'000*
Conversion option derivative	**8,614**	627
Warrants	**4,529**	—
	13,143	627

Conversion option derivative

The conversion option derivative represents the fair value of an conversion option that is embedded in the convertible notes to convert the liability into the equity of the Company. As announced by the Company on 6 June 2006, the conversion price for the convertible notes in the principal sum of HK$30,000,000 (equivalent to RMB31,800,000) was adjusted to HK$0.61 (equivalent to approximately RMB0.628) per share pursuant to the subscription agreement as a result of the shareholders' approval for the payment of the final dividend for the year ended 31 December 2005 in cash. All the other terms of the convertible notes remain unchanged. The adjustment of the conversion price became effective from 7 June 2006.

No conversion rights was exercised since the date of issue and up to 30 June 2006. At 30 June 2006, the maximum number of ordinary shares of HK$0.10 each in the capital of the Company which may be issued upon full conversion of the Notes is 49,180,327 (at 31 December 2005: 47,619,047) shares. During the six months ended 30 June 2006, a loss on change in its fair value of RMB7,993,000 (six months ended 30 June 2005: nil) is recognised in the income statement.

Warrants

As announced by the Company on 9 May 2006, the Company entered into a warrant instrument dated 4 May 2006 (the "Instrument") with an independent subscriber (the "Subscriber"). Pursuant to the Instrument, the Company agreed to issue and the Subscriber agreed to subscribe for the warrants conferring rights to subscribe up to 38,000,000 new ordinary shares of HK$0.10 each in the Company, subject to adjustments, at an initial subscription price of HK$0.88 per share, subject to adjustments, at any time from 21 May 2006 to 18 May 2009, both dates inclusive (the "Warrants").

The initial subscription price per share is HK$0.88 (equivalent to approximately RMB0.906) as at the date of issue of the Warrants until 18 May 2007, and thereafter will be HK$0.88 as adjusted downward by the Company on the first anniversary of the date of issue of the Warrants. The adjusted subscription price will be such price in Hong Kong dollars as equals the market price of shares determined on the first anniversary of the date of issue of the Warrants, but in no case will be less than HK$0.71 (equivalent to approximately RMB0.731).

The initial subscription price of HK$0.88 per share represents a premium of approximately 1.15% to the closing price of HK$0.87 (equivalent to approximately RMB0.896) per share as quoted on the Stock Exchange on 3 May 2006, being the date immediately before the date of Instrument. The proceeds of HK$1,672,000 (equivalent to approximately RMB1,722,000) was used for the general working capital purposes. The directors of the Company are authorised to issue these new shares pursuant to the general mandate granted by the annual general meeting of the Company held on 3 June 2005.

At 30 June 2006, the Warrants are not exercisable and carried at fair value. Exercise in full of such Warrants would results in the issue of 38,000,000 additional ordinary shares of HK$0.10 each in the Company. During the period, a loss on change in fair value of RMB2,807,000 is recognised in the income statement.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 June 2006, the unaudited turnover of the Group was approximately RMB254.5 million, representing a growth of 13.8% as compared to that of the last corresponding period.

The operating profit for the six months ended 30 June 2006 increased by approximately 10.3% to approximately RMB65.3 million as compared to that of the last corresponding period. The net profit and net profit margin for the six months ended 30 June 2006 decreased by approximately 13.5% and approximately 5.3% to approximately RMB42.7 million and approximately 16.8% respectively as compared to that of the last corresponding period.

Without taking into account the effect of loss on change in fair values of derivative financial instruments amounted to RMB10.8 million, the net profit for the six months ended 30 June 2006 would increase by approximately 8.4% to approximately RMB53.5 million as compared to that of the last corresponding period.

