

BUSINESS REVIEW

As a result of the Group's strenuous efforts during 2001 to strengthen and expand its core businesses in the trading and distribution of fresh and live foodstuffs, re-acquiring the Zhongshan tinplating operations, as well as improving cost and financial control in all areas of operation, the Group achieved good progress toward stabilizing and fortifying the Group's overall business structure. Live and fresh foodstuffs distribution operations remain the Group's largest and most profitable business, and has become one of the important business segments for development and expansion. The Group's severe loss-making supermarket business operations had been discontinued in the first half of 2001, due to prolonged indebtedness and a glooming future. Joint ventures in tinplating and industrial property development and leasing were re-acquired in December 2001 to provide new and stable income resources for the Group. Businesses in pig farming and feed production saw increases in turnover, but suffered from diminishing margins due to rising cost of raw materials and provision for doubtful debts amounting to HK\$1.9 million. Profit attributable to shareholders for the year ended 31 December 2001 was HK\$51.5 million. Stripping out the net gains on Restructuring for 2000 and 2001 (amounting to HK\$1,433.3 million for 2000 and HK\$48.4 million for 2001), the profit attributable to shareholders for the year ended 31 December 2001 would have been reduced to HK\$3.1 million, a significant improvement against the actual loss attributable to shareholders for the year ended 31 December 2000 of HK\$567.2 million.

LIQUIDITY AND FINANCING RESOURCES

As at 31 December 2001, the Group maintained cash balance of HK\$228 million, representing a 100.5% increase over the cash balance of HK\$113.7 million as at the year end date of 2000. The increase in cash balances was mainly attributable to the acquisition of Zhongyue Tinplate and Zhongshan Shan Hai, the issue of new shares during the year and the sharp reduction in finance cost payments.

Apart from a bank loan of HK\$4.2 million which was entered into by a 51%-owned subsidiary in 2000, the interest bearing borrowings of HK\$101.6 million and convertible notes of HK\$185 million, arisen in relation to the acquisition of the tinplate joint ventures in December 2001, the Group had no other borrowings during the year. Most of the Group's operations during the year were financed by internal resources.

As part of the consideration for the acquisition of the Zhongyue Tinplate and Zhongshan Shan Hai, convertible notes of HK\$185 million, bearing an annual interest rate of 4.5%, were issued in December 2001. The Group's interest bearing borrowings, together with the convertible notes, totalled HK\$290.9 million. Accordingly, the Group's gearing ratio (measured on the basis of total interest bearing borrowings and convertible notes over shareholders' fund) was 81.9% (gearing ratio as at 31 December 2000 not applicable as shareholders' fund as at year end was a deficit of HK\$523.6 million).

The Group restored itself to financial stability during 2001, paving the way for future business expansion. The Group took stringent measures with respect to the recovery of bad debt, write offs, provisions and account receivables. For the year ended 31 December 2001, the Group recovered certain doubtful debts, resulting in a write back of approximately HK\$8.8 million. The Group will continue to commit resources to its debt recovery program in the coming year.

OPERATIONS REVIEW

Live and Fresh Foodstuffs

The live and fresh foodstuffs operations recorded a turnover of HK\$1,260.7 million for the year ended 31 December 2001, a decrease of 12.7% from the previous year's HK\$1,444.4 million. Despite the fall in turnover, the business segment recorded an operating profit of HK\$17.6 million, representing a 61.2% increase against 2000's record of HK\$10.9 million. The rise in the operating profit was partly attributed to an operating loss of HK\$4.5 million incurred in 2000 by a subsidiary involved in the wholesaling of poultry and the provision for doubtful debts amounting to HK\$3.2 million in 2000. Excluding the effects from above, the operating profit for 2001 still recorded an increase of 1.8% over that of 2000. The improvement in profitability was also a result of vigorous efforts put into strengthening and developing the business segment during 2001, including securing new and more effective distribution channels, increasing product diversity, containing costs, streamlining personnel, improving service quality and enhancing efficiency. Even in face of difficult challenges, amongst which were two attacks by the H5N1 influenza, the Group maintained an operating profit comparable to that of 2000. In order to better prepare for the expected increase in market competition, the Group will further strengthen its business by introducing a greater variety of fresh and frozen foodstuffs into Hong Kong, exploring the market for business opportunities in the supply management, slaughtering, processing, packaging and distribution of a variety of fresh and frozen meats throughout Hong Kong and the PRC, with an emphasis on the large and potential Hong Kong market. Despite the challenge, the Group is confident that, with a persistently operated network, cost advantages, integrated resources, cordial relations with PRC suppliers and high-quality products, it will be able to capture a fair share of the Hong Kong market.

Trading

In the past, trading of the Group had suffered from limited client base and weak distribution networks. Along with the discontinuation of its supermarket operations, the Group established new trading channels, and put effort into developing the frozen meats business, expanding its role from a mere strategic distributor to include agency as well as direct selling. The Group's new frozen chicken business, for example, has now found its way into well-known supermarkets and restaurant chains. In addition, since September 2001, the Group began to explore the market for a variety of frozen foodstuffs, including pork, beef and food condiments. In order to prepare for further expansion of its distribution network, several agency and distribution rights in trading, agency and distribution have been obtained during 2001 for use in Hong Kong and Shenzhen. Turnover in trading was recorded at HK\$45.3 million, representing a slight decrease of 3.3% as compared with the HK\$46.9 million in the same period last year. The decline was partly attributable to the loss of the Group's supermarkets as a channel of distribution. Despite the drop in turnover, the foodstuffs trading business posted a plausible operating profit of HK\$1.3 million for the year ended 31 December 2001, as compared to the operating loss of HK\$2.6 million recorded for 2000.

