BUSINESS REVIEW

Most of the continuing businesses of the Group suffered from a drop in turnover and profitability while the Group was undergoing the Restructuring. The live and fresh foodstuffs distribution operation remains the Group's largest and most profitable business. Faced with intense competition, the supermarket business continued to incur losses. The tinplating joint ventures were disposed of towards the end of the year as a condition of the Restructuring, leaving only the farming and feeds production business in the industrial investment segment. The Group also disposed of its 20% interest in a PRC joint venture operating pig farming business during the end of the year but its interests in other pig farming businesses remained intact.

LIQUIDITY AND FINANCING RESOURCES

During the Restructuring, the Group could only rely on its own internal resources for financing its operation and could not obtain favourable credit terms from its suppliers. Following the successful completion of the Restructuring in December 2000 and the open offer for new shares in January 2001, all the bank borrowings and convertible bonds incurred prior to the commencement of the Restructuring of the Group together with certain non-financial creditors were discharged and a positive net asset base has been restored. The Group intends to obtain new bank financing and to negotiate better terms from its suppliers. In addition, the Group will continue to commit resources for its debt recovery program to speed up the process in order to enhance its cashflow position.

OPERATIONS REVIEW

Live and Fresh Foodstuffs

Despite being the largest and the most profitable business segment of the Group, for the year ended 31st December 2000, the live and fresh foodstuffs distribution business recorded a turnover and an operating profit of about HK$1,444.4 million and HK$12.8 million, representing a decline of about 6.1% and 49.8% against the same period in 1999 respectively. The decline in turnover was principally attributable to competition from alternative products like frozen foods, smuggling of the live and fresh foodstuffs into Hong Kong and weak consumption demand in Hong Kong while the fall in operating profit was mainly due to the rise in import cost.

In order to enhance profit margin, the Board is considering vertical integration by expanding this segment upwards to include the production of feeds and downwards to incorporate retailing. Through vertical integration, the Group is able to capitalize on its core businesses of farming and feeds production and supermarket operations.

Management Discussion and Analysis

Supermarket

During the Restructuring, the supermarket business suffered from a lack of financing for expansion and sales promotion and from inability to negotiate favourable credit terms from suppliers. In addition, the Shanghai operations were closed down at the beginning of the year under review. As a result, for the year ended 31st December, 2000, the supermarket business recorded a turnover and an operating loss of about HK$708.8 million and HK$124.0 million respectively, representing a drop in turnover of about 6.3% and a rise in operating loss of about 5% against the corresponding period in 1999.

The Group has already strengthened the management of its supermarket business in Hong Kong, implemented cost-reduction plan, adopted new modus operandi and noted an improvement in its operations recently. However, fierce market competition has accentuated the problems encountered by management in operating the business. The management will continue to closely monitor the Group's supermarket business in Hong Kong and if necessary, adjust its strategy including considering closing any outlets which have incurred substantial losses.

The Group's loss-making supermarkets in Guangzhou continued to drain its financial resources. In order to stop this situation from deteriorating, the management has ceased its supermarket operation in Guangzhou. The Board is now reviewing various business strategies including looking for a suitable strategic partner to overhaul this business. If neither a suitable strategic partner nor an interested buyer can be found for this operation, the Directors will consider closing down this business in Guangzhou as soon as practicable.

Trading

The main focus of the trading activities of the Group ranges from rice, fruit, vegetable and additive to animal feeds. For the year ended 31st December 2000, the turnover and the operating loss was approximately HK$46.9 million and HK$2.3 million respectively signaling a decline in turnover of 35.9% and a drop in operating loss of 90% as compared to those for the year ended 31st December, 1999. The fall in turnover was mainly attributable to the discontinuance of the trading of non-foodstuffs as a result of consolidating the Group's core business. Notwithstanding the decline in turnover, its operating loss for the year in review has substantially reduced which was due to a stock provision of approximately HK$15.3 million made in the year of 1999.

The PRC impending accession to the WTO is expected to generate increased trading activities between PRC and the rest of the world. The Group intends to capture this opportunity by sourcing more products from the mainland to be exported overseas and by obtaining agency and distribution rights from overseas food manufacturers for the import of their products into the PRC, through the trading operations of the Group.

Industrial Investment

Industrial Investment comprises businesses in tinplating, pig farms and production of feeds.

The Group's tinplating joint ventures recorded a turnover growth of 18.4 per cent to approximately HK$397.1 million from a year earlier. However, owing to increases in the cost of certain raw materials, the operating profit for the year ended 31st December, 2000 decreased by 18.8% to approximately HK$35.6 million. On 22nd December, 2000, the Company disposed of its tinplating joint ventures to an asset management company as a condition of the Restructuring.

On 12th December, 2000, the Company disposed of its entire 20% interest in a co-operative joint venture established in the PRC engaging in the business of pig farming.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

The total number of full-time employees as at 31st December, 2000 is approximately 1,400. Details in relation to staff costs are disclosed in note 8(b) on the accounts.

The Group regards human resources as one of its key assets to develop its business. In order to attract and to retain capable staff, the Group assigns a Compensation Committee to be responsible for receiving advice and making recommendation to the Board with respect to the remuneration policies of senior employees. The committee comprises the Chairman, general manager, and three independent non-executive directors. Three compensation committee meetings were held throughout the year under review.

The Group is implementing a performance assessment recommendation as put forward in a report commissioned by the Group's professional advisers in analyzing its operations. The Group hopes to raise operation standard through periodical assessment of the staff's performance. If necessary, the Group will further streamline the headcount in order to reduce cost.

The Group is implementing a new accounting software on a trial basis to standardise its financial and accounting systems. These systems will enable the Group to expedite its financial information gathering process, thus reducing both time and cost. Moreover, the systems, being more sophisticated, are useful for cost control and analysis of the Group's operations.

Management Discussion and Analysis

CHARGES ON GROUP ASSETS

Pursuant to the condition of the Restructuring, there was a charge in favour of GDH Limited over the proceeds of the Open Offer to be received by the Company. Save as disclosed above, the Group did not have any charges on its assets as at 31st December, 2000.

CONTINGENCIES

As at 31st December, 2000, there was a contingent liability to the extent of approximately HK$21.8 million in respect of a guarantee given to banks to secure banking facilities granted to an associate of the Company.

PROSPECTS

With the successful completion of the Restructuring, the new management will be able to concentrate on realising a long-term growth strategy for the Group. Consolidating the core businesses of the Group remains a priority. The focus is on foodstuff and the Group will cautiously introduce new projects while at the same time continue to monitor cost, tighten its control mechanism and streamline its operation with a view to enhancing the profitability of the Group. This includes a constant review of its loss-making businesses to consider means for improvement which may involve seeking strategic partners to provide synergies to the business and, if necessary, disposing of or ceasing such businesses. Furthermore the Group, with its improved net asset base and being in a better position to obtain new financing, can now start to seek out new investment opportunities with higher profit margin to complement the Group's core businesses.