

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review*Tinplating*

The tinplate production of the Group's subsidiary, Zhongshan Zhongyue Tinplate Industrial Co., Ltd. ("Zhongyue Tinplate"), amounted to 83,940 tonnes and its sales amounted to 84,786 tonnes, representing a decrease of 11.1% and 9.9% as compared with last year. The turnover of HK\$574,443,000, increased by 6.6% as compared with last year. Operating profits decreased by HK\$8,939,000 as compared with 2003, representing a decrease of 15.6%. The decrease was mainly due to the shortage of black-plates and the surge of the prices of raw materials, such as black-plates, crude oil and tin ingots. The increase of costs was comparatively larger than that of selling prices.

The tinplating business remained to be the core business which made the greatest contribution to the Group's profit with the most promising prospects and it, therefore, is our focus of development. In 2004, the tinplating business maintained its brisk momentum, which was unaffected by the State policy of macro-economic adjustment and control. However, owing to the hot sales of steel products worldwide, the supply of black-plates was tighter than last year. Faced with this problem, the management paid special attention to the globalization of the black-plate procurement on one hand, and to increase the use of black-plates produced in China on the other hand. In order to increase the supply of black-plates, we sent delegations to visit steel companies around the world to open up new sourcing channels. We also organized tests on PRC-produced black-plates. Our efforts produced preliminary results. The Company looks forward to procuring an adequate supply of black-plates by the middle of this year when our new production line (with annual output of 80,000 tonnes) commences operation, which would bring forth an increase of our tinplate output. In order to solve the problem of the shortage of black-plates, a "bottle neck" which restricts the development of the tinplating business, we are going to construct a black-plate manufacturing plant with annual output of 150,000 tonnes. To facilitate the implementation of the project, the total investment of Zhongyue Tinplate is ready to increase by US\$40,000,000 and has obtained the approvals from relevant authorities of the State. The capital injection will be funded by internal resources. The black-plate manufacturing plant is expected to commence operation by the end of 2006 (please refer to the circular issued by the Company on 23 February 2005 for details).

Property Leasing

The Group's leasing properties included plant and staff quarters of Zhongshan Shan Hai Industrial Co., Ltd. ("Shan Hai"), and the office building in Hong Kong. In 2004, the total revenue of leasing properties owned by the Group was recorded at HK\$25,422,000, which decreased by 31.4% as compared with 2003. The operating profit of leasing properties totalled HK\$17,479,000, which decreased by 34.0% as compared with 2003. The decrease was mainly attributable to the fact that the leasing contracts of some of the leased plants of Shan Hai entered into 10 years ago were expired while the new leases reduced the unit area rent in accordance with market rate.

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Live and Fresh Foodstuffs Distribution

In 2004, the turnover of live and fresh foodstuffs distribution business was recorded at HK\$50,572,000, which decreased by HK\$701,329,000 as compared with 2003, representing a decrease of 93.3%. This was principally attributable to a change of the operation mode in 2004 from the sale and purchase of commodities to pure agency services on commission basis. If comparison was made with last year using the same presentation, the Group would have recorded a fall of HK\$5,078,000 in turnover, representing a decrease of 9.1%. Faced with the outbreak of the bird flu in the beginning of the year, the Group further downsized its personnel to lower its operating costs on one hand, while improving the service quality and seeking to increase its quota for import of live pigs from Guangdong to meet increasing demands for pork on the other hand, in order to increase the income from livestock business to offset the loss in poultry business caused by the bird flu. The turnover of the live and fresh foodstuffs distribution business recorded a fall, while the operating profit recorded an increase. In 2004, the operating profit was recorded at HK\$13,872,000, which increased by HK\$2,772,000 as compared with 2003, representing an increase of 25.0%.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures to open up new sources of revenue and reduce costs, to explore various possibilities to enhance benefits, as well as to establish an incentive mechanism, the Group continued to stabilize its live and fresh foodstuffs agency business so as to maintain its competitiveness and provide the Group with a stable source of profit.

Foodstuffs Trading

As affected by the outbreak of bird flu, the import of chilled chicken, one of the Group's principal foodstuffs trading businesses, was suspended for over two months, which has resulted in a turnover of HK\$31,438,000, representing a decrease of 39.8% as compared with 2003. Profit from operations was HK\$113,000, dropped by 82.5% as compared with 2003.

The management believes that the foodstuffs trading business is a non-core and non-advantageous business, contributing less profit to the Group. The management decided to conduct a resources alignment exercise for the foodstuffs trading business and integrated the foodstuffs trading business into Guangnan Fresh and Live Foodstuffs Limited for centralized management in October 2004, with an aim to make effective use of resources and improve efficiency.

Feed Production

In 2004, the turnover of the Group's subsidiary, Guangnan Jiafeng, amounted to HK\$146,474,000, representing an increase of 26.9% as compared with 2003. Profit from operations was HK\$2,287,000, which has turned from a deficit to a surplus.

