# Management Discussion and Analysis

## *Financial & Business Review*

The Group achieved a turnover of HK$141.0 million for the year ended 31 December 2004, representing a decrease of 52.4% over that of previous year. Profit attributable to shareholders was HK$11.8 million, representing an increase of 14.6% from the previous year. The growth in net profit was mainly attributable to: (i) improvement on cost structure; (ii) continuous growth by expansion and market share; (iii) realization of previous investment.

### Financial Highlights

| | **2004** | 2003 |
|---|---|---|
| | **HK'000** | HK'000 |
| Turnover | **140,953** | 296,151 |
| Operating profit | **8,293** | 28,241 |
| Net profit | **11,842** | 10,337 |
| Basic EPS | **HK$1.36 cents** | HK$1.41 cents (restated) |

### Retailing Business

The Group's investment in PRC retail business consists of hypermarket and convenience store. Hua Lian GMS Shopping Center Company Limited ("Hualian GMS") was jointly established by the Group through its jointly-controlled entities with the Hualin Supermarket Company Limited in 1998. At the end of 2004, the total number of hypermarkets operated by Hualian GMS was 25, in which 16 were located in Shanghai and other 9 were located in central and east northern China. Net profit contribution derived from Hualian GMS to the Group amounted to approximately HK$4.0 million. The operating result of Hualian GMS is expected to improve significantly in the coming years, which will post an encouraging contribution to the Group's future profitability.

Hualian GMS

# Management Discussion and Analysis (con't)

Regarding the Group's convenience store project, under its jointly-controlled entities, the number of outlets has been increased to about 80 stores in central China. With the improvement of general living standard leading to higher consuming power, the Group considers the growth potential of convenience store operation is high and will actively seek for a further increase in the investment scale and shareholding proportion in its convenience store project as permitted by the relevant foreign investment policies and laws in the PRC.

Hi-24 convenience store

### Fertiliser Business

Turnover on fertiliser trade amounted to approximately HK$140.5 million, a drop of 52.4% as compared with the corresponding figure in previous year. Due to keen competition, leading to a substantial cut in margin, the Group did not intend to expand the fertiliser business from current operation. The development of environmental-friendly organic fertiliser business was at its infancy project stage and did not result in any profit contribution for the year 2004. Nevertheless, the business potential of the project was enormous and the Group will put sufficient resources for its future development.

## *Material Acquisition and Disposals*

Pursuant to a sale and purchase agreement and a supplementary agreement dated 1 September 2003 and 25 November 2003 respectively, a jointly-controlled entity of the Group disposed of 10% equity interest in the Hualian GMS at a consideration of RMB20 million to China Resources Vanguard Supermarket Co., Ltd. The transaction was completed on 16 January 2004. This disposal of 10% equity interest in Hualian GMS through the Group's jointly-controlled entity has contributed approximately HK$7.3 million to the Group's net profit for the year under review. The aforesaid jointly-controlled entity still holds 40% equity interest in Hualian GMS.

## *Business Plan in 2005*

It is the intention of the Group to acquire several outstanding state-owned famous brand name food production and distribution enterprises with long history in the PRC. The acquisition signifies the Group's further expansion on food distribution and modern logistic business. Net profit margin is expected to be improved by continuous enhancement of economies of scale and product and market consolidation. The capital required for expansion comes from internal sources of funding.

## *Financial Review*


Business symposium held by the Group

As at 31 December 2004, the Group maintained a sound financial position, with its net assets amounting to approximately HK$192.7 million (2003: HK$148.7 million), cash on hand amounting to approximately HK$125.8 million (2003: HK$91.5 million). The Group has consistently adhered to the prudent treasury policy. As at 31 December 2004, the Company had placed deposits with certain banks in the total amount of approximately HK$120.4 million. The Group also had listed & unlisted investment including marketable securities and short-term structured link-note in the total amount of approximately HK$3.3 million. Certain of the Group's properties with net book values of HK$11.5 million were pledged to secure general banking facilities. As at 31 December 2004, the Group has no bank borrowings. The Group's gearing ratio defined as total interest-bearing debt to shareholder's fund was 0% as at 31 December 2004 (2003: 0%). The Group's current ratio defined as total current assets to total current liabilities was 3.8 as at 31 December 2004 (2003: 2.6).

| | **2004** | 2003 |
|---|---|---|
| | **HK$ million** | HK$ million |
| Cash | **125.8** | 91.5 |
| Bank borrowings | **–** | – |
| Gearing ratio | **–** | – |
| Current ratio | **3.8** | 2.6 |

Administrative and other operating expenses for the Group in 2004 were HK$13.7 million, representing a decrease of 14.3% compared to that of 2003, due to continuous cost control measures adopted by the management. Share of after tax profits from jointly-controlled entities contributed approximately HK$2.5 million to the Group's net profit.

