

To accelerate the pace of development of Zhongyue Tinplate, the Group will acquire 5% equity interest from the PRC minority shareholders. After the acquisition, Zhongyue Tinplate will become a wholly-owned subsidiary of the Group. A share transfer agreement has already been signed on 13 September this year. Completion of the acquisition is subject to the approval from the government authorities. The acquisition signifies greater room for expansion and development for Zhongyue Tinplate in the future.

Property Leasing

The Group's leasing properties included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shanghai"), and the office building in Hong Kong. In the first half of 2006, the total turnover of leasing properties owned by the Group amounted to HK\$11,585,000, a decrease of 10.2% compared with the same period last year. The profit from operations of leasing properties amounted to HK\$8,159,000, representing a decrease of 12.1% as compared with the same period last year.

To accelerate the pace of development of Shanghai, the Group will acquire 5% equity interest from the PRC minority shareholders. After the acquisition, Shanghai will become a wholly-owned subsidiary of the Group. A share transfer agreement has already been signed on 13 September this year. Completion of the acquisition is subject to relevant government approval. The acquisition signifies greater room for expansion and development for Shanghai in the future.

Foodstuffs Distribution and Trading

During the first half of 2006, turnover of foodstuffs distribution and trading business amounted to HK\$42,149,000. With the impact of the bird flu this year, it represented a decrease of HK\$12,258,000, or 22.5% as compared with the same period last year. For the first six months of this year, the operating profit from foodstuffs distribution and trading increased by HK\$667,000, or 8.6%, from the same period last year to HK\$8,381,000.

Foodstuffs distribution and trading 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, so as to maintain its competitive edge and provide the Group with a stable income stream.

FINANCIAL POSITION

As at 30 June 2006, the Group's total assets amounted to HK\$1,407,707,000, and total liabilities stood at HK\$373,421,000, representing an increase of HK\$169,077,000 and HK\$114,007,000 respectively compared with the positions at the end of last year. The net current assets decreased from HK\$380,978,000 at the end of last year to HK\$289,610,000, and the current ratio (current assets divided by current liabilities) decreased from 2.54 as at the end of last year to 1.81. The Group has a very sound financial position, laying a solid foundation for future business expansion.

Liquidity and Financial Resources

As at 30 June 2006, the Group maintained cash and cash equivalent balances of HK\$186,139,000, of which an amount equivalent to HK\$54,503,000 was Renminbi and the remaining amounts were denominated in Hong Kong dollars and US dollars. The cash and cash equivalents increased by 92.2% comparing with the position at the end of last year.

As at 30 June 2006, the Group's interest-bearing borrowings totaled HK\$116,954,000. Accordingly, the Group's gearing ratio, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund was 11.6%. The Group's interest-bearing borrowings will be repaid by the proceeds from the bills discounted to the banks on maturity and carry interests (or discounted rates) at annual rates ranging from 1.92% to 3.24%.

As at 30 June 2006, the Group's total available banking facilities amounted to HK\$352,266,000, HK\$83,622,000 of which was issued with letters of credit, and HK\$268,644,000 was unutilized banking facilities while discounting bills as mentioned above did not use up any banking facilities. With its cash and cash equivalents on hand and the recurring cash flows from its operations, the Group believes that it will have sufficient funds to meet its present operation requirements and to further develop its businesses in the foreseeable future.

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 period, the Group was not exposed to significant exchange risk. Foreign exchange gain for the period was HK\$4,109,000.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group had a total of 628 full-time employees, increased by 103 compared with that as at the end of 2005. Among them, 22 were based in Hong Kong and 606 were based in the Mainland China. The staff remuneration is determined in accordance with the duties, workload, skill requirements, hardship, working conditions and individual performance with reference to the prevailing industry practices. In 2006, the Group continued to implement control on the headcount, organization structure and payroll 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 distributed to the management, key personnel and outstanding staff according to assessment results 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 reward, attract, retain and motivate excellent and brilliant participants for their contributions to the Group.

PROSPECTS

With the development of the metal packaging industry, especially in the Mainland China, the domestic and overseas demand for tinplates remained strong with promising prospects. The crucial factor for success of the tinplating business in the second half of the year is still the supply of black-plates. With the commencement of operations of the black-plate factory, self production and external purchasing can supply up to 300,000 tonnes of black-plates next year. The management is actively studying the development strategies for exploring new markets, including construction of a new tinplate plant in northern China, leveraging the existing brandname, technology and low cost advantages of Zhongyue Tinplate together with the resource advantage established gradually. By lowering logistics costs and increasing market share, we will strive continuously to strengthen and expand the core tinplating business, aiming to achieve better operating results.