



Management Discussion and Analysis 管理層討論與分析

BUSINESS REVIEW AND OUTLOOK

In 2005, the steel business of the Group was confronted by tough challenges from the substantial fluctuation in steel price, which resulted in a results performance below expectation. Turnover of the Group for the year was approximately HK\$3.7 billion, representing a decrease of 11% from last year. Profit attributable to equity holders of the Company was approximately HK\$72.7 million, representing an increase of 108% from last year.

International Steel Trading and Warehousing and Distribution Business

In 2005, the global steel market fluctuated substantially and recorded a rise followed by a drop. In the first quarter, the annual contracts between China and Brazil, and Australia, on free on board (FOB) price of iron ore both rose by 71.5%, while oil price and sea freight fee remained high. Steel mills around the world introduced price adjustments and pushed steel price in the international market to a record height. Subsequently as a result of general overstock around the globe, steel output in China surged substantially and caused an overall decline in international steel price in the second quarter. At the same time, under the macro-economic austerity policies, export tax rebate for semi-finished products such as steel slabs and billets was scrapped and tax rebate for steel products is reduced by 3%, resulting in a further slide in steel price. In the second half of the year, steel mills in Europe and the US began to restrict their output in response to the sluggish international steel market. On the other hand, the steel markets in Asia, particularly in China, continued to remain weak as at the end of the year due to overproduction. The difficult market environment dealt a blow to the results performance of the Group's international steel trading and warehousing and distribution business.

業務回顧與展望

二零零五年，本集團鋼鐵業務經受了嚴峻考驗，受到鋼材市場價格急劇波動的影響，其盈利表現未如預期。本集團全年營業額達37億港元，較去年同期下降11%，本公司權益持有人應佔盈利約7,270萬港元，較去年同期上升108%。

鋼鐵國際貿易及倉儲分銷業務

二零零五年，全球鋼鐵市場大起大落，呈現先升後跌的格局。第一季度，中國與巴西及澳洲的鐵礦石年度合約離岸價均上漲71.5%，油價及海運費高企，各地鋼廠紛紛調價，國際鋼材價格處於歷史的高點。隨後，由於各地庫存過多，中國鋼鐵產能充分釋放，引發第二季度起全球鋼材市場整體下跌。同時，中國繼續實施宏觀調控政策，廢除了鋼坯、鋼錠等半成品的出口退稅，並將鋼材產品的退稅率降低3%，導致鋼材價格大幅下跌。下半年，為應對全球鋼市的低迷，歐美鋼廠開始限產，而亞洲尤其是中國卻由於產能過剩，鋼市持續走軟，直至年底始終弱勢運行。這種艱困的市場環境對本集團鋼鐵國際貿易及倉儲分銷業務構成影響，業績乏善足陳。



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BUSINESS REVIEW AND OUTLOOK (continued)

International Steel Trading and Warehousing and Distribution Business (continued)

The Group believes that the global economy, especially the economy of China, will maintain a steady growth momentum. The demand for steel will remain stable, providing for a favourable market environment for steel trading. By constantly responding to market developments, conducting business re-structuring and coordinating the procurement and sales systems of various products, the Group's trading department will strive to maintain the strength of its import business and expand the export of steel products from China. Leveraging on its established business relationship with various PRC steel enterprises to secure stable supply for exports, the Group has rolled out sales business in overseas markets in Europe and Asia since the first quarter of 2006. The operating performance of this business segment is expected to improve in the year.

Steel Manufacturing and Processing Business

During the year under review, there was an imbalance in the supply and demand of metal products in Pearl River Delta and that number of export orders was unsatisfactory. Intensified market competition eroded the profit margin. In particular, the sustained decline in steel price resulted in the continued drop in average product price. While the Group had to make prompt delivery to customers, it was also required to maintain certain inventory level, thereby suffering an impact on gross profit from the time difference in warehousing given the rapid decrease in sales price. The results of the Group was further deteriorated by a provision for impairment of receivable of HK\$6 million made for a Taiwan-invested company under the Group.

Performance of the Group's two steel processing plants in Dongguan varied. Price drop for products of the steel coil centre was relatively low with a stable market demand, for its raw materials are with higher added value, such as cold-rolled thin steel sheets and electro-galvanized coils. On the other hand, the traditional steel pipe plant, the raw materials of which are hot-rolled steel coils and ordinary cold-rolled steel coils, recorded a price drop exceeding gross profit from processing and a year-on-year decrease in both production output and efficiency.

