

FINANCIAL REVIEW

For the year ended 31 December 2006, the Group continued to achieve satisfactory results in its overall businesses, recording a turnover of approximately RMB518.1 million, (2005: RMB470.8 million) an increase of approximately 10%. This was largely attributable to the strong overall demand for food and beverage products in China.

The Group's gross profit amounted to approximately to RMB158.5 million (2005: RMB137.6 million), representing a year-on-year rise of 15.1%. The increase in gross profit was mainly due to the profitable operations of two-piece food cans, lacquering and printing services.

Profit for the year under review amounted to approximately RMB96.5 million (2005: RMB93.3 million), a year-on-year increase of 3.4%.

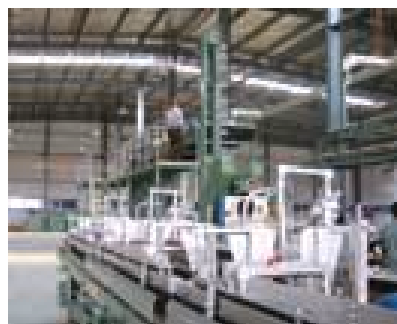
BUSINESS REVIEW

On the back of continuous technological innovations on products, better cost management and effective business strategy with greater focus on brand marketing, alongside an experienced and innovative management team, the Group attained steady growth in operations and realized satisfactory overall results, with both of its turnover and profits surpassing domestic enterprises in the industry in 2006. The analysis is detailed as follows:

1. Flexible marketing and product strategies to expand customer base

The outstanding results attained by the Group were contributed by effective sales and marketing strategy. Besides similar brand and quality products, consumers' behavior can also be affected by new packaging design. In this regard, advice to customers on new can design in a reasonable manner and adding values were among the key sales and marketing strategies of the Group. For instance, it was recommended to streamline those prism-shaped parts of food cans, which added a softer touch and showed thoughtfulness for consumers. In addition, food cans became more pressure-resistant by strengthening the body structure.

With the launch of these new products, we built a good reputation in the industry which attracted more customers and expanded our market share. In 2006, the Group attracted 6 new major customers, including Tianjin Chalton Tomato Products Co, Ltd., Nantong Jinrilai Food Co., Ltd. and Qingdao Zhengjin (Group) Yongjin Food Co., Ltd.. As at the end of 2006, we had over 100 corporate customers, and our sales network extended to 20 main provinces and cities in China.



2. Business growth by enhancing product competitiveness

a. Two-piece food cans

In 2006, the Group pressed ahead with technological improvement. With its increasing market shares, the sales of two-piece cans showed a more than 80% increase.



- In order to better serve customers' needs, the R&D department improved the spraying process and enhanced the stability of spraying coatings through repeated experiments and the application of new technology, namely, "ultra high temperature, short time sterilization", so that the coatings would not fall off due to temperature changes. Such technical improvement received high praises from customers, and as a result more orders were placed.



- The Group also cooperated with scientific research institutes to improve the "deformed screen" color printing technology, which enhanced the accuracy of deformed printing, the sharpness of images and the quality of three-dimensional effects. All these helped attract more customers.

b. Lacquering and printing

In 2006, the Group made continued efforts to improve the technology level of lacquering and printing, upgraded the computer system software for lacquering and printing production lines and renovated the overall facilities, which enhanced the accuracy of chromatography, printing speed, process control and quality control, as well as streamlined the workflow, and improved working efficiency and automatic processing capability. Furthermore, four new functions had been incorporated in the system, such as data retracing and recording, and indication of parameter adjustment, whilst further improving the performance of the new system.

3. Improving accuracy, efficiency and performance of production lines, as well as basic facilities

In the first half of 2006, the Group renovated the production line of three-piece easy-open cans. Not only did the Group simplify the production process but also improved its efficiency and automation. In addition, it undertook technological upgrades on the original basis, e.g. adding the second spraying facility to the production line. As a result, the coatings on the surface of empty cans can be sprayed once again even after being corroded during the production process, which was particularly applicable to more corrosive beverage with high acidic level.

In the end of 2006, after an examination by the local environmental protection department, the environmental protection processing system installed in the production tool base met and passed the control requirements by the national standards and commenced operation upon completion of construction. As the heating project had been approved and accepted, the new factory commenced production in the second half of 2006. Improvements and incorporation of infrastructure created a satisfactory working environment. In the second half of 2006, the Group merged the new and old factories to enhance work efficiency. The new factory layout will streamline production flow and raise productivity.

4. Applying new advanced technology to ensure the quality of lacquering and printing services

With the acquisition of digital proof system, the Group improved plate-making proof technology so as to replace the original traditional manual methods such as inputting ink by hand and modulating pressure. Digital proof automatically undergoes the “computer to proof and press” process by the computer software system, thereby enhancing the stability of plate-making effects. Problems in the traditional plate-making process, such as inaccurate use of paint and chromatography, could be identified and remedied on a timely basis. It also simplified the plate-making process, as well as guaranteed the consistency of proof, plate making and printing. Both speed and efficiency improved remarkably, whilst ensuring the maintenance of printing quality.



PROSPECTS AND FUTURE PLANS

Robust growth in the food and beverage industry paves way for a bright prospect for the packaging industry

Total beverage production in the PRC has exceeded the 20 million-tonne mark in 2002 to reach 20.25 million tonne. In 2005, the total beverage production surpassed the 30 million-tonne mark to reach 33.8 million tonne which grew by another 20% in 2006 to hit a record high of 41 million tonne. The total beverage production more than doubled in just 4 years. China has become the second largest beverage production country in the world after the United States.

