



Management Discussion and Analysis 管理層討論與分析

BUSINESS REVIEW AND OUTLOOK

The Group has achieved a steady growth in all lines of business in 2006 with its turnover and profit for the year increased by 30% and 93% to HK\$4.79 billion and HK\$152 million respectively, as compared with last year. Net assets of the Group had increased by 15% as compared with last year.

Steel Trading and Warehousing and Distribution Business

During 2006, the Group's steel trading department strived to maintain the strength of its import business in China and at the same time, successfully expanded its export business of various steel products to overseas markets. Total imports and exports of the Group increased by 14% during the year with the turnover amounting to HK\$4.25 billion. Owing to the deadlock in the international iron ore negotiation in the first half of the year, the Group recorded a loss in the import and warehousing of pellets and as such, the overall operating profit of the Group's steel trading business declined.

Steel production of the PRC accounts for more than one third of the aggregate global output, yet its imbalanced product mix continued. Such imbalance reflected, on the one hand, in its reliance on the import of raw materials and high-end products and, on the other hand, in the overproduction of medium-end steel products. The demand for products such as steel billet, steel plates and long steel sections from overseas markets creates opportunities for exports and this trend for the PRC exports is expected to be a prolonged one. During the year under review, the Group, in response to the market demand, was actively engaged in building overseas distribution network and establishing long-term and steady supply channels with large-to-medium steel manufacturers. The Group not only had consolidated the traditional markets in the neighbourhood, namely East Asia and South East Asia, but had also expanded its sales business in markets such as the European Union, Middle East and South America. The Group has also successfully managed procurement of nickel ore, given the market shortage, from overseas and launched sales in large-scale in the PRC since the fourth quarter of the year.

業務回顧與展望

二零零六年，本集團各項業務穩健開展，全年營業額較去年上升30%，達47.9億港元；盈利較去年上升93%，至1.52億港元。本集團的資產淨值較去年上升15%。

鋼鐵貿易及倉儲分銷業務

二零零六年鋼鐵貿易部門在繼續做好中國進口業務的同時，成功擴大了中國各類鋼鐵產品出口海外市場業務。本集團全年進出口貿易總量上升14%，營業額達42.5億港元。惟由於上半年受累於國際礦砂談判僵持的影響，在倉儲銷售進口球團礦業務上錄得虧損，使得鋼鐵業務整體經營盈利有所下降。

中國的鋼鐵產量已逾全球總產量的三分之一，但產品結構仍不平衡。一方面原料和高端產品持續依賴進口；另一方面，中端產品卻生產過量，而海外市場的需求給中國的各類坯料、板材、長型材等產品造就了出口空間，且此一出口趨勢將持續久遠。回顧期內，本集團順應市場需求，積極著手海外銷售網絡建設，落實與國內大中型鋼鐵生產企業的長期穩定供貨渠道，在鞏固傳統週邊東亞、東南亞市場外，拓展了在歐盟、中東和南美等市場的銷售業務。同時，本集團自第四季度起，成功組織了市場緊缺的鎳礦的海外採購並對中國進行了批量銷售。



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BUSINESS REVIEW AND OUTLOOK (continued)

Steel Trading and Warehousing and Distribution Business (continued)

Looking forward into 2007, the global iron ore negotiation has come to an end in early January with a moderate increase in the price by 9.5% as compared the previous years, laying a good foundation for the market. With the continued economic growth in China, the European Union, Asia, Middle East, coupled with the increasing number of infrastructure establishments and the growing demand, it is expected that the market will be in a steady upward trend. The Group will adhere to its prudent yet progressive operation strategies by further strengthening its procurement and marketing in the PRC market and widening its coverage in the overseas markets to achieve better performance. Meanwhile, in respect of rare metal ore resources, the Group is actively in discussion with several overseas ore companies with a view to consolidate and further expand the related businesses in this sector.

Steel Manufacturing and Processing Business

During the year under review, the results of the two steel plants of the Group in Dongguan, the PRC, have been improved. However, due to fierce peer competition, rising costs of raw materials and other costs and a narrowing profit margin, the sales tonnage and the turnover had dropped by 5% and 16% respectively.

To reinforce our competitiveness and improve our operation performance, the Group has implemented an array of measures. These include integrating purchase channels and endeavouring to procure most of the materials in the mainland instead of procuring all of them overseas, except for necessary materials, to zealously reduce raw material cost. The Group has also reduced inventory to a reasonable level and accelerated inventory cycle to lower inventory cost. To strengthen high value-added steel coil processing business, the steel coil centre was expanded during the year with its production lines updated and replaced. The indirect productions and labours in the two processing plants were outsourced to minimise administrative expenses. Trial settlement in Renminbi for local sales and processing business was also launched during the year to raise production and profit margin.

