## FINANCIAL REVIEW

For the year ended 31 December 2005, the Group recorded a turnover of approximately RMB470.8 million (2004: RMB425.7 million), representing a growth of approximately 10.6% as compared to that of the last year. The increase was largely attributable to the continued robust demand in the local beverage and convenient canned food market, persistent improvement in the Group's management standard and the expansion of operating scale.

The Group's gross profit amounted to approximately RMB137.6 million (2004: RMB141.1 million), representing an decrease of approximately 2.5% as compared to that of the last year. The decrease in gross profit was mainly due to the increase in the costs of tinplate and other raw materials.

Profit for the year under review amounted to approximately RMB93.3 million (2004: RMB90.2 million), which represented an increase of approximately 3.5% as compared to that of the last year. The profit margin for the year under review amounted to approximately 19.8% (2004: 21.2%), which represented a decrease of approximately 1.4% as compared to that of the last year. Basic earnings per share was RMB0.221 (2004: RMB0.223).

## BUSINESS REVIEW

During the year of 2005, the Group continued to deliver satisfactory performance and achieve sustainable growth in both turnover and net profit, driven by the continued robust demand in the local beverage and convenient canned food market, as well as the support from local government by offering tax relief to the Group's production base in Fujian Province with its profits tax rate lowered from 24% to 15%. In addition, the Group's encouraging performance was resulted from a combination of factors, including strengthening of operation management, adjustment of product structure to cope with the market demand, and stepping up sales efforts to achieve equilibrium in the production and sales of goods, all of which led to an increase in sales revenue with a decrease in production costs.

### 1. Packaging Industry Riding on a New Wave of Blossoming Period

The production volume of soft drink in the PRC has grown rapidly in the recent years. In 2004, the production volume of soft drink including carbonate beverage, bottled water, vegetable and fruit juice and tea reached 29.12 million tonnes, representing an increase of 22.7% compared to last year, whilst the annual compound growth rate from 1997 to 2004 was approximately 16%.

Since 1999, the export of canned food has been growing for 6 consecutive years. The production volume of cans in the PRC amounted to 3.13 million tonnes in 2004, representing a 17.4% growth compared to 2003. In 2005, the sales of canned food / beverage again hit the record high, with the annual production volume of approximately 3.6 million tonnes – 1.55 million for internal consumption and 2.05 million for export. As such, the PRC has become the largest export country of canned food / beverage in the world. These ever-growing internal consumption and exports provide a favorable business environment for the tinplate cans industry.

### 2. Tax Relief Facilitating Business Growth

In 2005, the profits tax rate imposed on the Group's production base in Fujian Province decreased from 24% to 15%, due to the relocation of main business operations to the economic development zone that offered preferential tax rate, which was a major source for the Group to achieve sustainable business growth during the year.

### 3. Incessant Enhancement of Management Standard to Compensate The Rise of Raw Material Cost

In order to minimize the risk of rising costs of tinplate and other raw materials in 2005, the Group continued to strengthen its operation management, adjust the product structure, increase the sales effort of premium products and raise the sales price of products by implementing a series of measures. As such, the Group successfully achieved the equilibrium for production and marketing and attained encouraging profit growth. Some of the major measures included:

#### (a) Enhancing Management Quality

During the first half of the year, the Group introduced a modernized management system to further enhance its management quality. Building on the foundation of the system, the Group adjusted its management model and arranged its management staff to enhance the smooth operation and management efficiency of the production departments, so as to reduce the production cost and further improve, strengthen and enhance the Group's production techniques and capabilities.

#### (b) Adjustment of Product Structure

In view of the ever-rising costs of raw material (i.e. tinplate), the Group strengthened its sales effort by increasing the sales of three-piece beverage cans which are comparatively mature in production techniques and well-received by the market and increasing the selling price appropriately to transfer part of the increased cost to the downstream customers.

#### (c) Enhancing Quality Control and Inspection Standard

During the second half of the year, the Group enhanced its inspection system by installing a set of imported inspection equipment. With the number of inspection lines increased from two to three, the Group can further secure the leading edge of its product appearance and quality, and maintain its market competitiveness.

### 4. Increasing Capital Investment to Enlarge Operation Scale

To further expand the operational scale, the Group increased its total capital investments. The construction works of new production plants in the leased production base in Fuqing, Fujian Province and the production base in Fenyang, Shanxi Province were completed and commenced operation. Such expansion enhanced the Group's production scale and improved the production environment significantly.

**5. Continued Enhancement of Service Quality to Bring New Business Opportunities**

To further enhance its service quality, the Group established a "Green Channel" to increase its service efficiency and built up a Customer Relationship Management system to consolidate and strengthen its customer relationship. As such, the sales of three-piece tinplate cans in the second half of 2005 increased by 20% as compared to the first half of the year, despite of the increased price level. Such moves have provided the Group with new business opportunities for future development.

## PROSPECTS

In 2006, there are already positive signs of factors that affect the profit growth of the beverage packaging industry. The decline of raw material costs and gradual increase of utilization rate signify that the beverage packaging industry has entered a blossoming period and the Group's performance will then be benefited from. In addition, the implementation of various projects and adjustment of product structure will facilitate the Group's further business development.

### A. Newly-Developed Products Make A Leap to The Group's Business

**1. Possession of the Most Competitive Advantages**

According to market information, well developed countries are using more two-piece tinplate cans to contain food and has been growing at a double-digit rate per year. This indicates that two-piece tinplate can is becoming a core product of can packaging market. The Group's existing two-piece tinplate cans business has already secured its leading edge in the industry, which is well-equipped with the largest production capacity, advanced equipment and the ability of producing over 10 models of two-piece tinplate cans.

