BUSINESS REVIEW

Source and sell cocoa beans at competitive prices

Indonesia continues to produce more than 82 percent of all cocoa crops grown in Asia and is currently the third largest cocoa beans producing country in the world after Cote D'Ivoire and Ghana. With land area of approximately 1.05 million hectares, these cocoa plantations are mostly owned by small farm holders. Indonesia has a good chance to be the largest cocoa producing country in the world.

The Directors believe that the Group is one of the few purchasers in Indonesia, which provides farmers with the 50% advance payment for the purchase of cocoa beans. This is an important strategy of the Group in dealing with the farmers since the Directors believe that the farmers will sell their better quality cocoa beans from their harvest at a more competitive price to a purchaser which can provide this attractive advance payment. In addition, the Directors believe that the Group's ability to place large orders with the farmers also enables the Group to obtain more competitive prices. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers, quality cocoa beans at attractive prices.

The Group has been sourcing cocoa beans directly from farmers in Sulawesi, Indonesia, since early 2001. For the two years ended 31st December, 2004 and 2005, the Group sourced from over 1,778 and 2,244 farmers respectively. Having direct access to such a diversified base of farmers allows the Group: (i) to better control the quality and price of its purchases; (ii) to maintain a stable and reliable supply; and (iii) to improve its efficiency and cost effectiveness without going through intermediaries. The Directors are aware that there are many farmers in Indonesia that can supply the Group with the cocoa beans that meet the Group's requirements. Therefore, the Group will continue to maintain good relationships with the farmers and select its suppliers mainly based on the availability of the cocoa beans that meet the quality as required by the Group.

Cocoa should have had an expansive year in 2005 in both price and volatility but found itself range bound for much of the year. The Ivory Coast produces about two-thirds of the world's supply was overtaken by France, went through election mishaps and was exposed to multiple coup attempts, the market would have thought a cocoa rally was a foregone conclusion. Now, as the market surges to end the year, we see a price breakout and a big year ahead in cocoa. Calls remain inexpensive despite price levels and volatility expansions around the corner.

Cocoa beans price quoted on The Coffee, Sugar and Cocoa Exchange of New York has been stable in average of approximately US$1,506 per tonne compared to US$1,504 in average for the previous year.

Relationship with Customers

The Group has maintained good and stable relationships with its overseas customers as evidenced by the renewal of Sales Agreements with three of its five existing customers, namely, Unicom, ICBT and Westermann. These customers agreed to purchase an annual aggregate minimum amount of 34,000 tonnes of cocoa beans for a further term of another three years from October 2005 to October 2008. Orebi and Theobroma continued to maintain their respective strict internal policies that do not allow them to sign any long-term purchase agreements with any external parties.

The Directors believe that the Group's ability to provide its customers with quality cocoa beans at attractive prices, provide the qualities and reliable service to these customers are essential in building relationships as long-term trading partners with its overseas customers since these customers are well established cocoa product suppliers which source cocoa beans all over the world.

Stringent quality control systems

The Group's quality control staff are involved in performing on-site quality control inspections of the cocoa beans purchased at the farmers' warehouses. The Group's quality control staff also undertake regular quality control inspections at the Group's warehouse and before shipment of products to customers. The Directors believe that the adoption of these stringent quality control procedures can ensure that the quality of the cocoa beans sourced from the farmers meets the customers' requirements. During the year of 2005, the Group did not experience any customers' complaints or returned sales.

Sales and Marketing

Unique to Indonesia's cocoa industry is its free marketing and pricing system. The free trade regime in Indonesia, on the other hand, has created a competitive environment and low marketing and distribution margins. The world price for cocoa is highly correlated with the FOB (freight on board) price at Makassar, Sulawesi's major port, indicating that the system is transparent and pricing is competitive. Farmers have also benefited from a relatively good transport infrastructure in major producing areas, which has meant relatively low transport costs. Cocoa is not subject to large government levies such as export taxes. The Group's focus on sales to international trading companies is because the volume of sales is larger, specifications are more standardised and documentation process is facilitated. These factors have allowed the Group to focus on the export market since January 2001.

As at 31st December, 2005, the Group had a sales and marketing team comprising 22 staff. The sales and marketing team maintains close contact with its customers, from whom they collect the latest market information and provide it to the farmers through the purchasing department of the Group. The Directors believe this assists the Group in enabling it to source from the farmers the products that satisfy customers' requirements.

