

*Notes:*

- (i) Loan interest income was charged to the Group's jointly-controlled entities on loans advanced to those jointly-controlled entities during the period at interest rates ranging from 2% to 7.62% per annum.
- (ii) Loan interest expenses was charged by the Group's jointly-controlled entity on a loan advanced to the Group during the period at a rate of 2.875% per annum.
- (iii) Loan interest income was charged to an associate on loans advanced during the period at a rate of 7.344% per annum.
- (iv) Rental expenses for a director was paid to a company controlled by him. The monthly rental of HK\$83,000 was calculated by reference to open market rental.

## **12. Approval of the interim financial report**

The condensed interim financial statements were approved and authorised for issue by the Board of the Company on 9 September 2002.

## ***Management Discussion and Analysis***

### ***Business Review and Prospects***

As the business environment for bulk commodity trading remained poor, the Group's import and export trading business were severely affected, causing the turnover reduced to HK\$70,816,000. During 2002, the Group has been gradually shifting its resources and focus towards its more promising activities such as retail business. Meanwhile, the Group also commenced its plan to develop micro-bio fertilizers for agricultural use. To further improve its operating results, the Group has made tremendous efforts to control its operating cost and reduced its operating expenses - by as much as 40% as compared to last year. A significantly smaller amount was also seen in the provision and write-off compared to previous period.

#### *Retail*

The Group's retail business in Shanghai area has enjoyed a high rate of expansion, and rapidly approaching maturity. Assuming no unexpected incidents occurred, hypermarket sales for the year is expected to reach RMB2.5 billion, and operating profit is expected to be doubled as compared to last year. The Group's hypermarket operation is becoming one of the leading operators among the peer group in the region. The Group's retail activities have also expanded to areas outside Shanghai. Currently, feasibility study is

being made on setting up a new operation in the Southwestern provinces of China. Given the promising development, the Board expects a constructive progress report to shareholders in the coming year. The China Retail Fund (managed by "AIG Investment Corp. (Asia) Limited") (CRF), the Group's hypermarket project partner, has agreed to make further capital investment in the hypermarket project. Moreover, the Group is now in discussion with its Partners regarding possibilities to raise additional capital for the hypermarket project in the capital markets including listing possibility.

In order to achieve diversification in different retail business format, the Group continues to develop its network of small convenience stores in major cities that have growth potential. Different degrees of participation in retail business were made in Beijing, Shanghai and Guangzhou.

Re-organization process is underway for the Guangzhou convenience stores business (The business is jointly operated by the Group, CRF and TLC Beatrice (TLC)). The Group, CRF and TLC are planning to inject fresh capital to re-vital the convenience store operation in Guangzhou.

In Beijing, the convenience store operated by the Group, CRF and TLC is expanding at a very rapid pace. The Group is working vigorously to enlarge the existing store network. Under the present plan, and in order to attain economy of scale and operation efficiency, the Beijing convenience store operation will establish at least 10 times more outlets within 2002 as compared to the number of outstanding stores in 2001.

Regarding the entrance of convenience store operation in Shanghai, the Group and CRF are engaged in a possible joint venture discussion with a well-established local convenience store operator. The Group expects to reach agreement with the Shanghai Partner and to participate in Shanghai convenience store operation by the end of this year.

#### *Micro-organic fertilizers for agricultural use*

The Group's Taicang Huifeng Chemical Fertilizer Co Ltd (Taicang), [太倉匯豐化肥廠], is mainly engaged in the processing of chemical fertilizers and has all along been making profits. In the past two years, Taicang has taken advantage of the organic agriculture development in Mainland China, and developed its own brand of micro-bio compound fertilizers (A fertilizer that has both non-organic chemical element and micro-bio element) for the organic-produce producers. Taicang has successfully promoted this new product and it was well accepted by the end-users.

In 2002, as encouraged by the environment protection policies in China as well as the domestic and overseas demand for organic agricultural production, the usage of micro-bio fertilizers has been increasing. Currently, demand for micro-bio fertilizers is seen in all parts of the China, leaving ample room for growth opportunity. Reacting to the prevailing situation, the Group is seeking cooperation with a bio-technology company which supplies micro-bio materials to Taicang for manufacturing of the micro-bio compound fertilizers, thus to ensure a steady supply of raw materials. The Group will devote more resources to promote the sales of micro-bio compound fertilizer through its nationwide sales network.

#### *Trading*

Bulk commodity business activities, including the import of chemical fertilizers and agricultural products to PRC, are halted in mist of the uncertainties brought by China's entrance to the WTO. In addition, trading risk is growing higher as the commodity market become more transparent. Traditional trading companies all need to reposition themselves to cope with the new challenge, hence to re-adjust their respective positions and roles. With years of trading experience and a comprehensive distribution network in China, the Group believes that it will continue to play an important role in trading and distribution of fertilizers and agricultural products as opportunities arise. Since last year, the Group has been studying the possibility to participate and engage in the domestic market in a more in-depth way, and has strategically reposition and structure its distribution and sales network in PRC.

#### **Liquidity and Financial Resources**

The Group, as usual, maintained sufficient cash flow and a solid financial position. In the first half of 2002, the Group maintained a cash reserve of HK\$100 million and had a near-zero indebtedness, with a current ratio of 8.58. Despite the aggressive strategy in investment and business development, the management of the Group adopted a highly prudential approach in financial management. As the cash balance of the Group is primarily dominated in US dollars, the Group has no significant exposure to foreign currency fluctuations. As at 30 June 2002, the Group has no contingent liabilities.

#### **Employee Information**

As at 30 June 2002, the Group employed approximately 20 full-time staff. The Group's employment policies are formulated on the performance of individual employees and are reviewed annually. The Group has adopted a performance bonus scheme for its employees, under which bonus will be paid based on the Group's profits and individual performance of employees. Social and medical insurance coverage as well as access to a provident fund scheme is offered to our employees in different locations.