BUSINESS REVIEW

In the first half of 2006, given the steady and favorable business environment of the metal packaging industry, the Group was benefited through the rapid expansion of its principal operating businesses in an orderly manner, leading to all major production and operating indicators being achieved within expectations. Meanwhile, the Group continued to enhance its production capacity, upgrade product technology and increase production of high value-added products so as to secure a high growth in net profits as compared to that of the last corresponding period. A detailed analysis of which is as follows:

1. **The blooming food and beverage industry in the PRC offers promising outlook for the packaging industry**

   Based on the statistics, the production volume of beverage in the PRC in 2005 reached 33.8 million tonnes, representing an increase of 24% as compared to the corresponding period. The production volume of various types of bottled drinking water amounted to 13.86 million tonnes, representing a proportion of over 40% to the total. As for vegetable and fruit juice, protein beverage and tea, the production volume increased by 20.7% to 10.47 million tonnes as compared to that of last year. The production volume of carbonate beverage remained stable and amounted to 6.76 million tonnes as compared to last year with a proportion of approximately 20%.

In 2005, the total production volume of canned food in the PRC reached 3.60 million tonnes with an annual growth of 20%. For new packaging products two-piece tinplate cans, they represented approximately 25% of the total production volume by an increase of over 30% per annum. Currently, canned food produced in the PRC mainly focuses on exporting to other major export markets, including Japan, United States and the member states of the European Union. In recent years, the increasing volume of cans imported from the PRC to Russia, the Middle East and ASEAN countries also demonstrated the vigorous export growth of the canned food industry in the PRC. According to statistics, from January to June 2006, the total production volume of cans in the PRC amounted to approximately 2.1063 million tonnes with an export of 1.1994 million tonnes.

The role of the PRC as the "world factory" and the development of related downstream business helped to create growing opportunities for metal packaging industry.

2. Enhancing the integration capability of the Group

Through the implementation of a series of strategic measures, including transformation of production facilities to optimize its production efficiency, innovation on processing technology as well as the adoption of stringent production procedures and strengthened quality controls, the Group achieved remarkable results successfully. Such measures mainly include:

(1) A new era of rapid development for the Group after its new production plant commenced operations

The interior finishing and installation of production facilities of the Group's new production plant located at Fuqing Rongqiao Economic and Technology Development Zone was finally completed and commenced operations in early 2006. The Group's headquarter was also moved to the new production area strategically, which comprised offices, staff quarters, canteen and recreation facilities. The Group has also set up administration, production, R&D, technology and logistics departments with independent functions and operations. As such, the management is expected to enhance integration capability substantially and further increase the annual production capacity.

(2) Reform and upgrade of energy saving technologies for tinplate cans production lines

To enhance the utilization rate and technologies of production facilities, the Group carried out energy saving reform and upgraded some components for two production lines of three-piece tinplate cans located at Fuqing. After such reform and technology upgrade, the Group's utilization rate increased by approximately 15% while the energy consumption has been further minimized due to the reason that the production technologies are strengthened and the production rate of high quality products is also enhanced.

(3) Construction of ancillary facilities

Following the completion of new production plant expansion, the Group began the construction of ancillary facilities, including air compressor room, water pump room and fire fighting pool, to fully equip itself and enhance its production level with modernized equipment.

In addition, the Group has acquired an automatic microplate washer using high quality components such as diaphragm pump. With automatic computer software in place for systematic control as opposed to manual operation and quality and state-of-the-art design, the washer can support over 100 different models of microplates. It features the recycling of used water that helps saving a large amount of water usage, accomplishing the Group's objectives of high efficiency, high quality and low cost.

3. Additional high value-added services for customers

To enhance its own profitability, the Group has been improving its competitive edges from business model by proactively providing convenient, effective, and safety high value-added services for customers during the first half of the year. Capitalizing on innovative technologies, our technical staff can support and help our customers to design new products, carry out tests on product safety and practicality as well as to solve those problems encountered during the production process. By doing so, our customers can focus on sales of products without exerting its extra efforts on product safety and reliability. As a result, our customers can be more competitive among other market players by enhancing the efficiency and realization rate of product design and shortening the R&D cycle of new products.