The Group is planning to add new production lines and moulds for the three-piece tinplate cans for food in 2006, so as to expand its production capacity and enrich its product mix. It is expected that two-piece and three-piece tinplate cans for food will become the Group's highlight products in the future.

**2. Decline In Tinplate Costs to Stimulate Sales Growth of The Group's Canned Food Products Significantly**

Since the first quarter of 2006, the tinplate raw material costs have dropped by approximately 5% and the Group expects that it will continue to go downward consistently. This phenomenon will become a new driving force for developing the Group's two-piece and three-piece tinplate cans for food markets.

### 3. Join Hands With Potential Customers to Foster Business Development

Fujian is one of the major provinces in the PRC for the canned food and beverage industry, with a market share of approximately 20% in terms of total production capacity. It situates a large number of renowned, large-scale cans corporations like "Gulong" (古龍) – a cannery in Xiamen. In 2005, Gulong became the market pioneer to receive the Award of "China Top Brand", which resulted in a gradual increase of market share and larger room for business development.

Currently, the Group is well-positioned with solid business foundation and customer resources. To cater for the increasing demand from customers, the Group will add a number of new production lines for some specific cans models in the first half of 2006. Such move will allow the Group to have a closer collaboration with its customers, so as to enhance its market competitiveness and increase its market share.

## B. New Products to Stimulate Business Growth

The Group's production base in Shanxi Province is planning to install additional tinplate printing, lacquering production lines and three-piece tinplate cans for beverage production lines to expand the printing and processing business for external customers. The Fujian Plant and Shanxi Plant will add a number of beverage cans models which not only fulfills the different requirements from the customers, but also increases the usage of tinplate raw material by adopting special techniques (e.g. increasing the shrinkage of can necks) so as to reduce the production cost.

Currently, all of the Group's two-piece tinplate cans for food production lines have been relocated to the new production plant in Fuqing, Fujian Province to facilitate the expansion of two-piece tinplate cans business and further improve the production environment.

## C. Food Cans to Become The New Driving Force in the Future

After the two-year market development, the Group's customer portfolio now covers a number of renowned mainland corporations, which provides ample room for market development and increase the product diversity in the market. As such, the Group's business development will focus on the production of three-piece tinplate cans for food and two-piece tinplate cans for food in 2006. In this regard, the Group will continue to closely monitor the

business development of these well-established customers and provide them with comprehensive services strategically to achieve long-term business relationship and create a win-win situation, and on the other hand, the Group will make use of the influence brought by these renowned customers to spearhead the Group's business development in the SME customer sector.

In view of the favorable business environment of growing demand of beverage and convenient food in the PRC consumer market, the Group will continue to fortify its market development in the high-value products and enrich its product mix gradually, in order to form a key driving force for the Group's future business development.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group generally financed its operations by internally generated cashflow and banking facilities provided by its bankers.

For the year ended 31 December 2005, the Group generated approximately RMB117.9 million (2004: RMB86.6 million) of cash from operations. As at 31 December 2005, the Group had cash and cash equivalents of approximately RMB336.8 million (2004: RMB241.2 million) and had total borrowings of approximately RMB99.9 million (2004: RMB81.8 million), comprising bank loans of approximately RMB69.2 million (2004: RMB50 million) and convertible notes of approximately RMB30.7 million (2004: RMB31.8 million), of the total of approximately RMB69.2 million bank loans outstanding as at 31 December 2005, RMB39.5 million were fixed rate debts with interest rate at 5.841% per annum. The remaining RMB29.7 million of bank loan was subject to floating rate of 2% over HIBOR per annum. The maturity profile for the Group's total borrowings was approximately 84% within one year, approximately 11% after one year but not exceeding two years and approximately 5% after two years but not exceeding five years. All of the aforementioned bank loans were guaranteed by corporate guarantees and pledged bank deposit from the Company.

As at 31 December 2005, the Group's current ratio, as a ratio of current assets to current liabilities, was approximately 2.9 (2004: 3.6) and the Group's gearing ratio, as a ratio of total interest-bearing borrowings to total assets, was approximately 16.3% (2004: 16.8%).

With respect to foreign exchange exposure, as the Group's transactions were mostly denominated in Renminbi and Hong Kong dollars and the exchange rate between Renminbi and Hong Kong dollar has been steady during the year under review, the Group's exposure to foreign exchange fluctuations was considered minimal and the Group therefore had not used any financial instruments for hedging purposes.

## SEGMENT INFORMATION

Segment information of the Company is set out in note 6 to the financial statements.

## CAPITAL COMMITMENTS

As at 31 December 2005, the Group had capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements amounting to approximately RMB10.1 million (2004: RMB2.4 million) and did not have any authorised but not contracted for capital commitments (2004: RMB9.9 million).

## PLEDGE OF ASSETS

As at 31 December 2005, bank deposit of approximately RMB13.0 million (2004: RMB4.3 million) was pledged to a bank for banking facilities granted to the Group to the extent of the amount of deposits placed with the banks.

## CONTINGENT LIABILITIES

As at 31 December 2005, the Group did not have any material contingent liabilities (2004: Nil).

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total of 427 employees (2004: 417 employees). The Group's emoluments policies are formulated based on industry practices and performance of individual employees. During the year under review, the total staff costs (including Directors' emoluments) amounted to approximately RMB11.1 million (2004: RMB10.7 million).

The Group operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to the eligible participants for their contributions to the Group. As at 31 December 2005, 30,000,000 share options remained outstanding, representing approximately 7.1% of the total issued number of shares of the Company.