

# Management Discussion & Analysis

## BUSINESS REVIEW

### Tinplating

In 2006, the production and sales volume of tinplate of Zhongshan Zhongyue Tinplate Industrial Co., Ltd. (“Zhongyue Tinplate”), a subsidiary of the Group, amounted to 164,986 tonnes and 171,254 tonnes, a substantial increase of 43.8% and 67.6% respectively when compared with 2005. The turnover was HK\$1,108,939,000, representing an increase of 39.0% when compared with 2005. Profit from operations was HK\$81,797,000, grew by HK\$26,702,000 or 48.5% when compared with 2005. Excluding the impairment loss from closing down of power plant amounting to HK\$9,346,000 due to the high oil price, the increase would have been 65.4%. The contribution from the tinplating business to the Group’s profit was the most significant, its turnover accounted for 90.8% of the Group’s turnover and profit from operations accounted for 73.8% of the Group’s profit from operations.

The construction of black-plate manufacturing factory completed at the end of 2006. For the year ended 31 December 2006, HK\$198,636,000 was paid which mainly sourced from internal funding. The factory commenced production in March 2007 with an annual production capacity of 150,000 tonnes which is expected to provide favourable conditions to lower production cost and enter the niche market for tinplates comprehensively.

As a brand-name tinplate manufacturer in the mainland, both the tin-coated steel plates and chromium-coated steel plates of Zhongyue Tinplate were awarded the “China Packaging Brand Products” in April 2006 and were the only awarded tinplate manufacturer in the PRC. The company will continue its comparative advantages in its brand and technology and thereby increasing its market share.

On 21 December 2006, the Group entered into a joint venture agreement with POSCO Co. Ltd. (“POSCO”), a steel company ranked 4th in the world’s steel production, to establish a tinplate manufacturing factory in Qinghuangdao City, Hebei Province, the PRC (“Qinghuangdao Project”), with a total investment of US\$60,000,000 which 66% as to the Group and 34% as to POSCO. The annual production capacity of tinplates is 250,000 tonnes and is expected to commence production by the end of 2007 so that the aggregate annual tinplate production capacity will be 450,000 tonnes and annual black-plate production capacity will be 150,000 tonnes for the factories of the Company in south and north.

At the beginning of 2007, the Group has acquired 5% interest in Zhongyue Tinplate from the PRC minority shareholders. Zhongyue Tinplate became a wholly-owned subsidiary of the Group after the acquisition. There will be more room for future development and operations for Zhongyue Tinplate.



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## Property Leasing

The Group's leasing properties mainly included the plant and staff dormitory of Zhongyue Shan Hai Industrial Co., Ltd. ("Shan Hai"), and the office building in Hong Kong. In 2006, the total turnover from property leasing business of the Group was recorded at HK\$25,457,000, a decrease of HK\$72,000 compared with 2005. The profit from operations of property leasing business amounted to HK\$16,662,000, dropped by 6.2% as compared with 2005.

At the beginning of 2007, the Group has acquired 5% interest in Shan Hai from the PRC minority shareholders. Shan Hai became a wholly-owned subsidiary of the Group after the acquisition. There will be more room for future development and operations for Shan Hai.

## Foodstuffs Distribution and Trading

In 2006, turnover of the foodstuffs distribution and trading business amounted to HK\$86,858,000, representing a decrease of HK\$11,032,000 or 11.3% as compared with 2005 due to the impact of bird flu in 2006. Profit from operations of foodstuffs distribution and trading in 2006 was HK\$16,648,000, representing a decrease of HK\$408,000 or 2.4% as compared with 2005.

Foodstuffs distribution and trading is the traditional business of the Group. At the end of 2006, the Group successfully expanded its chilled pork business. In 2007, 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 foodstuffs, so as to maintain its competitiveness and provide the Group with a stable income stream.

## Associates

In 2006, Yellow Dragon Food Industry Co., Limited ("Yellow Dragon"), a principal associate of the Group, recorded a sales volume of 403,484 tonnes of corn starch, its major products, representing an increase of 4.6% as compared with 2005. Turnover of Yellow Dragon amounted to HK\$1,124,155,000, grew by 15.3% and its profit attributable to shareholders amounted to HK\$50,286,000, dropped by HK\$412,000 or 0.8%.

The Group has 40% interest in Yellow Dragon and received a total dividend payment of RMB19,503,000 (equivalent to HK\$18,965,000) in 2006. It is expected that the Group will receive a total dividend payment of RMB16,793,000 (equivalent to HK\$16,716,000) this year.

## FINANCIAL POSITION

As at 31 December 2006, the Group's total assets amounted to HK\$1,539,289,000 and total liabilities stood at HK\$428,378,000 representing an increase of HK\$300,659,000 and HK\$168,964,000 respectively compared with the positions at the end of 2005. The net current assets decreased from HK\$380,978,000 at the end of 2005 to HK\$144,383,000 and the current

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ratio (current assets divided by current liabilities) decreased from 2.54 as at the end of 2005 to 1.36. The Group has a very sound financial position, laying a solid foundation for future business expansion.

## Liquidity and Financial Resources

As at 31 December 2006, the Group maintained cash and cash equivalent balances of HK\$157,737,000. Part of the amount of HK\$44,206,000 was Renminbi and HK\$59,373,000 was United States Dollars while the remaining was denominated in Hong Kong dollars. Cash and cash equivalent balances increased by 62.8% from the end of the 2005.

As at 31 December 2006, the Group's interest-bearing borrowings amounted to HK\$81,557,000. Accordingly, the Group's gearing ratio was 7.6%, which was measured on the basis of the Group's total interest-bearing borrowings over the shareholders' fund. The Group's interest-bearing borrowings will be payable by the proceeds from the bills discounted to the bank at an annual interest rate (or discount rate) between 1.92% to 3.24%.

As at 31 December 2006, the Group's total available banking facilities amounted to HK\$257,400,000, of which HK\$181,913,000 was utilized banking facilities for letters of credit. The unutilized banking facilities amounted to HK\$75,487,000. The above-mentioned discounting bills did not use up any banking facilities. With its cash and cash equivalents holdings, the recurring cash flow from its operations and banking facilities, 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.

## Litigation

In 2004, a claim was filed against a subsidiary of the Group alleging that the subsidiary had not repaid its outstanding amount due to the defendant. The legal dispute was heard in the Intermediate People's Court of Yue Yang City, Hunan which delivered a judgement in favour of the Group in January 2005. On 29 December 2006, the defendant filed a new claim against the subsidiary with the Intermediate People's Court of Zhongshan City. The amount of claim, together with damages arising from breach of contract was RMB5,788,000 (approximately HK\$5,761,000). According to the information currently available, the Group is of the view that no provision is required to be made for this claim.

## 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.



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## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group had a total of 723 full-time employees, increased by 198 compared with that as at the end of 2005. 22 of the employees were based in Hong Kong and 701 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 2006, 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

With the completion and commencement of production of Qinghuangdao Project, POSCO, originally the supplier, became the Group's strategic business partner. From now onwards, not only will the supply of black-plates, but also production technology and even market expansion be supported by POSCO. The tinplates business of the Group will have further development and continue to generate more profit contribution for the Group.