

BUSINESS REVIEW

Tinplating

In 2005, the production and sales volume of tinplate of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. (“Zhongyue Tinplate”), a subsidiary of the Group, amounted to 114,755 tonnes and 102,174 tonnes, an increase of 36.7% and 20.5% respectively when compared with 2004. The contribution from the tinplating business to the Group’s profit was the most significant, with a turnover of HK\$797,798,000, representing an increase of 38.9% when compared with the corresponding period last year and 86.6% of the Group’s turnover. Profit from operations was HK\$51,991,000, grew by HK\$3,974,000 or 8.3% when compared with the corresponding period last year and accounted for 51.5% of the Group’s profit from operations.

Zhongyue Tinplate’s third production line, which completed construction and commenced production on 30 July 2005, is the first tin-free steel production line that is self-developed and constructed in mainland China with annual production capacity of 80,000 tonnes. The processing technique used by such production line has already obtained its own intellectual property rights and its process plan and parameters, which are protected by the Patent Law of the PRC, was granted with invention patent in March 2004.

In order to solve the long-term problem of the shortage of black-plates which hinders the development of the tinplating business, the Group focused its development on the construction project of a factory for production of black-plates which has already commenced last year. The project had an investment budget of US\$40 million and is expected to be completed by the end of this year. The planned annual capacity of the factory is 150,000 tonnes, and on the basis of the current annual capacity of 200,000 tonnes of black-plates, 75% of the raw materials can be supplied internally when the planned capacity is reached. With such self-supply capacity, a wider diversity of raw materials can be supplied for the production of tinplates, facilitating the production of high-, medium- and low-end tinplate products. This enables us to expand into the unexplored niche market for tinplates, with an ultimate aim to lower the cost of tinplate products and enhance our product competitiveness, as well as providing ample room for further expansion of tinplate capacity. The major raw material for the production of black-plates is hot rolled plates, which is in adequate supply within and outside the PRC. The Group is in the process of selecting the most ideal channel for hot rolled plates supply.

Prior to utilizing the self-supply capacity of black-plates, we will continue to build our black-plates reserve with the current ample supply of black-plates and the Group’s funding advantages, in order to fully utilize the current capacity of 200,000 tonnes of tinplates. It can be expected that the production and sales volume of tinplates will record a record high this year.



Management Discussion & Analysis

Property Leasing

The Group's leasing properties included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd., and the office building in Hong Kong. In 2005, the total revenue of leasing properties owned by the Group was recorded at HK\$25,529,000, an increase of 0.4% compared with 2004. The profit from operations of leasing properties amounted to HK\$38,019,000, among which HK\$20,497,000 was attributable to valuation gains on investment properties, grew by 21.4% as compared with 2004.

Live and Fresh Foodstuffs Distribution

In 2005, turnover of live and fresh foodstuffs distribution business was recorded at HK\$61,065,000, representing an increase of HK\$10,493,000 or 20.7% as compared with 2004. This was mainly attributable to the improvement of poultry agency business and live and fresh foodstuffs trading business when the impact of bird flu subsided. On the other hand, income from livestock agency business decreased as a result of the reduction in temporary livestock quotas as compared with 2004. In 2005, the profit from operations was recorded at HK\$14,638,000, which increased by HK\$766,000 or 5.5% as compared with 2004.

Live and fresh foodstuffs distribution is the traditional business of the Group. By taking measures such as opening up new sources of revenue, reducing costs and improving services, the Group will continue to maintain its agency business and actively expand its trading business of live and fresh foodstuffs, so as to maintain its competitiveness and provide the Group with a stable income stream.

Foodstuffs Trading

In 2005, turnover of the Group's foodstuffs trading business amounted to HK\$36,825,000, representing an increase of HK\$5,387,000 or 17.1% as compared with 2004, while profit from operations was HK\$1,700,000, surged by HK\$1,587,000 or 1,404.4% as compared with 2004. This was mainly attributable to the absence of the impact of bird flu which significantly hampered the chilled foodstuffs trading business last year.

In spite of the fact that the foodstuffs trading business is a non-core and non-advantageous business, the resources alignment exercise for the live and fresh foodstuffs distribution business and the foodstuffs trading business for centralized management, effective use of resources, complementation of businesses and increased marketing could contribute to the Group's profits.

Management Discussion & Analysis

Associates

In 2005, Yellow Dragon Food Industry Co., Limited (“Yellow Dragon”), a principal associate of the Group, recorded a sales volume of 385,850 tonnes of corn starch, its major products, representing a decrease of 0.6% as compared with 2004. Turnover of Yellow Dragon and our share of its profit amounted to HK\$974,760,000 and HK\$20,279,000, dropped by 1.6% and 21.2% respectively. This was mainly due to the expiry of preferential tax treatment enjoyed by Yellow Dragon, resulting in an increase of income tax.

The Group has 40% interest in Yellow Dragon and received a total dividend payment of HK\$17,962,000 in 2005. It is expected that the Group will receive a total dividend payment of HK\$18,748,000 this year.

