

# Management Discussion and Analysis

## LIQUIDITY AND CAPITAL RESOURCES

As at 31st December 2004, the aggregate assets value of the Group was HK\$5,249,261,000, representing an increase of HK\$779,975,000 or 17.45% as compared with 31st December 2003.

The major changes of assets are as follows:

	<b>Increase/(decrease)</b> <i>HK\$'000</i>
Property, plant and equipment	53,321
Investments in jointly controlled entities	145,077 *
Investment in an associated company	66,143 #
Other non-current assets	234
Deferred tax assets	(5,694)
Other current assets	(25,221)+
Bank balances and cash	546,115
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Total increase in assets	<u>779,975</u>

\* Additional investment of HK\$61,321,000 in North China Steel Pipe Co Ltd ("North China")

Investment of HK\$23,400,000 in Qingdao's new CPP production line

# Dividend received from long-term investment in an associated company

+ Mainly the decrease of prepayment and other receivables

The gearing ratio of the Group maintained at 8.73% as at 31st December 2004 compared with 11.03% as at 31st December 2003. It is computed by dividing the total borrowings of HK\$354,120,000 (31st December 2003: HK\$374,400,000) by the shareholders' funds on HK\$4,057,996,000 (31st December 2003: HK\$3,395,544,000).

As at 31st December 2004, a bank borrowing denominated in United States Dollars amounted to HK\$312,000,000 is fully repayable on or before 17th July 2005.

During the year, RMB336,000,000 (approximately HK\$316,802,000) (2003: RMB336,420,000 (approximately HK\$317,198,000)) was injected out of profits into Leng Jiapu Oil Field as development costs.

In accordance with the Xinjiang Contract RMB55,887,000 (approximately HK\$52,694,000) (2003: RMB21,082,000 (approximately HK\$19,878,000)) was paid out of profit and re-invested as development costs of the Karamay Oil Field during the year.

A dividend of RMB16,990,000 (approximately HK\$16,019,000) for the year 2003 was received from North China during the year.

### USE OF PROCEEDS

During the year, the Company did not issue any new share to the public.

The Company repurchased 22,410,000 of its own shares (2003: 134,710,000 shares) with the amount of HK\$20,766,000 (2003: HK\$91,467,000) during the year.

In June 2004, 2003 final dividend of HK\$0.02 per share amounting HK\$94,681,000 (2003: HK\$0.035 per share amounting HK\$170,064,000) was distributed to the shareholders of the Group.

Taking into account the cashflow from the operating activities, the Group as at 31st December 2004 has total bank balances and cash of HK\$1,553,761,000.

The Group is in a very strong financial position, ready to invest in new projects with no financial difficulty.

### NEW INVESTEMENT

The Group contributed RMB65,000,000 (approximately HK\$61,321,000) to the registered capital of North China for setting up a new branch factory ("Branch Factory") in the Yangzhou Han Jiang Industrial Park, the PRC. The Branch Factory will mainly manufacture longitudinal welded middle size steel pipes for transportation of natural gas.

In December 2004, the Group invested US\$3,000,000 (approximately HK\$23,400,000) in a new jointly controlled entity in Qingdao, 青島凱姆拓塑膠工業有限公司 ("Kemtop"). Kemtop will engage in the production and sale of CPP films and its related raw materials. It will also engage in research and development of CPP related products.

### EMPLOYEE

On 31st December 2004, the Group had approximately 330 staff (excluding the staff under entrustment contracts) globally. Remuneration package and benefits were determined in accordance with market terms, industry practice as well as the duties, performance, qualifications and experience of the staff. In addition, the Group set up a share option scheme, pursuant to which the directors and employees of the Company were granted options to subscribe shares of the Company.