業務回顧與展望 (續)

鋼鐵國際貿易及倉儲分銷業務 (續)

本集團相信，全球以及中國經濟仍將穩定增長，鋼鐵需求仍將保持平穩，鋼鐵貿易的市場空間依然廣闊。本集團貿易部門將不斷因應市場變化，調整業務結構，整合不同貨源的採購和營銷體系，在繼續做好進口業務的同時，加大中國鋼鐵產品出口海外的業務。自二零零六年第一季度開始，本集團在與多家中國鋼鐵企業建立長期業務關係、取得穩定的出口資源保證的基礎上，已順利的展開了在歐洲和亞洲等海外市場的銷售，預期全年該業務將取得較好的營運表現。

鋼鐵製造及加工業務

回顧期內，珠江三角洲地區金屬製品供求失衡，出口訂單不理想；行內競爭加劇，邊際利潤降低；尤其是鋼材價格持續下跌，使得產品平均銷售價不斷下調；然而為向客戶提供及時的付運服務，又須保持一定數量的庫存，因而銷售價格急劇下跌影響到時差庫存的毛利；加上集團為一家下游台資企業作出了600萬港元的減值撥備，造成業績虧損。

集團位於東莞的二間鋼鐵加工廠表現參差：鋼板剪切中心因其原材料屬附加值高的鋼材如高質冷軋薄鋼卷、電鍍鋅卷等，市場需求穩定，價格跌幅較低；而傳統的鋼管製造廠，其原材料屬熱軋鋼卷和一般冷軋鋼卷等，價格跌幅大於加工毛利，產量及效益均遜於去年同期。



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BUSINESS REVIEW AND OUTLOOK (continued)

Steel Manufacturing and Processing Business (continued)

The steel processing business is the long-term development focus of the Group. The adverse impact from external factors in 2005 was only temporary and will not affect the Group's dedication and plan in expanding this business segment. The Group's new steel sheet processing centre in Yangzhou, Jiangsu commenced trial operation in October 2005. Adopting an integrated sales model comprising steel processing, delivery and distribution, the processing centre laid down a foundation for the Group's development of processing business in the Yangtze River Delta. The Group believes that benefited from its advanced equipments and good product structure, as well as the growing demand from the local market, this steel sheet processing centre will become a new source for the Group's profit growth.

Given a relatively more stable operating environment for the steel manufacturing and processing business in 2006, we expect to reinforce our market competitiveness with appropriate profit contribution by leveraging on our experience, improving the operational standard and investment in new manufacturing facilities.

Property Development and Investment

Times Square, the Group's property development in Yangzhou, Jiangsu maintained full occupancy. Given the local economic development in recent years, improving spending power and maturing mall operation and management experience, the average rent continued to grow. The Group is optimistic in the appreciation potential of business premises in similar premium locations in the Yangtze River Delta. As such, it will maintain its investment strategy of long-term rental. The Group is confident that these premium RMB assets will bring satisfactory investment returns to the shareholder in the long-run.

業務回顧與展望 (續)

鋼鐵製造及加工業務 (續)

鋼材加工業務是本集團長遠的發展方向。二零零五年外部因素為主的不利影響只是短暫的，並不會影響到本集團拓展該項業務的決心和計劃。本集團位於江蘇揚州新落成的鋼板加工中心已於二零零五年十月投入試運營。該加工中心以鋼材加工、配送、分銷相融合的綜合營銷模式，為本集團在長江三角洲地區的加工業務奠定了發展基礎。本集團相信，該鋼板加工中心將受惠於先進的設備、良好的產品結構以及當地市場的不斷增長的需求，成為本集團新的盈利增長點。

我們預期二零零六年的鋼鐵製造和加工業務在相對穩定的經營環境下，通過總結經驗、提升經營水平、以及增加新的生產設備的投入，市場競爭力將獲得增強，並將帶來其應有的盈利貢獻。

房地產開發及投資

本集團位於江蘇揚州投資興建的時代廣場維持全面出租。隨著當地近年來經濟的發展，消費水平日漸提高，商場經營管理的日益成熟，平均租金得以持續增長。本集團看好長江三角洲地區此類優質地段商業物業的升值潛力，將繼續採取長期收租的投資策略。本集團相信，此等優質的人民幣資產，長期而言將為股東帶來理想的投資回報。



