



SOLARTECH INTERNATIONAL HOLDINGS LIMITED

榮盛科技國際控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code : 1166)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2004

The Board of Directors (the “Directors”) of Solartech International Holdings Limited (the “Company”) is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2004, as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 September	
		2004 HK\$'000 (Unaudited)	2003 HK\$'000 (Unaudited)
Turnover	2	827,725	540,074
Cost of sales		(748,838)	(476,339)
Gross profit		78,887	63,735
Other operating income		9,891	2,994
Interest income		3,211	3,712
General and administrative expenses		(43,444)	(41,196)
Selling and distribution expenses		(8,900)	(8,941)
Profit from operations	3	39,645	20,304
Finance costs		(10,711)	(6,748)
Impairment loss recognised in respect of goodwill		–	(63,653)
Share of results of associates		129	(4,108)
Profit (loss) before taxation		29,063	(54,205)
Taxation	4	(6,720)	(2,546)
Profit (loss) before minority interests		22,343	(56,751)
Minority interests		(2,074)	(128)
Profit (loss) for the period		20,269	(56,879)
Earnings (loss) per share			
– basic	5	6.73 cents	(29.61) cents

* for identification only

Notes:

1. Basis of preparation

The condensed financial statements have been prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. Segment information

The Group reports its primary segment information based on product categories. Two new segments, life-like plants and television programmes production, distribution and licensing, arising from the acquisition of FT Holdings International Limited (HKEx Stock code: 559) in August 2004, is presented in the current period. Turnover and profit from operations for the six months ended 30 September 2004 and 2003, analysed by product category, are as follows:

	For the six months ended 30 September 2004				For the six months ended 30 September 2003			
	Turnover			Profit (loss) from operations HK\$'000	Turnover			Profit (loss) from operations HK\$'000
External sales HK\$'000	Inter- segment sales HK\$'000	Total HK\$'000	External sales HK\$'000		Inter- segment sales HK\$'000	Total HK\$'000		
Cables and wires	354,639	6,698	361,337	13,344	309,476	3,988	313,464	13,050
Copper rods	381,566	101,167	482,733	19,551	180,679	74,393	255,072	4,066
Connectors and terminals	64,394	281	64,675	6,306	45,787	238	46,025	4,384
Life like plants	19,658	-	19,658	2,374	-	-	-	-
Television programmes production, distribution and licensing	1,205	-	1,205	(1,040)	-	-	-	-
Other	6,263	-	6,263	(2,213)	4,132	-	4,132	(1,743)
	<u>827,725</u>	<u>108,146</u>	<u>935,871</u>	<u>38,322</u>	<u>540,074</u>	<u>78,619</u>	<u>618,693</u>	<u>19,757</u>
Elimination	-	(108,146)	(108,146)		-	(78,619)	(78,619)	
	<u>827,725</u>	<u>-</u>	<u>827,725</u>		<u>540,074</u>	<u>-</u>	<u>540,074</u>	
Unallocated corporate income				2,622				2,055
Unallocated corporate expenses				(1,299)				(1,508)
Profit from operations				<u>39,645</u>				<u>20,304</u>

Inter-segment sales are charged at prevailing market rates.

The Group's turnover for the six months ended 30 September 2004 and 2003, analysed by geographical market, is as follows:

	For the six months ended 30 September 2004			For the six months ended 30 September 2003		
	Turnover			Turnover		
	External sales	Inter- segment sales	Total	External sales	Inter- segment sales	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China	566,062	101,448	667,510	320,576	74,631	395,207
North America	118,585	–	118,585	115,708	–	115,708
Europe	17,048	–	17,048	21,241	–	21,241
Hong Kong	41,426	–	41,426	17,401	–	17,401
Other Asian regions	84,604	6,698	91,302	65,148	3,988	69,136
	<u>827,725</u>	<u>108,146</u>	<u>935,871</u>	<u>540,074</u>	<u>78,619</u>	<u>618,693</u>
Elimination	–	(108,146)	(108,146)	–	(78,619)	(78,619)
	<u>827,725</u>	<u>–</u>	<u>827,725</u>	<u>540,074</u>	<u>–</u>	<u>540,074</u>

Inter-segment sales are charged at prevailing market rates.

