



# Management Discussion and Analysis

For the year ended 31st December, 2001, the loss attributable to the shareholders of the Group was substantially reduced from HK\$100,146,718 to HK\$35,946,283, representing a decrease of 64%. The improvement is partly due to the discontinuation of the loss-making ship chartering operation and the exceptional write-off of the loss on disposal of the relevant vessels at scrap value in the last financial year. Besides, the Group's investment in Hainan Yangpu Land Development Company Limited ("HYLDC"), a land development enterprise on Hainan Island was also fully provided for in 2000. The Group will keep track of the development of HYLDC. The above accounted for a substantial proportion of the operating loss for the last financial year. Another reason for the remarkable reduction in losses is the improved results of the real estate agency services operation and the stable performance of the Group's property investments in Hong Kong and Mainland China.

Still, owing to the unsatisfactory performance of its trading operations under the poor market conditions of the animal feed market, the overall results of the Group failed to make a profit in this year. The turnover for the year also suffered a significant decrease of 23% to HK\$699,598,778 compared with last year.

Details of the performance of the existing operations of the Group for the year and their strategic outlooks are set out below:

## TRADING OPERATION

During the year, fishmeal trading remained as the major trading activity of the Group, and Peru continued to be the Group's main source of supply in this regard. Owing to the increase in oceanic temperature, the country saw a drop in fish catch in the second half of the year. As a result, the turnover of the Group's trading operation for the year ended 31st December, 2001 decreased by 21% to HK\$672,066,371 compared with last year. Besides, freight charges were higher in the first half of the year, though they became steady in the second half of the year, while competition in the market remained intense. Accordingly, for the year ended 31st December, 2001, the Group's trading operation suffered from an operating loss of HK\$10,990,936, compared with an operating profit of HK\$13,930,688 last year.

In pursuit of business diversification and risk minimization, the Group also made great efforts to establish its presence in other products.

## PROPERTY INVESTMENT IN HONG KONG

Turnover of the Group's property investment in Hong Kong, which is mainly in the retail sector, was steady for the year ended 31st December, 2001. The Hong Kong economy remained gloomy during the year, intensified by the 911 terrorist attacks on the US and a host of news on corporate layoffs. Weak performance in consumer spending led to a decrease in investment in shop spaces. Despite the difficult market situation, the Group did not encounter any problems in rental collection, as a majority of its tenants are companies and individuals of healthy financial background and solid credibility. After the year end, a shop unit owned by the Group was sold at profit and the transaction will be completed by April 2002.



## Management Discussion and Analysis *(Cont'd)*

### PROPERTY INVESTMENT IN MAINLAND CHINA

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 development project (the “Project”) in Shanghai, the Shanghai Court ordered the sale of certain floors of the Project with a gross floor area of about 16,000 square meters (the “Properties”) through public auction. As reported last year, the Group participated in the auction and took over the Properties. Part of the amount under the Award was utilised to satisfy the consideration of the Properties.

The Group entered into a settlement agreement in respect of the outstanding balance under the Award with one of the defaulting parties (the “Party”) in October 2001. Under the settlement agreement, the outstanding balance under the Award was to be satisfied by (i) cash repayment of RMB7.69 million; and (ii) an undertaking of the Party to settle on behalf of the Group all necessary expenses to effect the transfer of the legal title of the Properties to the Group at an aggregate sum of RMB15 million, which was agreed to be set off against the outstanding balance under the Award.

Out of the agreed cash settlement, RMB2 million was received before year end whilst the remaining RMB5.69 million (payment of which is guaranteed by third parties) was scheduled to be received by 30th May 2002. An amount of RMB2.54 million, representing the agreed interest on the Award was included in the settlement. The interest income was not recorded in current year as the Directors consider that it is more prudent to recognise the interest income upon receipt.

The transfer of the legal title of the Properties to the Group was completed in December 2001. It is the intention of the Group to repackage the Properties for sale in the retail market. In light of an encouraging prospects of the real estate market in Shanghai and the strategic location of the Properties, the Directors are optimistic about the investment returns on these Properties.

The Group’s other investment properties in Mainland China primarily comprise serviced apartments and detached houses located in Shanghai. For the year ended 31st December, 2001, the occupancy rates remained at a high level, resulting in a satisfactory income contribution to the Group.

### REAL ESTATE AGENCY SERVICES IN MAINLAND CHINA

The Group continued its downsizing exercise for its real estate agency operation during the year. As a result, the operating loss attributable to this operation was further reduced by 52% from 2000 to HK\$2.9 million in 2001. In the future, the Group will focus its efforts on the provision of block-based real estate agency services to increase its operation efficiency, thereby further enhancing the profitability of this operation.



## Management Discussion and Analysis *(Cont'd)*

### LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2001, the long term liabilities and shareholders' fund of the Group amounted to HK\$182,952,549 (2000: HK\$152,508,083) and HK\$492,818,952 (2000: HK\$527,164,137), while the percentage of the former to the latter was 37% (2000: 29%). Meanwhile, the current ratio of the Group increased to 1.39 from 1.06 of last year.

The Group's borrowings were mainly denominated in HK dollars and US dollars. As at 31st December, 2001, cash and bank balances of HK\$65,893,211 (2000: HK\$39,849,773), and certain land and buildings with an aggregate book value of HK\$493,207,463 (2000: HK\$481,704,073) were pledged to banks to secure banking facilities amounting to HK\$444,048,181 (2000: HK\$415,333,000). The aggregate amount of banking facilities available but not yet utilized by the Group was HK\$206,863,413 (2000: HK\$81,245,236).

Since the Group usually conducts its business transactions in HK dollars and US dollars, there seldom arises any need for the Group to make use of any financial instruments for hedging purposes.

### STRATEGIC OUTLOOK

Now that Mainland China has become a member of the WTO, and Beijing has secured the hosting right to the 2008 Olympic Games, the business environment in Mainland China has never been as promising as now. In view of the State's policy to encourage house buying by private individuals and the increasing demand for residential property in the country, the Group is optimistic about its investment returns in the residential property market. With regards to the Group's existing portfolio, it will constantly evaluate their individual potentials and actively manage these assets with a view to maximize the overall returns.

Yet, China's accession to the WTO is also expected to bring about more intense competition in the mainland animal feed market, the major market of the Group. In view of the more difficult business environment, and in a bid to diversify its business risk, including that associated with the fishmeal market, the Group intends to keep up its efforts to diversify its trading operation by extending its reach to other products.

In respect of Hong Kong, local conditions largely depend on the global economy. With signs of recovery emerging in the US, it is widely expected that the Hong Kong economy will also pick up, especially in view of increased business activities between Hong Kong and Mainland China. The Group will closely monitor the market situation with regard to its investments in the Hong Kong property market. In particular, it will adjust its renewal offers in an appropriate manner to those tenants of expiring leases to fully realize the value of the property concerned.