The PRC's accession to the WTO is expected to generate increasing trading activities between the PRC and the rest of the world. The Group intends to capture such opportunities by continuing to source competitive products from the mainland, and expanding business network.

Livestock Farming and Feed Production

In the past year, the Group adopted certain measures to improve the operational efficiency of PRC livestock farms and feed production facilities, including automation of farms, modernization of their management and a tightening in financial control. The livestock farming and feed production business recorded a turnover of HK\$189.6 million for the year ended 31 December 2001, representing a year-on-year increase of 13.4%. However, operating results for the year ended 31 December 2001 recorded a loss of HK\$1.2 million as compared with a profit of HK\$3.9 million for the year ended 31 December 2000. The drop in operating results was due largely to the rising cost of raw materials and the provision for doubtful debts amounting to HK\$1.9 million. Because the Group expects continuing price pressure on the profit margins of this business segment, the Group will strive to strengthen cost control and to improve product quality.

Tinplating and Industrial Property Development

On 22 December 2000, the Company disposed of its tinplating and industrial property development businesses to an assets management company as a condition of the Restructuring. On 3 December

2001, the Group re-acquired the two joint ventures to enrich the business foundation and supplement the operating income. The Board is confident that these high quality businesses will offer substantial support to the financial, operational, and profit stability of the Group going forward.

The rise in living standard and a growing domestic market for processed foods in the PRC poses a favorable business environment for the Group's production of tinplates and other materials used for food canning and beverage packaging. The Board is confident that the tinplating operations will create complementary values to and synergies with the Group's businesses in foodstuffs provision. The new operations are also expected to make important contributions to overall Group profitability going forward. With respect to industrial property, accession to the WTO is expected to further industrial development in the PRC. The Group intends to capture these opportunities by strengthening its competitive advantage in low cost production of tinplates through economies of scale and establish its market position as a competitive industrial property developer and lessor in the province.

Supermarkets

The Board resolved last year to cease providing financial support to the loss-making supermarket operations and the decision proved to be a suitable and prudent one. Guangnan (KK) Supermarket Limited, which was 70%-owned by the Group and engaged in supermarket operations in Hong Kong, and Guangdong Guangnan Tianmei Food Development Company Limited, which was 55%-owned by the Group and engaged in supermarket operations in Guangzhou, were respectively petitioned for a winding up by their largest creditors in June and July 2001. After cessation of supermarket operations in 2001, turnover and operating loss for this business were reduced from approximately HK\$708.8 million and HK\$125.5 million in 2000 to approximately HK\$276.9 million and HK\$16.8 million in 2001 respectively. Having divested itself of these operations, which had incurred continued losses in the past, the Group can more effectively control risks and concentrate on developing more profitable distribution channels for its products.

EMPLOYMENT, TRAINING AND DEVELOPMENT POLICIES

The total number of employees as at 31 December 2001 was approximately 879, of whom 65 were based in Hong Kong and 814 in the PRC.

The Group continues to recognize the importance of human resources to its success and hence, remuneration is maintained at competitive levels with share options granted to members of the senior and middle management, and discretionary bonuses payable on a merit basis.

In order to retain capable staff, the Group assigns a Compensation Committee to be responsible for and 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. Throughout the year under review, three compensation committee meetings were held to explore into relevant issues.

CHARGES OF GROUP ASSETS

Certain land and buildings of a 51%-owned subsidiary in the PRC, namely Dongguan Guangnan Stock Development Co. Ltd. ("the Subsidiary"), with gross carrying amount of HK\$10,373,000, have been pledged to a bank for a loan of HK\$8,480,000 granted to a minority shareholder of the Subsidiary. A provision of HK\$10,373,000 has been made in the financial statements.

CONTINGENCIES

As at 31 December 2001, there was a contingent liability at a balance of approximately HK\$2.3 million in respect of a guarantee given to a bank to secure banking facilities granted to an associate of the Company.

PROSPECTS

After a year of hard work, the Group has achieved satisfactory progress with respect to various aspects including the cessation of its loss-making operations, the development of high-potential business segments, the increase in cashflow and improvement in its financial position, laying the foundation for stable and progressive growth. The Group will remain prioritized on developing its live and fresh foodstuffs segment and the related trading business, with an emphasis on strengthening its client base and opening up trading distribution network. The Group will also exert great efforts in raising the productivity and turnover of Zhongyue Tinplate, which is expected to make very significant contributions in terms of income and synergy effects. Finally, there will be continued control measures on cost and management operations, including performance review and analyses, and streamlining of operations with an aim to enhance Group profitability and to reinforce its market position. With an improved net asset base and financial position, the Group will continue to make keen and prudent exploration into new investment opportunities to further business growth going forward.