3. Profit from operations

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000

Profit from operations has been arrived at after charging:

Depreciation of property, plant and equipment	18,209	19,363
Amortisation of goodwill included in general and administrative expenses	125	–
	<u>18,334</u>	<u>19,363</u>

4. Taxation

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000

Hong Kong Profits Tax	3,000	26
Taxation in other jurisdictions	2,990	1,614
Deferred tax	730	906
	<u>6,720</u>	<u>2,546</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period.

Taxation in other jurisdictions, including Mainland China and overseas, is calculated at the rates applicable in the respective jurisdictions.

5. Earnings (loss) per share

The calculation of the basic earnings (loss) per share is based on the following data:

	For the six months ended 30 September	
	2004	2003
	HK\$'000	HK\$'000
Results for the period and results for the purpose of basic earnings (loss) per share	<u>20,269</u>	<u>(56,879)</u>
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share	<u>301,007,149</u>	<u>192,069,608</u>

As there is no potential dilutive ordinary shares in the current period and the exercise of potential dilutive ordinary shares in prior period would result in a reduction in the loss per share in that period, no diluted earning (loss) per share has been presented for both periods.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

The Directors are pleased to announce that for the six months ended 30 September 2004, the total turnover of the Group amounted to HK\$827,725,000, representing an increase of approximately 53.3% over HK\$540,074,000 for the corresponding period last year. Profit from operations was approximately HK\$39,645,000, representing an increase of approximately 95.3% over HK\$20,304,000 for the corresponding period last year. Profit attributable to shareholders and earnings per share were approximately HK\$20,269,000 and HK6.73 cents respectively, compared to a loss of HK\$56,879,000 and a loss per share of HK29.61 cents for the corresponding period last year.

Interim dividend

The Directors resolved not to pay any interim dividend for the six months ended 30 September 2004 (2003: Nil).

Business review

During the period under review, the Group continued to implement its established strategies and development plans and successfully increased its production capacity, expanded its operations and enhanced marketing. Detailed business developments are as follows:

For the six months ended 30 September 2004, the Group's total turnover was HK\$827,725,000, of which HK\$354,639,000 was from the sales of cable and wire products, HK\$381,566,000 from the sales of copper rods and HK\$64,394,000 from the sales of connectors and terminals. Turnover of chemical products was HK\$6,263,000. Turnover of life-like plants and multi-media businesses acquired totalled to approximately HK\$20,863,000.

During the period under review, total turnover and profit from operations recorded a year-on-year increase of 53.3% and 95.3% respectively as compared to the corresponding period last year, while profit from operations increased by approximately 27% from 3.76% to 4.79%, which was mainly due to the Group's effective strategy on cutting down operating expenses. In terms of geographical breakdown, sales from major markets continued to record satisfactory growth during the period. The PRC market in particular demonstrated the most outstanding performance. In

terms of recorded figures, the PRC market achieved the most significant results with an aggregate net growth of HK\$245,486,000, which was mainly driven by the growth of sales of the Group's overseas customers in the PRC. Accordingly, turnover of the PRC market increased by 76.6% during the period, while North America and Asia Pacific markets together recorded a total growth in net turnover of over HK\$46,358,000.

Cable and wire products and connectors and terminals

Turnover for cable and wire products as well as connectors and terminals in most of the Group's prominent markets were on the upswing during the period under review. Despite decreases recorded in the European market, performances of the Greater China and North American regions were encouraging. This was primarily due to the growth in turnover and market share resulted from our aggressive efforts in securing new customers. Nevertheless, competition in the cable and wire industry remains fierce and the high material costs continue to affect the profit margin of cable and wire products. Due to the strong market demand, prices of primary materials such as copper and plastic surged towards the end of last year and respective costs remains on relatively high level. Increased costs continued to affect the Group's gross profit to a certain extent, coupled with the extremely intense competition from other manufacturers, the Group had not been able to transfer all of such costs to our customers during the period.