Greater optimization of the Group's operations has effectively reinforced our major products' power to compete with other industry players. In addition to this, our technology indicator also remained a leading position in the PRC. All these paved the upward trend for the principal businesses of the Group. The purchase orders from major customers of three-piece beverage cans, three-piece food cans and two-piece food cans increased with different rates as compared to the corresponding period last year, representing an increase of approximately 20%-30%. The Group was able to secure three new renowned large customers and five new large customers of two-piece food cans and three-piece food cans this year, contributing over 10% and 5% of the total purchases respectively.

4. **Enhancing overall competitiveness with the support of our technical expertise**

Abundant supply of high caliber professionals is undoubtedly indispensable to achieve our corporate development strategy. In order to fortify our innovative technologies, and to strengthen our support and service capability, we will continue to spend our strenuous effort to retain and recruit technical expertise with extensive knowledge and strategic and planning skills as well as experienced management professionals. As the Group has recruited some experienced engineers for technology and management departments during the year, our capability to support and provide services to customers is greatly improved.

Meanwhile, our team of technical expertise also brings us a robust engine to underpin our niche in innovative technology continuously. The new customer of two-piece food cans has already made a set of stringent requirements for the coating and sealing of their tomato juices so as to meet the export examination standards. To fulfill these special requirements of high acidity products for new customer, our technical expertise tactically mixed up and combined different acid-resistant coating materials together, and applied strict control on various technology indicators, such as proportion of mixture, coating time and temperature. After adopting some special technology treatment to optimize the effectiveness of the coating materials, the two-piece food cans meet our customers' requirement and its technology applied is even beyond the standard of same kind of products overseas. Having the above advantages, the Group has been able to capture a higher market share.

Apart from focusing on production technologies, the Group has also fully upgraded the original management system aiming to enhance its operation efficiency.

PROSPECTS

The satisfactory results attained by the Group in the first half of the year have clearly proven our success in strategic development. With the increasing market share in a number of regions in the PRC, the Group will spare more efforts to guarantee our profits and future development.

1. **Commenced operations of new facilities will form a solid foundation for our future business growth**

   During the latter half of the year, the Group will invest into new ancillary facilities which mainly include:

   (1) Commencing operations of environmental friendly facilities

   To facilitate the colour print processing and the development of new operations, Shanxi Zhanpen Metal Products Co., Ltd engaged a professional company to build up a new environmental protection system for its production plant in June. Backed with the traditional advantages, the system has also adopted an innovative technology in terms of HT desulphurization and spiral agitator. Its desulphurization efficiency is over 98% which is well beyond the required standard set by the relevant bureau. This system has successfully simplified the operating process, optimized the performance, reduced operating costs and provided clean working environment as compared to the traditional technologies.

   (2) Setting up of new production line, acquisition of microplate washer and upgrading of existing equipment

   To keep pace with the continual development of three-piece beverage cans in Shanxi Zhanpen Metal Products Co., Ltd and to meet different requirements from customers, the Group will add a new production line in the latter half of the year to increase its production capacity. As such, the Group can secure its leading position in innovative technologies and productivity in the western part of China. Meanwhile, the Group also plans to upgrade and repair the original three-piece beverage cans production lines of Shanxi Zhanpen Metal Products Co., Ltd, so as to ensure smooth operation, quality reliability and increase the utilization rate of equipment.

   In addition, Shanxi Zhanpen Metal Products Co., Ltd also plans to purchase an automatic microplate washer to reduce manpower and maximize operation efficiency.

(3) Cost advantages of economy of scale achieved by two-piece cans

Due to advancement in technologies for the production of two-piece cans, its demand has been increasing significantly as compared to last year. Steering ahead, it is believed that the market demand for this product remains positive. Two-piece cans may develop as major products in can packaging industry. In the first half of 2006, the Group purchased new model facilities and moulds for two-piece food cans to expand its production capacity and enrich its product mix. Capitalizing on economy of scale, innovative technologies, costs competitiveness and quality products, the Group has been able to keep a fast growth in its profitability.

2. Formation of research and development platform to reinforce mutual cooperation

The Group has reached consensus with a university in Fujian in scientific research training and technology cooperation issues. Through such cooperation, the technical capability and technologies applied in products can be improved to further support the market launch of our new product two-piece cans. On the practical ground of this educational scientific research, technicians from both parties can easily exchange ideas and are provided with a channel of communication and cooperation. Graduates will also be benefited from the opportunities and assistance given through practical training and design.

