

BUSINESS REVIEW AND PROSPECTS

Since the Group started its retail business in 1997, its investment in this sector has been rising steadily. The year 2002 was no exception, in which the Group joined hands with the China Retail Fund (CRF) to enlarge the investment in the chain hypermarket operation in Eastern China region, while at the same time increased the number of chain convenience stores in China. The success of these investments has positioned the Group at the leading edge among similar retailing businesses in China. The Group was also engaged in trading business during the year. However, in view of the numerous trading barriers and the limited room for development of end-to-end business in bulk commodity trading, the Group followed the mainstream trend - gradually withdrew resources from the trading business for reallocation to other more prospective businesses. Generally speaking, the Group's resources were mainly directed towards its retail business during 2002, which has brought fruitful results.

RETAIL OPERATION SITUATIONS

The Eastern China region chain hypermarket project jointly invested by the Group, CRF and the Group's business partners in China consists of 12 hypermarkets in Eastern China region, and is intended to be expanded to include 20 hypermarkets in 2003. In the coming year, the hypermarket project will also move forth to implement the plan of multi-provincial operations.

Currently, the operation of the Eastern China region hypermarket project has gradually matured in all respects including merchandising procurement, rebate negotiation, logistics management, sales and marketing, as well as operation management. These developments have formed a solid foundation for the Group's future retail business expansion plan. In addition, the analyses of operation data such as gross profit, EBITDA (operating profit before tax, interest, amortization and depreciation), operating cost ratio and management fee ratio of the hypermarkets, all demonstrated that the hypermarket project is matured and is capable of generating profits.

In view of the continuous improvement in the commercial value of the hypermarket project, parallel to the injection of new development capital with CRF in 2002, the Group also explored the possibility of adopting new investors for accelerating the development of the China Eastern Hypermarket project. At present, the Group is discussing with a number of interested investors about their participation through equity injection into the hypermarket project. Further details will be disclosed to the shareholders by the Board as when appropriate.

Apart from the hypermarket project, the Group also directed more resources into the chain convenience store project in Northern China region. Currently, there are 21 convenience stores in Northern China region, and it is planned that the total number of convenience stores will exceed 200 in 2003 through acquisition, merger and the opening of new stores. In the past, attaining positive operating results from the operation of the chain convenience stores project was restrained by the limited scales and numbers of the stores. However, since mid-2002, the operating results were drastically improved by the accelerated opening of additional stores, in particular, there was remarkable improvement in merchandising rebates, gross profit margin and other income. It is estimated that following the expansion of the existing store network, the Group's chain convenience stores' operating result will attain international standards.

At present, the Group is conducting negotiation in respect of further investment in the chain convenience stores project with three other partners, including CRF, TLC Beatrice Inc., and a PRC investor. The parties have already agreed upon the principle elements of the proposal, signifying that aforesaid project expansion plan would be realized.

AGRICULTURAL FERTILIZERS BUSINESS

Although the Group's trading business is largely inactive, the Group maintained close contacts with agricultural fertilizers trading circle, and small volumes of trades have been conducted during the year. Meanwhile, the Group has keen interest in environmental-friendly organic fertilizers business, and investment will be made when opportunities arises. There is huge demand for fertilizers in China that amounts to 44,000,000 tonnes annually, in comparison to her 30,000,000 tonnes domestic production capacity and that of environmental-friendly organic fertilizers only accounts for less than 2%. As there were insufficient promotion efforts and a lack of demand, the price of environmental-friendly organic fertilizers in China was approximately 40% lower than those developed countries. Furthermore, there is also undersupply situation in many advanced agricultural countries due to high consumption rate of environmental-friendly organic fertilizers. These irregular supply and demand patterns reflect that there is enormous business potential waiting to be explored.

2003 BUSINESS AGENDA

The Group will continue to focus on its retail business, aiming to build a solid foundation in the industry. The Group's target is to transform itself from retail business investor into a chain store operator, or even into a retail management services provider. On the other hand, subject to the overall development of the Group's retail business in the coming year, additional capital will be raised as appropriate, and in accordance with the actual development of the projects. The Group will also consider allowing in new investors into its retail project at reasonable price ratio.

With extensive business connections and marketing network built up over the years in the trading industry, the Group has ample business opportunities. However, given the incessantly changing modes of the bulk commodities trading business, and the advancements in information technology, the market are becoming more transparent than ever. Since price sensitive information is becoming easily available to all participants, it in turn led to a drastic decrease in the profit margin generated from possessing of vital trading information. Nowadays, the profit margin is so low that it is quickly approaching the cost of doing business transaction. As a result, the opportunity for high margin business in bulk commodity trading is disappearing quickly. In the coming years, the Group would take cautious measures to pursue trading opportunities by doing business only with return that justify the risk and will eventually move away from focusing mainly on its commodities trading activities.

Lastly, the Group will continue to explore investment opportunities in the research and production of environmental-friendly organic fertilizers, and will invest in related projects as appropriate.

FINANCIAL POSITION

The group maintained a cash reserve over of HK\$80 million and had a near-zero indebtedness, with a current ratio of 7.47. As the cash balance of the Group is primarily dominated in US Dollars, the Group does not have any major exposure arising from exchange fluctuation. Moreover, the Group has no contingent liabilities as at 31 December 2002.

EMPLOYEE INFORMATION

As at 31 December 2002, the Group has 14 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.

On behalf of the Board

Cheung Siu Lam

Chairman

Hong Kong, 23 April, 2003