The Group believes that China, leveraging on her role as the world factory and a member of the World Trade Organisation, will gain further momentum in the domestic manufacturing industry, and the Yangtze River Delta has gradually become a preferred base for companies seeking to tap into the Eastern China and overseas markets. Given our increasingly strong customer base, the Group established an additional production line for connectors and terminals in Qingdao, Shandong, the PRC in June 2004. Moreover, we aim to capture the vast opportunities in domestic and export sales emerged in the Yangtze River Delta by constructing a new plant in Kunshan, Jiangsu, the PRC, which is scheduled to be completed in the first quarter of 2005. It is expected that the annual production value would reach RMB200 million. The plant will increase the Group's turnover when it is put into full operation by the end of next year.

Copper rod business

During the period under review, turnover of the copper rod business recorded a significant growth of approximately 111.2% over the corresponding period last year, accounting for approximately 46.1% of the Group's total turnover, compared to 33.5% of that for the corresponding period last year. The copper rod business has been performing well with remarkable growth in recent years. Despite the slight impacts of the continuously high copper prices on the finance costs of Hua Yi Copper, due to the fact that the Group is mainly engaged in the processing business, not only could the costs resulted from the high copper prices be transferred to our customers, the Group will also have better bargaining power in light of the undersupply, and will be well poised to seek for higher gross profit margin, so as to enhance profits on the whole.

Over the past few years, the Group's copper rod products have established a sound reputation in the industry for their stable quality. In view of the insufficient supply of copper raw materials and related products in the PRC, the Group has finalised the construction of a new plant in Kunshan, Jiangsu, the PRC to expand into the copper wire processing market in the Yangtze River Delta region. Annual production capacity of the new plant is expected to reach 10,000 tons of copper wires of different specifications, and will mainly produce high-value downstream products including annealed copper wires, tin-coated copper wires, stranded copper wires and enamelled copper wires. The new plant is scheduled to be completed and commence operation in early 2005.

In order to further focus resources on the development of copper wire processing business, the Group announced at the end of March 2004 the injection of its copper rod business into FT Holdings International Limited (HKEx stock code: 559), a company listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), which was originally principally engaged in the sales of life-like plants and multi-media businesses. The transaction was completed in mid August 2004. Details were set out in the circular dated 14 June 2004 in relation to major transaction of the Group. The listed company has been formally renamed to Hua Yi Copper Holdings Limited (“Hua Yi Copper”) on 23 September 2004. The Group holds 74.99% shareholdings of Hua Yi Copper upon completion of the transaction.

Looking forward, Hua Yi Copper will not only reinforce its existing processing business, but will also proactively look for opportunities to develop upstream businesses, so as to stabilise the supply of copper cathodes and further expand its operation scale to bring higher returns to our shareholders.

Life-like plants

The former FT Holdings International Limited was principally engaged in the design, manufacture and sales of life-like plants. Prices of major raw materials of its products have been increasing since the end of 2003 with an average increment of 20-25%. Profit margin was squeezed as the Group was not able to transfer the cost increments to customers who had already received price quotations for their relevant orders. Even though the management has taken up certain measures to sustain business volume and profit margin of its products, results of these measures had not been satisfactory. The management will adopt other measures to reduce the impact on the Group. Nevertheless, the Directors of the Company consider that the operating environment will continue to be difficult in the second half of the year. The Group will continue to explore development opportunities and the possibilities of further co-operations with other manufacturers to enhance and support the Group’s development of new products with higher profit margins.