### Rights Issue

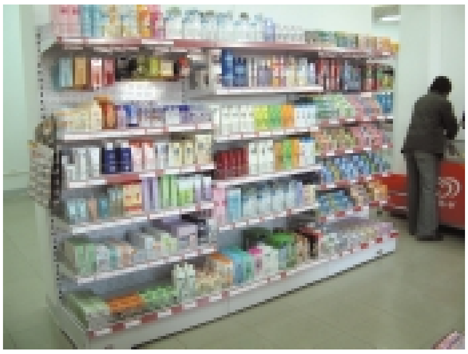
During the year under review, the Company had proposed a rights issue at HK$0.1 per share in the proportion of one share for every two existing shares held. As a result of the rights issue, the Company has raised approximately HK$33.9 million before expenses based on 338,625,779 rights share at a price of HK$0.1 per rights share. The cash expenses of the rights issue was approximately HK$1.8 million, out of HK$25 million from the net proceed of HK$32.1 million will be used for future investment purposes when opportunity arise and the remaining balance will be used for general working capital for the Group. As a result of the rights issue, the issued share capital of the Company increased from 677,251,557 shares to 1,015,877,336 shares as at 31 December 2004.

## *Internal Control and Risk Management*

The Group recognizes proper internal control is a critical success factor. To facilitate the efficiency and effectiveness of operations, the Group has implemented adequate measures to safeguard the assets and to ensure the shareholders' value is well preserved. For example, annual capital and expenditure budgets are formulated for the Board's approval and strict compliance are followed. Efforts are also devoted to ensure all operations are subject to periodic reviews. A task force in Beijing is established to focus on our project investment and control. Financial controls are implemented to ensure all risks arising from the Group's business are under timely and effective supervision. The internal control system will be reviewed by the Audit Committee and the Board regularly to take into account of ever changing business environment.

The trade receivables from our fertiliser trade customers are secured either by usance letter of credit issued by first class banks in China or by relevant physical cargo. Sales related to retailing business held by the Group's jointly-controlled entities are mainly on cash basis. As such the Group considers there is no significant credit risk exposure.

The majority of the Group's revenues, expenses and cashflows are denominated in RMB and HK Dollars. Assets and liabilities of the Group are mostly denominated in RMB, HK Dollars and US Dollars. As such, the Group has limited foreign exchange exposure. No instrument has been applied for hedging purposes during the year. Bills payable of the Group are charged at floating rate but are secured by usance letter of credit issued by our customers in China at the same maturity. The Group will only incur interest expenses when the maturity date is not the same. During the year, interest incurred related to bills payable was approximately HK$25,900. No instrument has been applied for hedging interest rate risk as the exposure is very small.



Hi-24 convenience store

## *Human Resources Management*


Hualin GMS's "Food Expo 2004"
co-organised with Bailian Group

As at 31 December 2004, the Group, excluding associated companies and jointly-controlled entities, had a total of 21 employees, 16 of whom are based in Hong Kong while 5 are stationed in the PRC. The Group continued to recruit graduates from well-known universities in the PRC, most of them were designated to our task force in Beijing to focus on providing consultation and guidance relating to strategic investment. The remuneration policies and bonus schemes of the Group are based on the performance of the staff and market conditions. Employee remunerations include salaries, allowances, medical benefits and mandatory provident fund. The Group also provides share options to employee according to their performance with an objective to inspire them in creating better results. It is important to attract and retain quality staff for the Group's continuing success. Total staff costs, excluding Directors' emoluments, for the year 2004 amounted to approximately HK$2.7 million. The Group continues to provide sufficient staff training and development.

## *Significant Investments*

There was no significant investment during the year.

## *Contingent Liabilities*

As at 31 December 2004, the Group had no significant contingent liabilities.