業務回顧與展望 (續)

鋼鐵貿易及倉儲分銷業務 (續)

展望二零零七年，全球鐵礦砂協議價格談判於一月初已完成，較往年溫和地加幅9.5%，為市場奠定了良好的基礎。中國、歐盟、亞洲、中東的經濟持續發展，基建頻仍，需求殷切，市場預期平穩向好。本集團將緊守積極審慎的經營策略，進一步加強在中國市場的採購和營銷體系，深化海外市場的覆蓋網絡，以取得更佳的營運表現。同時，在稀有金屬礦產資源方面，本集團正積極與數間海外礦業公司進行商業洽談，以鞏固並力爭進一步地拓展該領域的相關業務。

鋼鐵製造及加工業務

回顧期內，本集團位於中國東莞的二間工廠的業績已有所改善。但由於行業競爭激烈，原材料和其它成本上升，毛利空間下調，銷量仍下跌5%，營業額下跌16%。

為提高競爭力，改善營運表現，本集團在年內相應採取了一系列的措施，包括積極減低原材料成本，整合採購渠道，除必要的品種外，將原先全部進口原材料改為盡可能在國內進行採購；為減低存貨成本，合理壓縮了庫存數量，加快了存貨流轉；為加強高附加值的卷鋼加工業務，年內擴建了鋼板剪切中心廠房，更新、換代了新的生產線；為減少行政管理費用，將二間工廠非直接生產系統的工序和人員進行了外判；為增加產量及利潤空間，於年內嘗試開展了以人民幣結算的內銷加工業務。



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BUSINESS REVIEW AND OUTLOOK (continued)

Steel Manufacturing and Processing Business (continued)

The Group entered into an agreement with Maanshan Iron & Steel Company Limited at the end of 2006, pursuant to which the registration of our the then wholly-owned steel coil processing centre in Yangzhou, the PRC was changed to a joint venture company, which has officially commenced its processing and distribution business by the end of the year.

With the implementation of measures for reducing cost and reinforcing its management in the two plants in Dongguan, followed by the end of the interest rate cycle and the completion of reconstruction of the Yangzhou plant, the Group established a new operation structure which has begun to generate good track record. We expect the market competitiveness of our steel processing business will be strengthened while production and total sales volume will turn around, further improving our result.

Property Development and Investment

Yangzhou Times Square, the investment property of the Group in the PRC, continued to maintain full occupancy under its maturing operation and management. The rental income from the investment property in 2006 rose by 18% as compared with the previous year. The Group endeavors to carry out discussion and business negotiation on the feasibility of cooperation in developing new projects in the neighbourhood to consolidate its leading position as a local renowned shopping mall.

Given a rapidly growing local economy, the Group will continue its investment strategy of long-term rental. The property is expected to bring stable rental returns and asset appreciation potential to the Group.

Associated Corporation

China LotSynergy Holdings Limited (Stock code: 8161), an associated corporation of the Group, is principally engaged in investment, project development, provision of technologies and equipment, as well as consultancy services in public welfare lottery business and related sectors. During the year under review, the Company has made substantial progress in its public welfare lottery related business in the PRC upon the completion of its business transformation, with a turnover of approximately HK\$59,000,000 for the second half of the year. The turnover of the fourth quarter has increased by 43% as compared to the third quarter.

業務回顧與展望 (續)

鋼鐵製造及加工業務 (續)

同時，本集團於二零零六年底與馬鞍山鋼鐵股份有限公司達成協議，將本集團位於中國揚州市的全資鋼板加工中心順利改組為合營公司，並已在年底前正式展開了加工配運業務。

我們預期在對東莞二間工廠實施壓縮成本、強化管理的措施後，配合利息上升週期的完結，以及揚州工廠完成改組，形成了新的營運架構並已開始取得良好的營運表現的情況下，本集團的鋼鐵加工業務的市場競爭力將獲得增強，生產和銷售總量預期回升以及業績將獲得進一步改善。

房地產開發和投資

本集團於中國投資興建的揚州時代廣場經營管理日益成熟，繼續維持全面出租。二零零六年投資物業租金收入較去年上升18%。為鞏固該物業作為當地知名的購物中心的地位，本集團正積極著手進行在其週邊的新項目合作開發的可行性探討和商業洽談。

隨著當地經濟正值高速增長期，本集團將繼續採取長期持有收租的投資策略。預期該項目能為股東帶來穩定的租金回報和資產增值空間。

聯營公司

本集團聯營公司華彩控股有限公司（股份代號：8161）主要從事公益彩票及相關行業的投資及項目開發，以及提供技術支援、設備供應及顧問服務。回顧期內，該公司完成轉型，於中國公益彩票相關業務方面取得實質進展，下半年入賬營業收入達5,900萬港元。第四季度營業收入較第三季度上升43%。



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BUSINESS REVIEW AND OUTLOOK (continued)

Associated Corporation (continued)

The Group believes that the continuing development of welfare lottery in China, and the progression of the relevant projects of China LotSynergy Holdings Limited, will bring satisfactory investment returns to the Group in the long run.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's total equity increased to HK\$1,004,219,000 at 31 December 2006 from HK\$875,238,000 at 31 December 2005. The cash and bank balances of the Group were HK\$275,995,000 (2005: HK\$205,309,000) and the net current assets were HK\$373,770,000 (2005: HK\$603,711,000) at 31 December 2006.