Currently the Group sells its products to five established importers based in Europe who resell to other cocoa beans trading companies and cocoa processing and/or manufacturing companies in the United States of America.

As indicated in the following table, the Netherlands is the major market for the Company's products. Sales to the Netherlands accounted for more than half of the Company's turnover during each of the three years ended 31st December, 2003, 2004 and 2005. The breakdown of the Company's sales to the three geographic locations are as follows:

	For the year ended 31st December					
Geographical location	**2003**		**2004**		**2005**	
	(HK$ million)	*%*	*(HK$ million)*	*%*	***(HK$ million)***	***%***
The Netherlands	360.0	59.0	371.4	60.0	**461.8**	**64.8**
The UK	168.4	27.6	164.1	26.5	**171.3**	**24.1**
France	81.8	13.4	83.6	13.5	**79.1**	**11.1**
Total	610.2	100.0	619.1	100.0	**712.2**	**100.0**

Pursuant to the Sales Agreements, the price of each purchase is determined by mutual agreement between the Group and the respective customers with reference to, amongst other things, the prices of the cocoa beans quoted on the NYCSCE. Each customer is required to purchase the minimum amount stated in its respective Sales Agreement insofar as the Group can reasonably supply such amounts.

The Directors are in the opinion that the Group will not have any problems sourcing cocoa beans to meet the minimum purchase amount under the Sales Agreements since the Group has never experienced any problems sourcing cocoa beans and there is an abundant supply of farmers, which can supply such cocoa beans that meet the Group's requirements.

The Group will continue to expand its sales to its existing customers and to diversify its customer base in overseas markets. The Directors are confident that the Group will be able to increase sales to its existing customers and achieve a larger share of their cocoa beans purchases in the future since not only can it provide its customers with export-quality cocoa beans at attractive prices but also provides quality and reliable services.

All of the Group's shipments of cocoa beans are made on a "free-on-board" basis to the shipping point. Under this arrangement, the Group's customers are responsible for the costs of the shipment and insurance in connection with the transportation of cocoa beans from the shipping point in Sulawesi, Indonesia to the destination designated by the customers. In addition, the customers also bear the risk of loss and damage to the cocoa beans during transportation from the shipping port in Indonesia to its destination. This arrangement allows the Group to minimize its transportation and insurance costs. All of the Group's sales are denominated in US dollars.

Customers normally expect shipment to take place two months after the orders are placed. Customers are normally required to pay the Group by telegraphic transfer within one to two months following shipment of the goods. For each of the three years ended 31st December, 2003, 2004 and 2005, the debtors' turnover period of the Group was approximately 46.5, 49.1 and 39.2 days respectively. There has not been, and the Group has not made any provisions for, any bad and doubtful debts during the year.

FINANCIAL REVIEW

Financial Resources and Liquidity

As at 31st December, 2005, the shareholder's funds of the Group amounted to approximately HK$444.7 million (2004: HK$297.9 million). Current assets amounted to approximately HK$476.5 million (2004: HK$322.3 million) of which approximately HK$372.9 million (2004: HK$217.1 million) were cash and bank deposits. Current liabilities amounted to approximately HK$15.3 million (2004: HK$13.7 million), mainly in tax payable and accrued expenses.

Turnover

Turnover was approximately HK$712.2 million in the current year (2004: HK$619.1 million) which represent an increment of 15.04% compared to the previous year.

Cost of Sales

During the year ended 31st December, 2005, the Group's cost of sales was approximately HK$545.7 million, compared to HK$481.5 million in the previous year. The increase was due to the increase in sales volume of the Group.

Gross Profit

The Group's gross profit during the year ended 31st December, 2005 was approximately HK$166.5 million, increased of approximately 21% compared to approximately HK$137 million in the previous year.

Profit Attributable to Shareholders

Due to the increase in sales volume of cocoa beans, the Group's profit attributable to shareholders during the year ended 31st December, 2005 amounted to approximately HK$111.8 million, which exceeds the profit attributable to shareholders of approximately HK$91.7 million for the year ended 31st December, 2004.

Gearing Ratio

The Group did not have any bank borrowing or bank overdrafts as at 31st December, 2005 (2004: Zero). With 0% gearing ratio, the Group will be able to reduce its financial risks and provides the opportunity to raise more debt financing in the future. Its also means that the Group could generate excess return regardless of the PE level.

Employees

As at 31st December, 2005, the total number of employees of the Group was 72. For the year ended 31st December, 2005, the staff costs including directors of the Group amounted to approximately HK$2,032,000 or amounted to 0.28% of the turnover of the Group and an increased of approximately HK$434,000 or approximately 27.16% as compared to that of the year ended 31st December, 2004.

