



# 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, 2006.

### BUSINESS REVIEW

The Group’s turnover for the year ended 31st December, 2006 was approximately HK\$1,460 million while that of 2005 was approximately HK\$1,580 million. Profit for the year was approximately HK\$63 million (2005: HK\$29 million), representing a rise of around 114% from 2005.

#### General Trading

During the year, the General Trading segment achieved a substantial growth in operating profits, representing more than 60% increase in operating profit.

#### *Fishmeal Products*

The strong world economy, especially for China, was a supporting factor for the rise in the demand for fishmeal. As the supply of fishmeal is relatively stable, the trend of increased prices of fishmeal simply reflected the continued increase in demand in the past few years.

After the increasing trend of fishmeal price in the first three quarters, fishmeal price settled at relatively high level, though well off their peaks, in the last quarter of 2006. However, trading volume decreased at high price levels in 2006 because trade participants in China became more cautious and end-users reduced their consumption. The effect of increase in price was offset by the decrease in demand resulting in the Group’s sales of fishmeal staying at approximate same level of that of last year.

During the year, the Group actively participated in profitable fishmeal distribution channels in the PRC. Despite vigorous fluctuations in fishmeal price, our trading team has well positioned ourselves in the marketplace to purchase inventories at relatively low costs to achieve satisfactory operating profit in 2006.

Oil prices showed a downward trend in the second half of 2006. During the year, the sea freight charges from South America to China, especially for the container freight charges, recorded a remarkable downward adjustment, which contributed to the decrease selling expenses in 2006.

In August 2006, the Group acquired the remaining 5% interest in a subsidiary engaged in fishmeal trading business at a consideration of US\$2.86 million; thus, the Group has 100% control over the subsidiary. Details of this transaction is set out in the circular to shareholders dated 7th September, 2006.



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

### ***Tapioca Products***

We noted an upward tendency for tapioca chip prices towards the end of 2006, though such prices have remained relatively stable for most of the time in 2006. However, due to fierce competition, the profit margin of our tapioca products was further squeezed. In addition, sea freights from South East Asia to China have gone up, especially in the last quarter of 2006 which further increased our tapioca division's distribution cost. Due to above adverse factors, our tapioca division did not contribute much to the Group's operating result in 2006.

### **Property Investment in Hong Kong**

As detailed in two circulars to shareholders dated 20th June, 2006 and 18th October, 2006, respectively, our Group entered into agreements for the disposal of a residential property in Lantau Island in Hong Kong and another residential property in Canada with attributable profits of approximately HK\$3 million. The Group has successfully renewed the tenancy agreements of some of its investment properties at market rates in 2006 to enhance the property rental income. This helps to increase the Group's rental income by approximately 11% compared with that of last year.

The recovery of the economy in Hong Kong has led to a full scale recovery in retail business and the increase in rental rate of commercial units located in prime shopping districts was readily accepted by existing and potential commercial tenants, this also helped the valuation of these properties. In 2006, there is a gain of around HK\$22 million (2005: revaluation gain of approximately HK\$32 million) from revaluation of investment properties in Hong Kong.

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

The Chinese government has put forward and implemented a number of remedial policies aiming at adjusting the property market that was considered somewhat overheated. After some market adjustment, the property market prices in most major cities have stabilized in the second half of 2006.

Generally speaking, the rental income in 2006 generated from investment properties in the PRC maintained a stable yield as compared with that of 2005. During the year, the Group began to market the upper floor of Merry Tower apartments in the third quarter of 2006. Due to macro-factors mentioned above, no sale has been recorded so far but the Group will continue to market these apartments.



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

### PROSPECTS

#### General Trading

An important factor underpinning the fishmeal prices is the limited worldwide supply, which is expected to remain tight in 2007. Unless a satisfactory substitute for fishmeal is found, the fishmeal prices are likely to stay at high levels in 2007. Similar to the case in 2006, high prices may cause a decrease in demand for fishmeal imported to China in 2007. The decrease in container freight charges rate relative to ship freight charges rate will encourage more small business entrants into the fishmeal market which will possibly increase price competition, thus the profit margin may be squeezed in the future.

On positive side, the global demand for aquatic products particular in China as a result of improving living standard in China in recent years is expanding, accordingly, the consumption of fishmeal is expected to increase dramatically in the future.

As tapioca is one of the major raw materials for producing ethanol in China (one of the world's third-largest fuel ethanol producer in 2006), the import of tapioca in China increased by more than 25% from South East Asia countries in 2006. We expect the import volume of tapioca chips in China will continue to increase constantly in the future. The Group will strengthen its marketing and operation capability in order to achieve better performance in the coming year.

#### Property Investment

For the past few years, property prices in China have caught the attention of the central government in China. It is widely believed that the central government will continue to regulate the property market. This will be an effective deterring force against any excessive rise in property prices. On the other hand, it is also widely believed that RMB will continue to appreciate. This will be a strong support for property prices in China because foreign capitals are attracted to invest in China in whatever possible way. We believe that the property prices in China will move up gradually in the coming year.

During the year, the Group has changed the use of one investment property in Shanghai from service apartments to commercial units. The Group is in active negotiation with a prospective tenant for a long term tenancy agreement on the above property. If concluded, the new tenancy agreement will bring to the Group significantly improved rental income from this property.

Our investment strategy will focus on investment in commercial properties held for long term purpose to achieve higher rental yield and better appreciation in capital value; and we may consider dispose of any non-core residential properties at satisfactory prices in the near future. Any investment opportunity manifested will be thoroughly considered and, if met with the Group's criteria, will certainly be seized. The Group remains optimistic about the economic growth in China and Hong Kong, and believes that its investments will bring reasonable long term returns to its shareholders.



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

### **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.

By Order of the Board

**John Ming Tak HO**

*Managing Director*

Hong Kong, 30th March, 2007