



Management Discussion and Analysis

OVERVIEW

For the year ended 31st December, 2003, the Group incurred a loss of HK\$20,142,530 compared with a profit attributable to the shareholders of HK\$7,257,274 last year which was resulted from a substantial gain of over HK\$41 million recorded for the sales of two investment properties in Hong Kong.

The Group's performance in other business activities was in general much better than that of last year. The economy in China was generally in a healthy state. The economy in Hong Kong started its recovery cycle in the later half of year 2003 especially after the relaxation of travel restriction for mainland tourists. Property investment business continued to be a successful profit generator during the year. However, owing to the unsatisfactory performance of trading operations, the Group still recorded a loss for the year ended 31st December, 2003.

TRADING OPERATION

During the year, with the Group's successful approach adopted for its sales strategy, trading operation recorded a turnover of HK\$734,099,042 which was 12.5% higher than that of last year. However, as the outbreak of Severe Acute Respiratory Syndrome ("SARS") brought major interruptions to transportation to various cities of China, animal feed business was particularly affected. In addition, the war led by the United States against Iraq also pushed up oil prices causing increase in our freight charges. Increase in such costs caused the trading operation to incur a loss of HK\$9,654,995. The Group will continue with its current strategy of finding more sales outlets.

PROPERTY INVESTMENT IN HONG KONG

In the first half of year 2003, the economy of Hong Kong remained weak with high level of unemployment. Outbreak of SARS caused further deterioration to the economy. The Group had to respond with flexible measures to requests from tenants for rental concessions. Turnover and segment profit derived from the Group's property investment in Hong Kong was HK\$12,496,531 and HK\$8,880,482.

Rental and price of properties started to escalate during the latter part of the year. The relaxation of travel restrictions for mainland tourists helped to boost the economy of Hong Kong and served as a factor for the gradual revival of the property market.



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PROPERTY INVESTMENT IN CHINA

Of the total 48 residential units of Merry Tower Apartments, 12 were sold during the year, with a profit of HK\$7,232,267 recorded.

The economy in China has shown a sustained growth pattern, with the strong growth in population and Gross Domestic Product in China. The Group's property investment in China has benefited from such growth and contributed a turnover and profit of HK\$29,635,073 and HK\$2,622,093 respectively for the year ended 31st December, 2003.

REAL ESTATE AGENCY SERVICES IN CHINA

The loss for the year incurred by this operation had been reduced compared with that of last year. The decline in turnover was resulted from the delay in discussions on new projects caused by the outbreak of SARS.

STRATEGIC OUTLOOK

With a poor catch in December 2003 and the fishing ban imposed by the Peruvian government in early 2004, the price of fishmeal has continued to stay high. After SARS, birdflu and also with the improvement in economy in China, the citizens there have a growing appetite for seafood leading to the increasing demand for quality fishmeal in China. The Group's strategy is to find appropriate means to further penetrate available markets in China.

In January, 2004, the Chief Executive of Hong Kong delivered his 2004 policy speech and it was mentioned that many indicators point to a V-shaped rebound of the Gross Domestic Product of Hong Kong after the outbreak of SARS and it is expected that deflation will disappear in 12 to 18 months. Joint initiatives between the Chinese and Hong Kong governments, such as the implementation of the investor residency scheme, the relaxation of travel restrictions for mainland tourists, the Closer Economic Partnership Arrangement, the opening of Disneyland in 2006 and the infrastructure and tourism projects such as the Zhuhai-Macau-Hong Kong bridge are expected to contribute to the growth of Hong Kong's economy in future. We believe that with retail business likely to benefit the most directly, there would be improved demand for leasing of retail shops thus improving rental income for retail shops in Hong Kong in general.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2003, the long term liabilities and shareholders' funds of the Group amounted to HK\$223,154,761 (2002 as restated: HK\$232,425,401) and HK\$421,915,799 (2002 as restated: HK\$400,975,307) respectively which the percentage of the former to the latter was 53% (2002 as restated: 58%).

The Group's borrowings were mainly denominated in HK dollars and US dollars. As at 31st December, 2003, cash and bank balances of HK\$62,176,200 (2002: HK\$62,296,200), and certain land and buildings with an aggregate book value of HK\$535,601,978 (2002: HK\$442,089,378) and properties held for resale of HK\$53,663,562 (2002: HK\$92,280,674) were pledged to banks to secure banking facilities amounting to HK\$438,282,472 (2002: HK\$388,225,788). The aggregate amount of banking facilities available but not yet utilized by the Group was approximately HK\$86 million (2002: HK\$107 million).



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

EMPLOYEE AND REMUNERATION POLICIES

As at 31st December, 2003, the total number of employees of the Group was 144 (2002: 140) with staff costs amounting to HK\$10,225,468 (2002: HK\$10,735,831). 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 could be exercised between 2nd September, 1993 to 1st September, 2003. No option had been exercised under the Scheme and all outstanding options were lapsed as at 1st September, 2003.