

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review and Prospects

For the six months ended 31 October 2001, the turnover of the Group decreased by 18% from HK\$212 million to HK\$173 million when compared to the corresponding period in the previous year. This resulted in a loss attributable to shareholders of HK\$263,000. Loss per share was HK0.02 cents (2000: HK1.85 cents. Earnings per share).

Premium processed eels are manufactured in the Group's two facilities which are located in Fuqing, the PRC, and are marketed to Japan under its own brand name "Qixiang". During the review period, sales volume was up but the selling price was sliding down. The sales figure was decreased by approximately 7% to HK\$155 million representing 2,340 tonnes (2000: 1,680 tonnes) against last year's figure of HK\$166 million. The processed eel business accounted for approximately 89.4% of the Group's total turnover.

During the review period, the market in Japan, the world's largest processed eel importing country and the Group's major market, was becoming more competitive due to new suppliers of premium grade eels. The Group had to adjust selling prices in view of the market situation to maintain market share and also to ensure steady returns in profit. The Group's maximum production capacity is maintained at 6,000 tonnes of processed eels per year in its two production facilities. It is expected that production will reach approximately 4,600 tonnes for the entire fiscal year. The Directors will be cautious in balancing between the market share and its returns.

Apart from its core processed eel manufacturing business, the Group also engages in another business line, the manufacture and sale of quality eel feeds to the approximately 250 eel farms in the PRC under the "Sanhua" brand name. The eel feed business serves as a complementary arm to the Group's processed eel manufacturing business. Although there was a tremendous drop in turnover as a result of the general downturn in the eel farms business due to the lowering of price of processed eels as noted above, the eel feeds business was able to leverage its extensive experience in the processed eel industry and contributed approximately 90% of the Group's operating profit during the period under review.

To better utilize human and financial resources, the Group shut down its feeds plant in Guilin in June 2001.

## Liquidity and Financial Resources

The Group generally finances its operations with internally generated cash flow and banking facilities provided by the principal bankers in the PRC. As at 31 October 2001, the Group's net asset value stood at HK\$122 million with total assets over HK\$213 million, out of which included cash and bank balances of approximately HK\$10 million. The Group's bank borrowings at 31 October 2001 amounted to HK\$58.5 million of which approximately HK\$5.5 million was secured by the Group's leasehold land and buildings, and a loan of which approximately HK\$7.5 million was secured by the land and buildings of an associate. The remaining bank loans of approximately HK\$45.5 million were secured by guarantees executed by a related company. The gearing ratio of the Group at 31 October 2001 calculated as a ratio of total bank loans to total assets was 27%. Net current assets was approximately HK\$42.6 million and current ratio was maintained at a healthy level of approximately 146%.

With the above, the Group has adequate capital resources to finance its business operations.

## Employees

The Group had a total of approximately 550 employees in Hong Kong and China as at 31 October 2001. The Group ensures that pay scales of its employees are rewarded on a performance related basis within the general framework of the Group's remuneration strategy.

## Directors' Interests

The interests of the directors and their associates in the issued shares of the Company and its associated corporations, as recorded in the register kept under Section 29 of the Securities (Disclosure of Interests) Ordinance as at 31 October 2001 were as follows:

### (a) Company

Directors	Type of interests	Number of shares	Number of warrants
Mr. Lam Hau Mei	Corporate ( <i>Note 1</i> )	1,018,500,000	40,740,000
Mr. Lin Hou Yun	Corporate ( <i>Note 1</i> )	1,018,500,000	40,740,000
Mr. Wu Wai Kit	Personal	10,000	400
Mr. Li Qinghe	Personal	3,484,000	124,000

(b) *Associated Corporation*

<b>Directors</b>	<b>Associated corporation</b>	<b>Nature of interest</b>	<b>Percentage interest in associated corporation</b>
Mr. Lam Hau Mei	(1) Modern Sky Limited	Personal	99%
	(2) Fuqing Qixiang	Corporate ( <i>Note 2</i> )	29%
	(3) Fuqing Sanhua	Corporate ( <i>Note 3</i> )	51%
Mr. Lin Hou Yun	(1) Modern Sky Limited	Personal	1%
	(2) Fuqing Qixiang	Corporate ( <i>Note 2</i> )	29%
	(3) Fuqing Sanhua	Corporate ( <i>Note 3</i> )	51%

*Notes:*

- (1) These Shares were held by Modern Sky Limited, a company beneficially owned as to 99 per cent and 1 per cent by Mr. Lam Hau Mei and Mr. Lin Hou Yun, respectively.
- (2) The said interest in Fuqing Qixiang, a subsidiary of the Company, is held by Great Global Limited, a company owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun.
- (3) The said interest in Fuqing Sanhua, an associate of the Company, is held by Great Global Limited, a company owned by Mr. Lam Hau Mei and Mr. Lin Hou Yun.

**Substantial Shareholders**

<b>Shareholder</b>	<b>Member of the Group</b>	<b>Number of shares</b>	<b>Percentage of voting power</b>
Modern Sky Limited	The Company	1,018,500,000	72.75%

**Purchase, Sale and Redemption of shares**

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 31 October 2001.

**Audit Committee**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the review of the interim financial statements which have not been audited.

## **Code of Best Practice**

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the six months ended 31 October 2001, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that the independent non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Company's Bye-laws.

By Order of the Board

**Lam Hau Mei**

*Chairman*

Hong Kong, 18 January 2002