3. Mixed sales model to provide ample room for business development

During the first half of the year, the value-added strategies of the Group were well received by our customers as evidencing by good revenues achieved. The Group has been cooperating with some renowned food manufacturers in the PRC and has also maintained a close and stable business relationships with extensive experience accumulated. To attain the goal of future development, the Group will carry out research to identify the needs of our customers, offer after-sales services and set up different sales models to meet the requirements from various sectors, allowing the Group to provide more tailor-made products and services to better suit customers' needs in the latter half of the year. By providing efficient, effective and proactive services to customers, both parties will become more competitive and there will be ample room for business expansion in the near future.

In the view of rapid and continuous growth of the PRC economy, the Group's overall operating revenues maintained its strong growth during the first half of the year. Through the application of innovative technology for value-added products and focusing on the core and principal businesses, the Group is confident to keep its healthy and steady growth in the overall results for the latter half of the year.

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 2006, the Group had cash and cash equivalents of approximately RMB364.1 million (31 December 2005: RMB336.8 million) and had total borrowings of approximately RMB106.8 million (31 December 2005: RMB99.9 million), comprising bank loans of approximately RMB76.1 million (31 December 2005: RMB69.2 million) and convertible notes of approximately RMB30.7 million (31 December 2005: RMB30.7 million), of the total of approximately RMB76.1 million bank loans outstanding as at 30 June 2006, RMB39.5 million were fixed rate debts with interest rate at 5.85% per annum. The remaining RMB36.6 million of bank loan was subject to floating rate ranging from 2% to 2.75% over HIBOR. The maturity profile for the Group's total borrowings was approximately 86.1% within 1 year and approximately 13.9% after 1 year but within 3 years. All of the aforementioned bank loans were guaranteed by either corporate guarantees, pledged bank deposit from the Company or pledged bank deposit given by a director of the Company.

The Group's current ratio (current assets to current liabilities) was approximately 2.5 (31 December 2005: 2.9) and the Group's gearing ratio (total interest-bearing borrowings to total assets) was approximately 15.8% (31 December 2005: 16.3%).

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 2006, the Group had pledged bank deposits of approximately RMB15.5 million (31 December 2005: RMB13.0 million) to its bankers to secure banking facilities granted to the Group.

SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2006, the Group did not have any significant investment.

CONTINGENT LIABILITIES

As at 30 June 2006, the Group did not have any material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2006, 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 RMB4.1 million (31 December 2005: RMB10.1 million).

SEGMENT INFORMATION

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

MATERIAL ACQUISITIONS/DISPOSALS

During the six months ended 30 June 2006, the Group made no material acquisition and disposal of subsidiaries and associated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had 442 employees (31 December 2005: 427 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 2006, the total staff costs (including Directors' emoluments) amounted to approximately RMB4.7 million (for the six months ended 30 June 2005: RMB4.6 million).

The Group operates a share option scheme for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. As at 30 June 2006, 38,280,000 share options remained outstanding, representing approximately 9.1% of the total issued number of shares of the Company.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2006, 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 of 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 2006.

CORPORATE GOVERNANCE

The Board considers that the Company has complied throughout the six months ended 30 June 2006 with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules, except that (i) there is no division of roles of chairman and chief executive officer that both offices are held by Mr. Yang Zongwang; and (ii) the independent non-executive Directors are not appointed for specific terms. The reasons for such deviation from the code provisions had been stated in the Company's 2005 Annual Report.

REMUNERATION COMMITTEE

The remuneration committee was established on 21 September 2005 with written terms of reference. The remuneration committee consists of three independent non-executive directors, namely Mr. Tong Hing Wah, Mr. Chong Hoi Fung and Mr. Ng Wai Man, is responsible for reviewing and evaluating the remuneration polices of directors and senior management and making recommendations to the Board from time to time.

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 2006.

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)
Xie 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 2006

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