Material Acquisition and Disposals of Subsidiaries and Affiliated Companies

During the year ended 31st December, 2005, the Group had no material acquisition and disposal of subsidiaries and affiliated companies.

Significant Investment

There was no significant investment during the year.

Material Investment or Capital Assets

As at 31st December, 2005, the Group had no material investment.

Capital Structure of the Group in Debt Securities

During the year ended 31st December, 2005, the Group had no debt securities in issue.

BUSINESS PROSPECT

The international cocoa beans trading industry is competitive with numerous suppliers both domestic and overseas. Cocoa beans traders in Indonesia face competition from other traders within their own country and from other major cocoa beans exporting countries such as Cote d'Ivoire and Ghana.

The Group has established itself as a major exporter of cocoa beans in terms of trading volume in Indonesia. On the basis that the Group's sales continue to increase, the Group has successfully renewed the Sales Agreement for a further 3 year period commencing from October 2005 till October 2008 with three of its five existing customers. The Directors believe that the Group will be able to maintain its competitive edge for the following reasons:

- the Group is one of the few purchasers in Indonesia which provide farmers with a 50% advance payment for purchases. This is very important in dealing with the farmers as they will sell better quality cocoa beans from their harvests at more competitive prices;

- the Group's ability to place large orders with farmers, enables us to obtain more competitive prices from the farmers. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers in Europe, export-quality cocoa beans at attractive prices. The Directors believe that this is especially important to overseas customers as they source cocoa beans from all over the world;

- the Group's senior management team has experience and well established business relationships in the cocoa industry;

- the Group adopts stringent quality control procedures to ensure that the quality of the cocoa beans sourced from the farmers meet with customers' requirements;

- the Group maintains close relationships with the farmers by providing value-added services such as latest market information on the cocoa industry and informal training on farming and harvesting methods;

- Indonesia is currently the third largest producer of cocoa beans in the world and has a chance to be the largest cocoa beans producing country in the world.

USE OF PROCEEDS FROM THE PLACING IN DECEMBER 2003 AND FROM PRE-MIGRATION PLACING WITH ACTUAL APPLICATION

The Company raised net proceeds of approximately HK$94.8 million from its initial public offering in December 2003 and approximately HK$47.8 million from Pre-Migration Placing in April 2005. Set out below is the comparison of the Group's actual use of proceeds for the period since its listing on GEM in December 2003 and up to 31st December, 2005, and its intended use of proceeds as stated in the Listing Document dated 27th January, 2006:

Intended uses of proceeds Stated in the Listing Document	Intended uses of Proceeds from Initial Public Offering in December 2003 *HK$'000*	Intended use of proceeds from Pre-Migration Placing *HK$'000*	Actual Application of the proceeds up to 31st December, 2005 *HK$'000*
– Expand into other cocoa-related business	62,700	47,800	225
– Increase the Group's warehouse capacity	27,600	–	–
– Expand the Group's trading business via marketing activities	600	–	150
– Remaining proceeds appropriated for working capital	3,900	–	–
Net fund raised/used	**94,800**	**47,800**	**375**

The Board, after due consideration, decided to reserve the entire amount of the net proceeds from the Pre-Migration Placing for the general working capital of the Company's cocoa processing operations development. The unused proceeds are now being placed on interest-bearing deposits with licensed banks in Indonesia.

As at 31st December, 2005 the amount and terms of the fixed deposits placed in the licensed bank as below:

Bank		Interest Rate (annualized)	Currency	Amount
(i)	Bank of Central Asia	3.5%	US$	16,194,000
(ii)	Bank of Central Asia	13%	IDR	268,073,168,000

Both of the US$16,194,000 and IDR 268,073,168,000 in the Bank of Central Asia are a one-month term deposit which will be renewed every month automatically unless notified by the Company.

As at 31st December, 2005 the amount and terms of the Cash and bank balance placed in the licensed bank and the Group's office as below:

Bank/Place		Interest Rate (annualized)	Currency	Amount
(i)	Bank of Central Asia	1.0%	IDR	28,617,606,000
(ii)	The Group's office	Nil	IDR	4,440,000
(iii)	Bank of Central Asia	0.65%	US$	1,702,000

The fixed deposits and cash and bank balance above are equal to approximately HK$337 million and approximately HK$36 million at 31st December, 2005 respectively.