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BUSINESS REVIEW AND OUTLOOK (continued)

Associated Companies

China LotSynergy Holdings Limited (stock code: 8161), an associated corporation of the Group, has formed a joint venture with Tabcorp Group of Australia, an internationally renowned gaming and entertainment group. The joint venture subsequently entered into a Technical Cooperation Agreement for a term of 10 years with Beijing Lottery, a company controlled by China Welfare Lottery Issuance and Administration Centre of the PRC and is licensed to operate and run instant lottery technical and sales system in the PRC. Pursuant to this agreement, the joint venture would provide Beijing Lottery with the relevant equipment (including sales terminals), software and other technical support to assist Beijing Lottery in building and developing a nationwide unified platform for lottery operation suitable for use throughout the PRC. To date, the Group still holds 23.96% equity interest in China LotSynergy. The Group believes that, following the continuing development of welfare lottery industry in China and the launch of the above projects, the lottery business will generate satisfactory investment return for the Group in the long run.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total equity increased to HK\$875,238,000 at 31 December 2005 from HK\$819,092,000 at 31 December 2004. The cash and bank balances of the Group were HK\$205,309,000 (2004: HK\$267,232,000) and the net current assets were HK\$603,711,000 (2004: HK\$427,502,000) at 31 December 2005.

The Group's current ratio, as a ratio of current assets to current liabilities, and gearing ratio, as a ratio of total liabilities to total assets, as at 31 December 2005 were 1.65 and 0.59 respectively (2004: 1.41 and 0.57 respectively).

業務回顧與展望 (續)

聯營公司

本集團聯營公司華彩控股有限公司(股份代號:8161)已與全球著名的彩票及娛樂集團澳洲Tabcorp集團組建合資公司,繼而與中國福利彩票發行管理中心控制並授權在中國負責全國性即開型彩票銷售系統管理和營運的中彩在線簽訂了為期十年的「技術合作協議」。據此協議,合資公司將為中彩在線提供設備(包括銷售終端)、軟件和相關技術服務,以協助建立及發展適用於中國全國性的彩票營運的統一平台。目前,本集團仍持有華彩控股有限公司23.96%股權。本集團相信,隨著中國公益性彩票業的不斷發展以及上述項目和新項目的進一步落實,該業務將為本集團帶來理想的長期投資回報。

資產流動性及財務資源

本集團之股東總權益由二零零四年十二月三十一日之港幣819,092,000元增加至二零零五年十二月三十一日之港幣875,238,000元。本集團於二零零五年十二月三十一日持有現金及銀行結餘約港幣205,309,000元(二零零四年:港幣267,232,000元)及流動資產淨值約港幣603,711,000元(二零零四年:港幣427,502,000元)。

於二零零五年十二月三十一日,本集團之流動比率(流動資產與流動負債相比)及負債比率(總負債與總資產相比)分別為1.65及0.59(二零零四年:分別為1.41及0.57)。



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LIQUIDITY AND FINANCIAL RESOURCES (continued)

During the year, the Group was granted a three-year syndicated loan amounted to US\$39,000,000 for the prepayment of the old syndicated loan and the construction of the new steel sheet processing centre in Yangzhou, Jiangsu. As at 31 December 2005, the total bank borrowings was HK\$772,352,000 (2004: HK\$565,443,000) and their maturity profile was as follows:

		2005	2004
		HK\$ million	HK\$ million
		港幣百萬元	港幣百萬元
Within one year	一年內	498	541
In the second year	第二年	121	4
In the third to fifth year	第三年至第五年	153	12
After the fifth year	五年後	-	8
		772	565

All the Group's bank borrowings were denominated in Hong Kong Dollar, US Dollar and Renminbi, bearing interest at the prevailing market rates. No material exchange risk is expected on the bank borrowings and no financial instruments have been used for hedging purposes during the year.

CONTINGENT LIABILITIES

As at 31 December 2005, the Group had the following contingent liabilities: (i) guarantee for general banking facilities granted to an associate amounted to approximately HK\$21,730,000 (2004: HK\$21,730,000); (ii) Mainland China land appreciation tax amounted to approximately HK\$25,560,000 (2004: HK\$24,728,000); and (iii) guarantees given to bank for mortgage facilities granted to the buyers of the Group's properties amounted to approximately HK\$33,153,000 (2004: HK\$35,910,000).

