



# Statement from the Managing Director

## STATEMENT FROM THE MANAGING DIRECTOR

I am pleased to submit my report on the performance of Great China Holdings Limited (“the Company”) and its subsidiaries (collectively, “the Group”) for the year ended 31st December, 2005.

### BUSINESS REVIEW

The Group’s turnover for the year ended 31st December, 2005 was HK\$1,580,394,018, representing a rise of about 17.49% from that of 2004. Net profit was HK\$29,455,435, representing a drop of around 13.88% from 2004.

#### General Trading

Most aspects of the economy of China proceeded remarkably well in 2005 under the thoughtfully planned and carefully implemented macro economic measures, which seemed to have achieved many of their intended results. The worry about the formation of bubbles has been largely relieved, so has the worry about a severe downward adjustment.

The strong economy in China provided very good support to the demand for imported fishmeal throughout the year. On the other hand, the volume of fishmeal available for import into China was limited by events like Hurricane Katrina, which wiped out virtually all inventory of fishmeal in New Orleans, the single most important city for stocking fishmeal in the United States. It follows logically that the price of imported fishmeal in China continued to rise during most of the time in 2005.

The sea freight began to go down in the beginning of the second half of 2005. By the middle of the fourth quarter, the freight has dropped substantially. Nevertheless, the substantial drop was only capable of alleviating the price rise of imported fishmeal but not reversing the upward trend. Working against the continuous rise in price, our Group managed to expand further its fishmeal business, in terms both of amount and of tonnage.

For our tapioca chip business, though its turnover accounted for less than a quarter of that of the trading segment, it reported a 3-digit rise in 2005. The rise in profit was even better. As planned, the Group began to embark on the local distribution business in China in the second half of 2005. The volume involved was small, and it failed to bring positive contribution. The experience was not pleasant, but was somewhat within anticipation. The Group will try to learn from the failure and aim for improvements in the future.

#### Property Investment in Hong Kong

The aggressive and continuous rise in interest rates in 2005 seemed feeble in front of the bull in the property market. Although consolidation in prices and shrinkage in transactions are noted towards the end of 2005, the property market in Hong Kong recorded gains for the year as a whole. The Group enjoyed a fair share of the gains. Since most of the Group’s Investment Properties are retail shops located at prime shopping districts, the Group’s overall rental income achieved a double-digit improvement in 2005.



## Statement from the Managing Director *(Cont'd)*

As part of the effect of changes in accounting standards, the Group recorded a gain of HK\$31,824,000 relating to the revaluation of the Group's Investment Properties (some of which are located in China). The gain is included in "Other gains, net" in the income statement. This gain should be read in conjunction with the share of revaluation loss in respect of the Investment Properties (which are all located in China) of the associates amounting to HK\$6,708,000.

### **Property Investment in China (Excluding Hong Kong)**

The property market in Shanghai managed to stabilize during the second half of 2005, after some preliminary reactions towards the macro economic measures in the first half. Those reactions were within expectation, and they caused some pressure on property prices. The pressure did not have excessive influence on the Group's properties, which were all located inside the inner circle of the city where supply is limited and demand remains constantly firm. That being said, we have decided to postpone to 2006 the marketing of the upper floor apartments of Merry Tower, because we wanted to wait for the market to become clearer and more stable after it accommodates fully to the macro economic measures.

As mentioned in our interim report, the Group sold two apartment units in Shenzhen in the first quarter of 2005, generating a small profit.

### **Miscellaneous**

The Group incurred a realized exchange loss of around HK\$11,000,000 in the trading of non-deliverable forward contracts in the second half of 2005. The forward contracts were carried out after taking into consideration the value of the Group's properties and the sales revenues from the Group's local distribution business in China. The forward contracts were originally intended to be something similar to a loose hedge against the aforesaid assets and revenues.

## **PROSPECTS**

### **General Trading**

The prices of imported fishmeal in China have reached and broken record highs again and again in 2005. As strong as it may sound, but when put into a perspective of other commodities like crude oils and metals, the rise in fishmeal prices was not excessive and was very moderate indeed.

We believe the global demand for fishmeal has increased whilst the supply has remained unchanged or decreased slightly. Possible factors for the increase in demand include the continuous growth of the economy of the world, especially that of China, and the spread from Asia to Europe of the fear for bird flu. The fear changed people's choice of food, resulting in a drop in the consumption of poultry and a rise in aquatic farming products. The demand of fishmeal increased consequently because fishmeal is an important ingredient in the feeds of aquatic farming.



## Statement from the Managing Director *(Cont'd)*

As prices go up, volatility usually enlarges. Higher prices may also eventually shift the balance between supply and demand. All these mean additional risks to participants in the market. We are making every endeavour to ensure that we will swiftly and appropriately adapt to the higher prices, yet we understand we cannot totally immune ourselves from the negative effects of an overly volatile market. If the market really becomes abnormally volatile, there will inevitably be some unwelcome impacts on our results.

### **Property Investment**

In the statement released after its last meeting in 2005, the Federal Reserve no longer characterized its policies as accommodative. Most analysts interpreted this as that the Federal Reserve would no longer incline to continuously raising interest rates as before but instead would look more to the economic statistics for determining the future movements of the rates. Also of importance to our business is the uncertainty about the effect of prolonged high oil prices on the world economy. Some favourable factors, on the other hand, may be capable of counter-balancing the above uncertainties. Such favourable factors include the improvement in local unemployment rates and the influx of money caused by the almost-universal expectation of further appreciations of RMB.

We are not certain about the overall resultant impact of the above-mentioned factors on the Hong Kong property market. Nevertheless, since the property prices have risen a lot in the past two years, we tend to be more cautious as some adjustments or consolidations may appear anytime in the coming year.

For the property market in Shanghai, while there might be worries over some areas of the Chinese economy, but the general view is that the economy will maintain in 2006 a growth rate similar to those of the past few years. Against such a background, we expect that our Group will be able to sell the upper floor apartments of Merry Tower at satisfactory prices in 2006.

### **APPRECIATION**

On behalf of the board, I would like to thank all our colleagues for their diligence, dedication, loyalty and integrity. I would also like to thank all our shareholders, customers, bankers and other business associates for their trust and support.

**John Ming Tak HO**

*Managing Director*

Hong Kong, 28th March, 2006