FINANCIAL POSITION

As at 31 December 2005, the Group’s total assets amounted to HK\$1,238,630,000, and total liabilities stood at HK\$259,414,000, representing an increase of HK\$250,562,000 and HK\$57,047,000 respectively compared with the positions at the end of 2004. The net current assets increased from HK\$254,835,000 at the end of 2004 to HK\$380,978,000, and the current ratio (current assets divided by current liabilities) increased from 2.32 as at the end of 2004 to 2.54. The Group has a very sound financial position, laying a solid foundation for future business expansion.

Liquidity and Financial Resources

As at 31 December 2005, the Group maintained cash and cash equivalent balances of HK\$96,871,000. Part of the currency was denominated in Renminbi with the amount equivalent to HK\$28,408,000 while the remaining was denominated in Hong Kong dollars and US dollars. Cash balances decreased by 67.0% from the end of the last year. During the year under review, the major cash outflow was contributed to the construction of a new production line and the black-plate manufacturing factory with the amount of HK\$89,026,000, as well as the increase in the reserve of raw materials for the increased production capacity of tinplates.

As at 31 December 2005, the Group has no interest-bearing borrowings. 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 from 1% at the end of the 2004 to zero.

As at 31 December 2005, the Group’s total available banking facilities amounted to HK\$352,266,000, of which HK\$131,910,000 have been utilized. The unutilized banking facilities amounted to HK\$220,356,000. With its cash and cash equivalents holdings and the recurring cash flow from its operations, the Group believes that it will have sufficient funds to meet its present operation requirements and the requirements to further develop its businesses in the foreseeable future.



Management Discussion & Analysis

Capital Restructuring

On 23 June 2005, the Group proposed to effect the capital reorganization to fully write off the entire amount of accumulated losses at 31 December 2004 so as to prepare for future dividend distribution. Such proposal was passed at the extraordinary general meeting on 12 August 2005 and was confirmed by the High Court on 7 December 2005. The completed capital reorganization involved reduction of share capital, elimination of share premium account and capital redemption reserve, as well as the application of capital reserve and the consolidation of shares. Of the credit amount resulted from capital reduction (the "Credit Amount"), approximately HK\$343,352,000, together with the credit in share premium account, capital redemption reserve and capital reserve, were used to eliminate accumulated losses, while the remaining HK\$107,440,000 Credit Amount was transferred to a special capital reserve. The nominal value of issued shares was reduced from HK\$0.1 to HK\$0.05. Every 10 shares of nominal value of HK\$0.05 each was consolidated into a new share of nominal value of HK\$0.50 each. The Company's assets, business, operations, management and financial position were not affected by the capital reorganization and the respective proportional shareholder interests remained unchanged following the capital reorganization.

Litigation

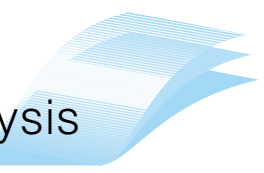
The Group commenced a legal action against a former minority shareholder of a subsidiary for approximately HK\$40,000,000 due to the Group. Provision was fully made against such receivable as at 31 December 2000.

In March 2005, a judgment of Dongguan Intermediate People's Court in favour of the Group had been obtained. The payment awarded under the judgment for the misappropriation of the Group's property by the former minority shareholder amounted to approximately RMB27,000,000 together with interest thereon. The Group and the former minority shareholder respectively had lodged an appeal. Having considered the legal opinion and the Group's overall interest, the Group and the former minority shareholder as fostered and confirmed by the Court made a settlement of the case at RMB11,000,000 on 23 August 2005 and the settlement consideration was received by the Group on the same day.

Exchange Rate Exposure

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

Management Discussion & Analysis



EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group had a total of 525 full-time employees, increased by 77 compared with that as at the end of 2004. 24 of the employees were based in Hong Kong and 501 were in mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions, individual performance with reference to the prevailing industry practices. In 2005, the Group continued to implement control on the headcount, organization structure and total salaries of each subsidiary. The performance bonus incentive scheme for the management remained effective. Through performance assessment of each subsidiary, performance bonus for various profit rankings was paid on basis of net cash inflow from operation and profit after taxation. In addition, bonus will be rewarded to the management, key personnel and outstanding staff through assessment of individual performance. These incentive schemes have effectively improved the morale of our staff members. The Group has also adopted a share option scheme to encourage excellent participants for their contribution to the Group.

PROSPECTS

The Group's core business has been shifted from the traditional live and fresh foodstuffs distribution business to the tinsplating business (food packaging materials) and the management mainly devoted its effort and the Company's resources to the tinsplating business, which makes greatest contributions to the Group's profits and offers plenty of room for profit growth. We will continue our direction of professional development and focus on the expansion and strengthening of the tinsplating business. With the increase of tinplate annual production capacity from the original 120,000 tonnes to 200,000 tonnes and the fact that the abundant supply of black-plates this year, in contrast to the shortage at the beginning of last year, the production and sales volume of tinplates in 2006 are expected to record a promising growth and continue to generate satisfactory profit contribution for the Group.