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The management considered the feed production as a raw materials-processing-oriented industry and its gross profit is very low. The fluctuation of raw material prices is difficult to control. In addition, since the customers are stricken by bird flu from time to time, the account receivables were subject to substantial risk exposure. Therefore, the Group had sold Guangnan Jiafeng in its entirety. As such, the Group has withdrawn completely from the feed production business.

Livestock Farming

The Group's only livestock farming company — Gaoyao was closed during the year under review, and a contract was concluded in 2004, pursuant to which the 51% equity owned by the Group in the company was sold to a third party. As such, the Group has withdrawn completely from the livestock farming business.

Financial Position

As at 31 December 2004, the Group's total assets amounted to HK\$996,768,000, and total liabilities stood at HK\$204,651,000, representing an increase of HK\$40,793,000 and a decrease of HK\$128,691,000 respectively when compared with the position at the end of last year. The net current assets increased from HK\$126,507,000 as at the end of 2003 to HK\$254,835,000, and the current ratio (current assets divided by current liabilities) increased from 1.39 as at the end of 2003 to 2.32. The Group has a very sound financial position, paving the way for future business expansion.

Liquidity and Financing Resources

As at 31 December 2004, the Group maintained cash and cash equivalent balances of HK\$293,383,000, an increase of 15.3% from the cash and cash equivalent balances at the end of last year. During the year under review, the major cash outflow was a repayment of HK\$23,350,000 to a fellow subsidiary.

As at 31 December 2004, the Group's interest-bearing borrowings totalled HK\$7,851,000, being repayable on demand and carrying interest at an annual rate of 7.5%. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund, decreased significantly from 9.6% as at the end of 2003 to 1.0%.

As at 31 December 2004, the Group's total available banking facilities amounted to HK\$214,048,000, of which HK\$99,331,000 have been utilized. The unutilized banking facilities amounted to HK\$114,717,000. With its cash and cash equivalent holdings and the recurring cash flow from its operations, the Group believes that it will have sufficient funds to meet its present operating requirements and the requirements for the construction of a new black-plate manufacturing factory for the present development of tinsplating business, and to further develop its business in the foreseeable future.

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Charge on Group's Assets

As at 31 December 2004, certain bills receivable of the Group amounting to approximately HK\$40,000,000 has been pledged with an authorized bank in the PRC in order to obtain a guarantee issued in favour of the Group to the Dongguan Intermediate People's Court in a litigation against a former minority shareholder of a subsidiary for recovering an equivalent amount due to the Group.

Litigations

- (i) The Group filed legal proceedings against a minority shareholder of a former subsidiary in respect of an amount of approximately HK\$40,000,000 owed to the Group. Provision was fully made against such receivable as at 31 December 2000.

In March 2005, a judgement in favour of the Group had been obtained. The payment awarded under the judgement amounted to RMB27,000,000 together with interest thereon. The Group had lodged an appeal in respect of such difference on 12 April 2005, and the final verdict is still pending.

- (ii) In May 2004, a PRC third party filed a claim against a subsidiary of the Group alleging that the subsidiary had not yet settled an outstanding amount due to it. The Intermediate People's Court of Yue Yang City (“岳陽市中級人民法院”) has ordered to freeze a bank deposit of the subsidiary amounted to HK\$4,700,000 in this regard.

According to the judgement of the Intermediate People's Court of Yue Yang City issued on 12 December 2004, the subsidiary was ordered to pay compensation and respective court charges amounted to RMB4,934,000 and RMB40,000, respectively. The subsidiary lodged an appeal to the High People's Court of Hunan Province (“湖南省高級人民法院”) against the judgement and the judgement of the Intermediate People's Court of Yue Yang City was repudiated on 31 January 2005. Accordingly, the frozen bank deposit of HK\$4,700,000 has been released.

Based on the available information to date, the Directors are of the opinion that as the final judgement was granted in favour of the subsidiary, no provision for legal claims is considered necessary.

Exchange Rate Exposure

The Group's assets, liabilities and transactions were primarily denominated either in Hong Kong dollars, US dollars or Renminbi. As the exchange rates of Hong Kong dollars, US dollars or Renminbi were relatively stable during the year, the Group was not exposed to significant exchange risk.

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Employees and Remuneration Policies

As at 31 December 2004, the Group has a total of 448 full-time employees, decreased by 96 as compared with the end of 2003, of whom 23 were based in Hong Kong and 425 were based in mainland China. The staff remuneration is determined in accordance with the responsibility for the post, workload, skills, hardship, working conditions, individual performance and prevailing industry practice. In 2004, the Group continued to implement control on the staffing, headcount, and total salaries of each subsidiary. The performance bonus incentive scheme continued to be carried out for the management. Through the assessment of the performance of each subsidiary and based on the net cash inflow from operation and profit before tax, performance bonus was calculated at applicable rate on different profit levels. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. All of the above rewards will raise the morale of our staff members. The Group has also adopted a share option scheme to reward, attract, retain and motivate excellent and brilliant participants to continue their contribution to the Group.