Management Discussion and Analysis

The Group made a turnaround to profit for the year ended 31st December, 2002, recording a profit attributable to shareholders of HK$7,251,559 against a loss of HK$35,946,283 last year. The profit was generated mainly by our property arm, which sold two investment properties in Hong Kong at a substantial gain of HK$41,102,074 while enjoyed stable rental income from its property portfolio. Other contributory factors to the bottom line included the reduction in administration expenses due to tightened cost control, and the decrease in finance costs helped by lower interest rates.

The turnaround however was eclipsed by two major negative factors. The trading operation continued to fall victim to a sporadic supply of fishmeal (our primary trading commodity), with sales dropped by 2.9% from last year – which largely accounted for the 3.3% decline in the Group's total turnover to HK$676,710,295. Added to the plight was a squeeze in profit margin; together they hammered a loss on the trading operation.

Another major factor that dragged our performance related to a legal claim by a third party against one of our subsidiaries. The Group lost its case even though an attempt was made to appeal the case to the High Court. The Group had already settled the Judgment Debt including interest and is still required to pay the legal cost of HK$1,500,000 to the third party. Full provision of the legal cost has been made in the Group's accounts for the year ended 31st December, 2002.

Details of the performance and outlook of the Group's operations are analyzed below.

TRADING OPERATION

The volatile and irregular pattern of fishmeal supply from Peru, the major exporter of the commodity, dealt a severe blow to the Group's trading operation. To stem decline in fish catch at Peru waters, the Peru government imposed a fishing ban which was extended for a much longer time than expected.

While the prolonged fishing ban should yield long-term benefits to the trade, the short-term impact has been adverse. As fishmeal supply shrank, base prices increased. Theoretically the increase can be transferred down the chain, as demand for fishmeal in the China market is indeed growing. Yet the selling price has been under tremendous pressure due to the reduced protein content of the fishmeal, severe competition among traders, and the increasing shrewdness of the buyers. As a result, the Group's trading operation suffered a loss of HK$13,336,185 for the year ended 31st December, 2002, with turnover declined by 2.9% to HK$652,793,404. The Group is taking active measures to improve the performance of the trading operation by diversifying its products and sales initiatives in the China market, such as increasing the import of tapioca (an animal feed with high starch content) from Thailand to China.

As said, the fishing ban should have positive effects in the long run. Quality of the fish will hopefully improve, and the expected rise in harvest should drive down base prices. More importantly, the growing wealth of the Mainland Chinese is making seafood more affordable and preferable. As more Chinese enterprises move into fish and other aquatic farming, demand for fishmeal is expected to grow stronger. The Group will continue to diversify its product range and sales initiatives in China to seize opportunities.

PROPERTY INVESTMENT IN HONG KONG

During the year, the Group sold two investment properties in Hong Kong at a substantial gain. The disposal represents the Group's continuous efforts to enhance its investment property portfolio and to realize capital for opportunities of higher returns. As for the Group's remaining investment properties in Hong Kong, they continued to enjoy high occupancy and stable income, with no problem encountered in rental collection. Looking ahead, the economic outlook of Hong Kong remains cloudy. Consumer confidence may further deteriorate due to the rising threat of unemployment and the need to shoulder higher expenses to help resolve the budget deficit. As such, retail property tenants may experience greater difficulties, which in turn will put pressure on rentals. Hopefully, the continual increase in Mainland tourists could provide some relief, and retail spaces at prime shopping districts such as those owned by the Group should fare more favorably. The Group will continue to adopt an appropriate strategy to maximize the returns from its Hong Kong investment properties.

PROPERTY INVESTMENT IN CHINA

The properties in Jing An District in Shanghai, of which the Group obtained legal title in 2001, have commenced sales last December. Comprising 50 units, the well-furnished luxury apartments are targeted mainly at foreign businessmen. Market response to the sales launch has been positive, and a high number of potential buyers have taken site visits. After the year end and up to date, approximately 20% of the units have been sold at an average price of RMB12,800 per square meter, which is at the upper range of Shanghai's high-end residential market. The Group looks forward to more sales in the coming months. The settlement agreement on the properties previously entered with one of the defaulting parties was fully enforced, and the Group received the last payment of deposit receivable on schedule.