Prospects

Looking forward, the Group continues to adopt a prudent approach for its short term business environment, and competition amongst manufacturers are expected to remain intense. Nevertheless, we believe that the industry is currently under a consolidation period and only those with strong financial standing will survive. The Group will continue to implement cost control measures, including applying new technologies to product design and the enhancement of vertical integration, and increase productivity by establishing new production lines, step up the supervision on the Group’s supply chain, and further improve on our production efficiency, including the enhancement of the production capacity of the Group’s PRC plants. Meanwhile, the Group will also persist with its ongoing mission to proactively look for more potential target customers on all fronts and continuously expand its business to other areas with high growth potentials to reduce reliance on its established businesses. The Group will continue to focus on the expansion of its market and customer base, so as to generate better returns for shareholders.

The Group believes that it is in a sound financial position, with extensive experience and outstanding goodwill. Leveraging on its long term relationship with its customers and its high quality products, through upgrades, research and development for its existing and new products, implementation of effective cost control measures and focusing on its core business, the Group is confident that it will overcome its future challenges and improve future performance.

EMPLOYEES

As at 30 September 2004, the Group had approximately 5,000 employees in Hong Kong, the PRC and overseas. Remuneration policy is reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in PRC.

LIQUIDITY AND FINANCIAL RESOURCES

During the period, the Group has implemented sound financial management policy. As at 30 September 2004, the Group had cash and bank balances (including pledged bank deposits) amounted to approximately HK\$183 million and net current assets value being over HK\$332 million. The Group's gearing ratios as at 30 September 2004 was 0.39, being a ratio of total bank borrowings of approximately HK\$329 million to shareholders' funds of approximately HK\$836 million.

As at 30 September 2004, the Group pledged certain property, plant and machinery, fixed deposits and trade debtors with an aggregate net book value of HK\$196 million to secure general banking facilities granted to the Group.

As at 30 September 2004, the Company has guaranteed the banking facilities granted to its subsidiaries amounting to approximately HK\$313 million.

The transactions of the Group are mostly denominated in HK\$, US\$ and RMB. As the exchange rates of these currencies have been relatively stable, the Group was therefore not exposed to any significant exchange risk.

PLACING OF EXISTING SHARES AND SUBSCRIPTIONS OF NEW SHARES

Pursuant to the placing and subscription agreements dated 17 June 2004, Chau's Family 1996 Limited placed 54,000,000 ordinary shares of HK\$0.01 each in the capital of the Company to independent investors at a price of HK\$0.27 per share and subscribed for 54,000,000 new ordinary shares of HK\$0.01 each in the capital in the Company at a price of HK\$0.27 per share. The Group had applied the net proceeds of approximately HK\$14.2 million from the subscription for purchasing raw materials (including copper cathodes and PVC resin) for production of cables and wires.

CHANGE OF FINANCIAL YEAR END DATE

On 20 August 2004, the Directors resolved to change the Group's financial year end date from 31 March to 30 June. Accordingly, the next financial year end date of the Group will be 30 June 2005.

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 six months ended 30 September 2004.

CORPORATE GOVERNANCE

Audit Committee

The Audit Committee has reviewed with management and the external auditors the accounting principles and practices adopted by the Group and discussed financial reporting matters including the review of the unaudited interim financial statements.

Compliance with the Code of Best Practice

In the opinion of the directors, the Company has complied throughout the six months ended 30 September 2004 with the Code of Best Practice as set out in Appendix 14 of The Rules Governing the Listing of Securities of the Stock Exchange except that the independent non-executive directors are not appointed for a specific term.

PUBLICATION OF INTERIM RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information on the Company's interim results required by paragraphs 46(1) to 46(6) of Appendix 16 to The Rules Governing the Listing of Securities on the Stock Exchange will be published on the Stock Exchange's website in due course.

On behalf of the Board

Chau Lai Him

Chairman and Managing Director

Hong Kong SAR, 23 December 2004

As at the date of this announcement, the executive Directors are Mr. Chau Lai Him, Mr. Zhou Jin Hua, Mr. Lau Man Tak, Mr. Liu Jin Rong and the independent non-executive Directors are Mr. Lo Kao Cheng, Mr. Lo Wai Ming and Mr. Chung Kam Kwong.

“Please also refer to the published version of this announcement in The Standard.”