

Chairman's Statement

Guangnan (Holdings) Limited (the "Company") and its subsidiaries (collectively the "Group") operated under very difficult conditions in the year 2000. During the past two years, the Group underwent a debt restructuring scheme (the "Restructuring") involving primarily a reduction of its debts and disposal of its non-core businesses whilst continuing to operate its core businesses. As a result, a substantial amount of its financial and management resources were diverted to implementing the Restructuring. This has adversely affected the operating results of the Group.

The Group recorded a total turnover of approximately HK\$2,764.2 million for the year ended 31st December, 2000, representing a 3.5% decrease as compared to approximately HK\$2,864.4 million in the previous year.

Following the Restructuring which was successfully completed on 22nd December, 2000, the Group disposed of certain non-core businesses to an asset management company as well as discharged all bank borrowings and convertible bonds incurred prior to the commencement of the Restructuring together with certain non-financial creditors. As a result, the Group recorded a net gain of approximately HK\$1,433.3 million arising from the Restructuring. With the help of this exceptional gain from the Restructuring, the Group posted a turnaround in profit to approximately HK\$866.1 million for the year ended 31st December, 2000 from a loss of approximately HK\$194.2 million in the previous year. Excluding the gain from the Restructuring, the Group recorded a loss of approximately HK\$567.2 million for the year ended 31st December, 2000.

While the Restructuring was still ongoing in the year under review, the Group was unable to obtain new banking facilities and favourable credit terms from its suppliers. These adversely affected the Group's competitiveness and increased the operating cost of its businesses. Nevertheless, upon the successful completion of the Restructuring on 22nd December, 2000 and the open offer for new shares in January 2001, the Group has restored to a positive net asset base which can enhance the Group's capability to obtain new financing and to negotiate better terms from its suppliers. In addition, the Group can concentrate its resources on consolidating those existing businesses with a higher profit potential and exploring new business opportunities to broaden its earning and asset base with a view to eventually enhancing the value of its shareholders' investment in the Company.

Several new directors were appointed to the board of directors (the "Board") of the Company in the latter half of the year 2000. The Board believes that the new management team, with their extensive experience in corporate management and operations, will implement new measures to improve the efficiency and financial performance of the Group. These measures will involve adopting sales strategies to maximize profit margins, closing down unprofitable businesses or outlets, cutting costs, streamlining its personnel and monitoring the collection of its accounts receivable.

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Despite the completion of the Restructuring, the Board anticipates that there will be challenges ahead, with the Hong Kong economy continuing to remain sluggish and the new management having to deal with potential problems that may arise as a result of actions in the past. In the months ahead, the Group will adopt a prudent approach and will remain focused on building a solid foundation on its existing business and reinforcing its position in the live and fresh foodstuffs distribution business. However, the Board believes that the Group, with its competitive advantages in the food distribution, trading and supermarket operations in Hong Kong and connections in the People's Republic of China ("PRC"), in particular, the Guangdong Province, will be able to ride out the challenges, and to capitalize on the impending entry of the PRC into World Trade Organisation ("WTO"). With these in mind, the Board will use its best endeavours to return the Group to profitability.

By Order of the Board
Ye Xuquan
Chairman

Hong Kong, 9th April, 2001