CAPITAL COMMITMENTS

As at 31 December 2005, the Group had no capital commitments contracted but not provided for (2004: HK\$14,913,000).

資產流動性及財務資源 (續)

於本年內，集團取得三年期銀團貸款共39,000,000美元，用以提早償還舊銀團貸款及於江蘇揚州興建一所新鋼板加工中心。本集團於二零零五年十二月三十一日之總銀行貸款約為港幣772,352,000元（二零零四年：港幣565,443,000元），及其還款期如下：

		2005	2004
		HK\$ million	HK\$ million
		港幣百萬元	港幣百萬元
Within one year	一年內	498	541
In the second year	第二年	121	4
In the third to fifth year	第三年至第五年	153	12
After the fifth year	五年後	-	8
		772	565

本集團所有銀行貸款均以港元、美元及人民幣為貨幣單位，息率為市場息率。預期銀行貸款不會有重大兌匯風險，於本年內未有行使用任何衍生工具作對沖之用。

或然負債

於二零零五年十二月三十一日，本集團有以下或然負債：(i)為聯營公司銀行額度提供擔保約港幣21,730,000元（二零零四年：港幣21,730,000元）；(ii)中國土地增值稅約港幣25,560,000元（二零零四年：港幣24,728,000元）；及(iii)為集團物業購買者按揭融資向銀行提供擔保約港幣33,153,000元（二零零四年：港幣35,910,000元）。

資本承擔

於二零零五年十二月三十一日，本集團並無已簽約但未撥備之資本承擔（二零零四年：港幣14,913,000元）。



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CHARGE ON ASSETS

As at 31 December 2005, the following assets were pledged: (i) certain leasehold land, land use rights and buildings with a net book value of approximately HK\$121,666,000 (2004: HK\$116,478,000); (ii) certain motor vehicles and machinery with a net book value of approximately HK\$19,044,000 (2004: HK\$10,862,000); (iii) certain investment properties of approximately HK\$32,766,000 (2004: HK\$109,298,000); (iv) certain inventories of approximately HK\$103,322,000 (2004: HK\$63,047,000); (v) certain properties held for sale of approximately HK\$20,250,000 (2004: Nil); (vi) certain financial assets at fair value through profit or loss of equity securities listed in Hong Kong with market value of approximately HK\$30,825,000 (2004: HK\$9,559,000); (vii) bank deposits of approximately HK\$1,431,000 (2004: HK\$1,394,000); and (viii) shares and equity interests in certain subsidiaries (2004: Nil).

STAFF

As at 31 December 2005, the Group employed 720 staff. Staff remuneration packages are structured and reviewed by reference to market terms and individual merits. The Group also provides other staff benefits which include year end double pay, contributory provident fund and medical insurance. Share options and discretionary bonus may also be granted to eligible staff based on individual and Group performances. Training programmes for staff are provided as and when required.

資產抵押

於二零零五年十二月三十一日，以下資產已予抵押：(i)部份租賃土地、土地使用權及樓宇帳面淨值約港幣121,666,000元（二零零四年：港幣116,478,000元）；(ii)部份車輛及機器帳面淨值約港幣19,044,000元（二零零四年：港幣10,862,000元）；(iii)部份投資物業約港幣32,766,000元（二零零四年：港幣109,298,000元）；(iv)部份存貨約港幣103,322,000元（二零零四年：港幣63,047,000元）；(v)部份待售物業約港幣20,250,000元（二零零四年：無）；(vi)部份按公平值透過損益列帳的財務資產的香港上市證券市值約港幣30,825,000元（二零零四年：港幣9,559,000元）；(vii)部份銀行存款約港幣1,431,000元（二零零四年：港幣1,394,000元）；及(viii)部份附屬公司股份及權益（二零零四年：無）。

僱員

於二零零五年十二月三十一日，本集團共僱用720名員工。僱員薪酬一般乃參考市場條件及根據個別表現制定及檢討。本集團並為僱員提供其他福利，包括年終雙糧、需供款之公積金及醫療保險。此外，本集團亦根據公司經營業績按員工個別表現而授出購股權及發放花紅，並會視乎需要為僱員提供培訓計劃。