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 2006 were 1.29 and 0.59 respectively (2005: 1.65 and 0.59 respectively). The decrease in current ratio was primarily due to certain portions of the syndicated loan granted in 2005 would become due in the ensuing year.

As at 31 December 2006, the total bank borrowings was HK\$656,296,000 (2005: HK\$772,352,000) and their maturity profile was as follows:

		2006 HK\$ million 港幣百萬元	2005 HK\$ million 港幣百萬元
Within one year	一年內	536	498
In the second year	第二年	107	121
In the third to fifth year	第三年至第五年	13	153
		656	772

Most of the Group's bank borrowings were denominated in US Dollar and the remaining were denominated in Hong Kong 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.

業務回顧與展望 (續)

聯營公司 (續)

本集團相信，隨著中國公益性彩票業的不斷發展以及華彩控股有限公司有關項目的逐步推進，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二零零五年十二月三十一日之港幣875,238,000元增加至二零零六年十二月三十一日之港幣1,004,219,000元。本集團於二零零六年十二月三十一日持有現金及銀行結餘約港幣275,995,000元（二零零五年：港幣205,309,000元）及流動資產淨值約港幣373,770,000元（二零零五年：港幣603,711,000元）。

於二零零六年十二月三十一日，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1.29及0.59（二零零五年：分別為1.65及0.59）。流動比率下降主要因為部份於二零零五年取得的銀團貸款將於來年到期償還。

於二零零六年十二月三十一日，總銀行貸款為港幣656,296,000元（二零零五年：港幣772,352,000元），及其還款期如下：

本集團銀行貸款主要以美元為貨幣單位，其餘以港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，於本年內未有行使任何衍生工具作對沖之用。



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CORPORATE GUARANTEES

As at 31 December 2006, the Group had the following outstanding corporate guarantees:

Guarantee for general banking facilities granted to an associate	為聯營公司銀行融資作出之擔保
Guarantees given to banks for mortgage facilities granted to the buyers of the Group's properties	為集團物業購買者按揭貸款而向銀行作出之擔保

公司擔保

於二零零六年十二月三十一日，本集團有以下未撤銷的公司擔保：

2006 HK\$'000 港幣千元	2005 HK\$'000 港幣千元
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21,730	21,730
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3,372	33,153
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25,102	54,883
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CONTINGENT LIABILITIES

As at 31 December 2006, the Group had contingent liabilities relating to Mainland China land appreciation tax amounted to approximately HK\$26,960,000 (2005: HK\$25,560,000).

或然負債

於二零零六年十二月三十一日，本集團有關於中國土地增值稅的或然負債約港幣26,960,000元（二零零五年：港幣25,560,000元）。

CAPITAL COMMITMENTS

As at 31 December 2006, the Group had capital commitments contracted but not provided for as follows:

Capital contributions to an associate	應繳聯營公司資本
Machinery	機器

資本承擔

於二零零六年十二月三十一日，本集團有以下已簽約但未撥備之資本承擔：

2006 HK\$'000 港幣千元	2005 HK\$'000 港幣千元
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22,620	—
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510	—
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23,130	—
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CHARGE ON ASSETS

As at 31 December 2006, the following assets were pledged: (i) certain leasehold land, land use rights and buildings with a net book amount of approximately HK\$118,734,000 (2005: HK\$121,666,000); (ii) certain motor vehicles and machinery with a net book amount of approximately HK\$10,052,000 (2005: HK\$19,044,000); (iii) certain investment properties of approximately HK\$77,309,000 (2005: HK\$32,766,000); (iv) certain inventories of approximately HK\$37,081,000 (2005: HK\$103,322,000); (v) certain properties held for sale of approximately HK\$24,691,000 (2005: HK\$20,250,000); (vi) certain financial assets at fair value through profit or loss of equity securities listed in Hong Kong with market value of approximately HK\$9,184,000 (2005: HK\$30,825,000); (vii) bank deposits of approximately HK\$839,000 (2005: HK\$1,431,000); and (viii) shares and equity interests in certain subsidiaries.

STAFF

As at 31 December 2006, the Group employed 626 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

於二零零六年十二月三十一日，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118,734,000元（二零零五年：港幣121,666,000元）；(ii) 部份車輛及機器帳面淨值約港幣10,052,000元（二零零五年：港幣19,044,000元）；(iii) 部份投資物業約港幣77,309,000元（二零零五年：港幣32,766,000元）；(iv) 部份存貨約港幣37,081,000元（二零零五年：港幣103,322,000元）；(v) 部份待售物業約港幣24,691,000元（二零零五年：港幣20,250,000元）；(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9,184,000元（二零零五年：港幣30,825,000元）；(vii) 部份銀行存款約港幣839,000元（二零零五年：港幣1,431,000元）；及(viii) 部份附屬公司股份及權益。

僱員

於二零零六年十二月三十一日，本集團共僱用626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它福利，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。