Statistics from China National Light Industry Council showed that in 2006, total cans production in Fujian province hit 895,300 tonne, representing an increase of 14% over 785,700 tonne in 2005. Fujian has been the leader in China in terms of total cans production for the past 4 years.

In 2005, China's total packaging industry output amounted to US\$50 billion, representing a year-on-year increase of 22.4% and accounted for 2.2% of GDP in China, up from only 0.4% in the early 80's. It is expected that during the Eleventh Five-Year Plan (i.e. 2006-2010), total packaging industry output will reach RMB450 billion and continue to grow at an annual rate of 7%. From the year 2011 to 2015, the total packaging industry output is expected to exceed RMB600 billion on the back of annual growth rate of 16%. In terms of product categories, in Year 2015, the production capacity for metal packaging product is expected to reach 4,910,000 tonne, plastic packaging products 9,460,000 tonne, glass packaging products 15,500,000 tonne and paper packaging products 36,000,000 tonne in China.

BUSINESS EXPANSION PLANS

1. Continued effort to maintain and expand the market of two-piece cans

There has been increasing demand for two-piece cans in China. Thus, two-piece cans remain to be the key growth driver of sales and profits in the future. In order to cope with customers' changing needs, the Group will purchase models and shaping equipments of two-piece cans with three new can shapes, so as to expand the scope of products and reinforce its leading position in the two-piece cans market. This is expected to maintain the rapid profits growth of the Group. The new shape of the can is of the latest so far, and the production of new products will enable us to capitalize on opportunities.



2. Launch of new products to meet market demand

The new can shapes are primarily designed for high acidity food products like tomato sauce, high sulfate-resistant marine products, and high temperature sterilized products such as meat. Such new shapes cans meet the needs of large number of local and overseas customers and possess a huge potential in the consumer market. The Group is continually devoted to improving quality control and enhancing the products' barrier and heat-resistant properties, so as to maintain the quality of can products and a good texture of food. In addition, the newly designed can shapes are demonstrating a great market potential.

3. Expansion of tinplate lacquering & printing services

The tinplate lacquering and printing production line, after its upgrade in last year, enhance the printing quality, performance and gloss. This helps to enhance the positioning of printing as well as to meet the customers' stringent demands for quality service. To further enhance the Group's overall profit margin, the Group will focus on the high-end lacquering and printing services.

4. Establish an advanced R&D platform to enhance competitiveness

The Group entered a research and development cooperation agreement with Fuzhou University Chemical Technical Research Centre (福州大學化工技術研究所) so as to give support to new investment and development plan of two-piece cans. Such move will help enhance the technological capabilities of the Group and manufacture products with advanced elements.



5. New facilities to expand production capacity and growth of business

a. Production base in Fuqing

For the production facilities at Fuqing Xia Cao, the Group is considering to acquire 80 hectares of land to expand the factories. The Group also plans to develop new product categories based on the original production lines. The completion of these two expansion plans will further enhance the Group's future profitability.

b. Production base in Shanxi Fenyang

For the production facilities at Shanxi Fenyang, the utilisation of three-piece cans capacity has reached approximately 85%. The Group is considering to acquire certain production lines for three-piece cans and lacquering and printing in the coming years. In view of the renovation of the production facilities, there will be a substantial growth in production. The Group has constructed a new factory on the leased land of 30 hectares in 2005 and is considering to acquire the leased land in order to cope with the needs for the expansion of the Group this year.

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 2006, the Group generated approximately RMB100.4 million (2005: RMB122.5 million) of cash from operations. As at 31 December 2006, the Group had cash and cash equivalents of approximately RMB393.3 million (2005: RMB336.8 million) and had total borrowings of approximately RMB97.4 million (2005: RMB99.9 million), comprising bank loans of approximately RMB97.4 million (2005: RMB69.2 million) and convertible notes of Nil (2005: RMB30.7 million), of the total of approximately RMB97.4 million bank loans outstanding as at 31 December 2006, RMB36 million were fixed rate debts with interest rate at 5.85% per annum. The remaining RMB30.4 million and RMB31.0 million of bank loan was subject to floating rate from 2% to 2.75% over HIBOR per annum and 1.75% over LIBOR per annum respectively. The maturity profile for the Group's total borrowings was approximately 94.7% within one year and approximately 5.3% 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 2006, the Group's current ratio, as a ratio of current assets to current liabilities, was approximately 3.2 (2005: 2.9) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was approximately 12.9% (2005: 16.3%).

MANAGEMENT DISCUSSION AND ANALYSIS

With respect to foreign exchange exposure, as the Group's transactions were mostly denominated in Renminbi and Hong Kong dollars, the exposure to foreign exchange fluctuations is minimal therefore no use of financial instruments for hedging purposes is considered necessary.

CAPITAL COMMITMENTS

As at 31 December 2006, 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 RMB3.8 million (2005: RMB10.1 million) and did not have any authorised but not contracted for capital commitments (2005: Nil).

PLEDGE OF ASSETS

As at 31 December 2006, bank deposit of approximately RMB21.7 million (2005: RMB13.0 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 2006, the Group did not have any material contingent liabilities (2005: Nil).

EMPLOYEES AND EMOLUMENT POLICY

As at 31 December 2006, the Group employed a total of 445 employees (2005: 427 employees) situated mainly in the PRC and Hong Kong. The Group's emolument policy is 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 RMB15.6 million (2005: RMB11.1 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. There were totalling 15,940,000 share options were granted during the year ended 31 December 2006.