



Management Discussion and Analysis

GENERAL TRADING

Oil prices kept rising during much of the time in 2004, driving freight costs up which in turn affected the Group's trading operations. Fortunately, the effect was not serious and was in fact out-weighted by the favourable effect of the increase in demand for the Group's products.

Intermittent instances of bird flu in various areas of Asia have changed people's choice of food. Seafood is now more preferable than poultry in the menu of many Chinese. This shift in taste is also backed by the improved economic conditions of most families in major cities of the PRC. One consequence of the shift is the increase in demand for fishmeal which is an important component in the feeds of aquatic farming.

The Group has begun to set up its local fishmeal distribution network in the PRC market since 2002. Earlier attempts were not completely satisfactory. Learning from those experiences, the Group finally achieved a fruitful result in 2004.

Similarly, the Group embarked on the trading of tapioca in 2002 and this business began to bring profit to the Group in 2004. Besides being used as a feed of high starch, tapioca can also be used to make ethanol. During the year, four more provinces in eastern China joined the test run of ethanol gasoline, making the total number of participating provinces to nine. Ethanol gasoline is a substitute for gasoline, and is produced by blending 10% of ethanol with 90% of gasoline. The demand for tapioca expanded as the number of provinces participating in the test run increased.

PROPERTY INVESTMENT IN HONG KONG

The relaxation of travel restrictions for PRC individuals has brought about an extended rebound to the economy of Hong Kong. This had supportive effects on both the rental income and the valuation of the Group's properties, as they are mainly retail shops located at prime shopping districts usually crowded by tourists and/or local shoppers. In 2004, the Group's investment properties enjoyed a double digit growth in their aggregate valuation. At the same time, some tenancy agreements of the Group's investment properties were renewed with a two digit rise in the corresponding aggregate rental income.

PROPERTY INVESTMENT IN CHINA

The residential property market in Shanghai managed to sustain a healthy growth in 2004. The Group's apartment units in Merry Tower sold well at increasing prices throughout the year. Almost all the units had been sold at the end of the year. As detailed in the circular dated 25th November, 2004, the Group had purchased additional apartment units in Merry Tower for re-sale. These additional units are expected to be ready for marketing by the end of 2005.



Management Discussion and Analysis *(Cont'd)*

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December, 2004, the long term bank loans and shareholders' funds of the Group amounted respectively to HK\$137,842,663 (2003: HK\$185,024,802) and HK\$490,259,462 (2003: HK\$421,915,799), and the percentage of the former to the latter was 28% (2003: 44%).

The Group's borrowings were mainly denominated in HK dollars, US dollars and Renminbi. As at 31st December, 2004, in order to secure banking facilities amounting to HK\$558,332,728 (2003: HK\$438,282,472), the following assets were pledged to banks: cash and bank balances of HK\$7,946,935 (2003: HK\$62,176,200), certain land and buildings with an aggregate book value of HK\$543,173,874 (2003: HK\$535,601,978) and properties held for resale of HK\$31,669,474 (2003: HK\$53,663,562). The aggregate amount of banking facilities available but not yet utilized by the Group was approximately HK\$168 million (2003: HK\$86 million).

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, 2004, the total number of employees of the Group was 112 (2003: 144) with staff costs amounting to HK\$11,139,138 (2003: HK\$10,225,468). Remuneration policies are reviewed annually by the management. Remuneration packages are structured to take into account the comparable level of the market.