Management Discussion and Analysis

TRADING OPERATION

The turnover of the Group's trading for this year when comparing with the annualized turnover in 1999, particular in feed and grain, continued to grow. However, the Group's trading profit after finance costs for the year fell to HK$5 million (Fifteen months ended 31.12.1999: HK$19.3 million). The Group's trading performance suffered a strong set back in the second half of the year due to severe competition in the fishmeal trade. In anticipation of China's entry into the World Trade Organization ("WTO"), a number of the Chinese domestic fishmeal traders tried to eliminate the role of the intermediary by buying direct from the origin. These traders bought aggressively from the origin and flooded China with fishmeal. The competition was so severe that the Group had to lower the profit margin in some cases to maintain its market presence. The Group expected that its fishmeal trade would stabilize in 2001 when some of the less competitive traders are driven out by the cut throat competition.

SHIP CHARTERING OPERATION

The Group changed the commercial manager of its vessels in February 2000. Although idle time was reduced, the operation still suffered a loss. The rates for tweendeckers, the type of vessels owned by the Group, did not firm up as much as expected, though the overall freight rates improved. Besides, the animal feed trading volume was not large enough to utilise the vessels' capacity efficiently and at the same time, the charter hire from these vessels could not cover their operating costs. Management decided that it would no longer be commercially viable to keep the vessels.

In view of the substantial losses incurred in ship chartering business, the Group decided to discontinue the ship chartering operation. Our plan to sell our vessels for further trading was, however, adversely affected by the uncertainty of the freight market caused by the increased bunker cost and the possibility of a retraction in the US economy vis-a-vis international trade. After several unsuccessful attempts to sell the vessels for further trading, the Group finally decided to scrap the remaining vessels in January 2001. The loss on disposal amounted to approximately HK$10 million and the costs of approximately HK$7 million associated with the discontinuation of the ship chartering operation were fully provided for in the year.

PROPERTY INVESTMENT IN HONG KONG

During the year, the rental income of the Group's Hong Kong investment properties, comprising mainly of retail shops, had been stabilized. The capital value of the Group's Hong Kong investment properties had also improved slightly.

It is expected that further reduction in interest rate and the gradual recovery of the Hong Kong economy will lead to a rebound in consumer spending. Both the rent and the capital value for retail shops are, therefore, expected to further improve in 2001.

PROPERTY INVESTMENT IN MAINLAND CHINA

Both the occupancy rate and the rental yield for residential properties in Shanghai had stabilized. The rental income derived from the Group's investment properties in mainland China, comprising mainly of service apartment units in Shanghai, was maintained at last year's level. At the same time, the aggregate rental income of Emerald Court, our joint venture luxurious residential development in Xuhui, Shanghai increased as a result of improved occupancy.

In relation to the enforcement of the Arbitration Award (the "Award") granted to the Group by the China International Economic and Trade Arbitration Commission in Beijing against the defaulting parties in a joint venture residential development project in Shanghai (the "Project"), the Shanghai Court had ordered the sale of certain floors of the Project with a gross floor area of about 16,000 square metres (the "auctioned Property") through public auction.

After three unsuccessful attempts to sale the auctioned Property via public auction, the Shanghai Court lowered the auction price and arranged a fourth auction sale in October 2000. In order to speed up the enforcement process, the Group participated in the public auction and submitted a bid of RMB55 million for the auctioned Property. The auctioned Property was sold to the Group at the bid price. The Group, after paying certain disbursements for the auction, was allowed to set off the balance of the bid price for the auctioned Property against the outstanding amount under the Award. The Group is planning to re-package and sell the Property on a strata title basis upon completion of the legal formality in relation to the transfer of the Property.

As the amount applied to set off against the bid price fell short of the amount of the Award, the Group is entitled to take further action to recover the outstanding balance. According to the advice of the lawyers in mainland China that the Group can make further application to the Court to freeze further assets of the defaulting parties. The directors are, therefore, confident that the outstanding balance will be recovered in full.

REAL ESTATE AGENCY SERVICES IN MAINLAND CHINA

During the year, the Group reduced the number of staff employed by the real estate agency operation from 70 persons to about 30 persons. However, additional cost such as compensation payments etc were incurred in the down sizing exercise. The cost reduction achieved by the down sizing was therefore not fully reflected in the current year's financial results.

INVESTMENT IN HAINAN YANGPU LAND DEVELOPMENT CORPORATION ("HYLD")

The Group had since September 1992 invested HK$50 million, represented 5% equity interest in HYLD, the owner and developer of the Hainan Yangpu Special Economic Zone. Based on the information available lately, the project might not be viable without further capital injection. However, under the joint venture agreement, the shareholders of HYLD are not bound to make additional capital contribution and that none of the shareholders responded to HYLD's recent request for additional capital injection. In view of the latest development, full provision of HK$50 million for diminution in value is therefore, have been made against the investment for prudence. However, the directors will keep track of any further development on the project of HYLD.

LIQUIDITY AND CAPITAL RESOURCES

The long term liabilities of the Group amounted to approximately 29% (31.12.1999: 21%) of its shareholders' funds at the balance sheet date. The current ratio of the Group was maintained at 1.06 (31.12.1999: 1.01). As at the balance sheet date, the aggregate amount of bank facilities available but not yet utilised by the Group was about HK$81 million (31.12.1999: HK$90 million).

In January and February 2001, banks in Hong Kong following the rate cuts in the United States reduced the prime lending rate. Furthermore, the Group had recently re-arranged its banking facilities to cut down the interest cost. It is anticipated that the interest burden of the Group would be substantially reduced in 2001.

STRATEGIC OUTLOOK

Property investment and trading, in particular feed and grain trading, will continue to be the core businesses of the Group. The eventual accession of China into WTO will pose additional challenge to the Group's trading operation, as mainland China has been a substantial market for the Group's trading activities. Besides constantly looking for trading opportunities in new markets, the Group will continue to consolidate its market position in mainland China.

With the prospect of further reduction in interest rate, the market sentiments in Hong Kong are improving. However, the directors will continue to be cautious about its property investment in Hong Kong. In relation to its property investment activity in mainland China, priority will be given to the disposal of the auctioned Property.