The residential sector in major Chinese cities has been a hot spot in recent years. Shanghai has particularly benefited as the city marches forward to restore its former glory as an international financial hub and to further develop into a new and high technology center. Huge amount of foreign investors looking for a piece of the action, coupled with more new arrivals of foreign businessmen in need of decent residence and greater house spending from the better off locals, all provide strong and solid support for the market. The consensus suggests that the Shanghai residential market will still have much room for growth. Yet concerns that a bubble may be forming in the sector should not be overlooked. While the Group is seeking for opportunities to increase its presence in Shanghai, a prudent approach centering on the right projects at right prices will be adopted.

Apart from the Jing An properties, the Group also holds investment properties mainly in Shanghai. Comprising largely service apartments and detached houses, these properties continued to contribute satisfactory income to the Group during the year under review.

REAL ESTATE AGENCY SERVICES IN CHINA

Despite a turnover decline of 34%, the loss amount of this operation was narrowed by 42% to HK$1,683,883. The loss was mainly a result of the transition that took place in the restructuring of the operation. The shift of focus to providing block-based real estate agency services and building management services is beginning to pay off, and a number of new projects are under discussion. The Group will continue to make improvements for the operation, which enjoys favorable prospects in view of the booming China property market.

LIQUIDITY AND CAPITAL RESOURCES

As at 31st December, 2002, the long term liabilities and shareholders' fund of the Group amounted to HK$210,879,396 (2001: HK$180,971,567) and HK$453,154,949 (2001: HK$492,818,952), while the percentage of the former to the latter was 47% (2001 : 37%). Meanwhile, the current ratio of the Group increased to 2 from 1.39 of last year.

The Group's borrowings were mainly denominated in HK dollars and US dollars. As at 31st December, 2002, cash and bank balances of HK$62,296,200 (2001: HK$65,893,211), and certain land and buildings with an aggregate book value of HK$442,089,378 (2001: HK$493,207,463) and properties held for resale of HK$92,280,674 (2001: nil) were pledged to banks to secure banking facilities amounting to HK$388,225,788 (2001: HK$444,048,181). The aggregate amount of banking facilities available but not yet utilized by the Group was HK$107,261,707 (2001: HK$206,863,413).

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

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2002, the total number of employees of the Group was 140 (2001: 125) with staff costs amounting to approximately HK$10,735,831 (2001: HK$11,466,669). Remuneration policies are reviewed annually by the management. Remuneration packages, including share options, are structured to take into account the comparable level of the market.

Pursuant to the Employees Share Option Scheme approved by the shareholders on 29th March, 1993, the Group had granted 12,180,000 share options to the directors and employees at an exercise price of HK$0.94 per share which can be exercised between 2nd September, 1993 to 1st September, 2003.

STRATEGIC OUTLOOK

There are indications that the Peru government will not prolong the fishing ban to an extreme, as the ban hurts local fisheries as much as fishmeal traders like us. As said above, the ban should bring long-term benefits to all parties concerned. However, the Group is not adopting a wait-and-see approach, and is vigorously diversifying its products and sales initiatives in China. This strategy is aimed not only to reduce the reliance on individual products but more importantly to increase the profit margin. The management is convinced that the strategy will contribute to better days ahead for the trading operation.

The economic conditions in Hong Kong are not expected to improve significantly in the foreseeable future. For us, the comfort is that the retail property sector should continue to be least hit compared with other property sectors. However, any worsening of the economy will increase the pressure on rentals, and lower rentals might be the price to pay for sustaining occupancy. The Group will continue to keep a close watch on the situation and adopt an appropriate strategy.

The outlook for China remains very positive. Shanghai is particularly the case given its unique historical advantages and the solid progress it has achieved. With long presence and strong experience in Shanghai, the Group is in an advantageous position to capture the favorable opportunities. The Group's focus on Shanghai has proved to be a sound strategy, and is expected to bring good returns in the coming years.