

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **Review of operations and financial performance**

The Group is principally engaged in the distribution of packaged food, beverages, household consumer products and food ingredients to the market of the PRC. Products distributed by the Group are sourced from overseas and sold to wholesalers in the PRC. These products are then sold to retailers, hotels and food manufacturers. The Group also operated a factory for the production of non-carbonated beverages in Tianjin, the PRC.

The last six months was an exciting and challenging period for the Group, with our successful public listing on the Main Board of the Stock Exchange on 3 December 2001 and the continued growth of our core distribution business. The turnover for the core distribution business of the Group recorded an increase of 20% with total revenue grew to approximately HK\$242 million for the Period from approximately HK\$201 million for the six months ended 31 December 2000. The increase in turnover is mainly attributable to the growing economy of the PRC and the focused effort of the Group in its core distribution business.

Net profit from operating activities attributable to shareholders increased to approximately HK\$17.6 million for the Period from approximately HK\$15.4 million for the six months ended 31 December 2000, representing a growth of approximately 14.3%. The gross profit margin has increased slightly as a result of the introduction of products of higher gross profit margin.

The Group has been concentrating its effort on expanding its product range and obtaining more distribution rights. Recently, the Group has obtained an exclusive distribution right for the full range of Mitsubishi batteries in the PRC.

The Group has been seeking new business opportunities, in particular with New Zealand, by organising trade functions and exhibitions. In September 2001, the Group organised a consumer products exhibition in Shanghai, the PRC for New Zealand products. In March 2002, the Group has sent a delegation of executives to New Zealand to host a trade function, with the Minister for Trade Negotiations of the New Zealand Government as guest speaker, to introduce the Group and the PRC consumer market to New Zealand suppliers. The responses of the above functions have been enthusiastic.

### **Liquidity and financial resources**

The Group finances its operations with internally generated cash flows and facilities granted by Dao Heng Bank, its principal banker in Hong Kong.

At 31 December 2001, the Group had bank borrowings of approximately HK\$25.3 million (30 June 2001: HK\$10.4 million) of which over 99% of the bank borrowings were denominated in Hong Kong dollars with maturity within one year. At 31 December 2001, the banking facilities of the Group were secured by: (i) corporate guarantees given by the Company and certain subsidiaries of the Company; and (ii) a fixed deposit owned by the Group.

As a significant portion of the sales of the Group and purchases are denominated in Hong Kong dollars and US dollars, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates between Hong Kong dollars and US dollars.

At 31 December 2001, the Group had current assets of approximately HK\$138.6 million (30 June 2001: HK\$83.8 million) and current liabilities of HK\$70.6 million (30 June 2001: HK\$55.1 million). The current ratio of the Group had improved to approximately 2.0 as at 31 December 2001 from approximately 1.5 as at 30 June 2001. The Group had total assets of approximately HK\$153.1 million (30 June 2001: HK\$95.8 million) and total liabilities of approximately HK\$70.6 million (30 June 2001: HK\$55.1 million), representing a gearing ratio of approximately 46.1% as at 31 December 2001 as compared with approximately 57.5% as at 30 June 2001. The improvements in current ratio and gearing ratio were mainly attributable to net profit generated during the Period and the funds raised from the public listing of the shares of the Company.

### **Prospects**

With the entrance of the PRC into the World Trade Organisation, the Directors believe that this will greatly benefit the Group's business. As more and more overseas suppliers will seek to enter the lucrative PRC general consumer market, the Group is well positioned by providing a platform for these overseas suppliers with our extensive experience, good connections and a wide distribution network in the general consumer products market in the PRC.

### Use of net proceeds from the new issue

In connection with the listing of the shares of the Company on the Stock Exchange on 3 December 2001, the Group raised approximately HK\$29 million, net of related expenses, from the issue of 100 million new ordinary shares of the Company. At the date of this interim report, the Group has partially applied the net proceeds as follows:

- (i) as to approximately HK\$3 million to expand the sales and marketing team;
- (ii) as to approximately HK\$2 million to develop bilateral trade on consumer products with the Group acting as a procurement agent for agent for both suppliers and purchasers in the PRC and overseas countries with the initial focus on importing goods from New Zealand and exporting selected PRC products to New Zealand; and
- (iii) as to approximately HK\$7 million as additional working capital of the Group.

The balance of the proceeds of approximately HK\$17 million was placed on short-term deposits with a licensed bank in Hong Kong as at 31 December 2001.

## DISCLOSURE OF ADDITIONAL INFORMATION

### Directors' interests in shares

At 31 December 2001, the interests of the Directors and their associates in the issued share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance"), were as follows:

#### Ordinary shares of the Company

Name of director	Notes	Nature of interest	Number of ordinary shares held
Lam Kwok Hing	1	Corporate	180,000,000
Fong Yiu Ming, Anson	2	Corporate	16,000,000
Chu Ki	3	Corporate	16,000,000
Lee Choi Lin, Joecy	4	Corporate	51,000,000

**Directors' interests in shares (continued)**

*Notes:*

1. These shares are owned by Best Global Asia Limited ("Best Global"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of Best Global is beneficially owned by Mr. Lam Kwok Hing.
2. These shares are owned by Eshanghai Holdings Limited ("Eshanghai"), a company incorporated in the BVI. The entire issued share capital of Eshanghai is beneficially owned by Mr. Fong Yiu Ming, Anson.
3. These shares are owned by Asia Startup Group Limited ("Asia Startup"), a company incorporated in the BVI. The entire issued share capital of Asia Startup is beneficially owned by Mr. Chu Ki.
4. These shares are owned by World Invest Holdings Limited ("World Invest"), a company incorporated in the BVI. The entire issued share capital of World Invest is beneficially owned by Madam Lee Choi Lin, Joecy.

Save as disclosed above, none of the Directors, chief executive or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

**Directors' rights to acquire shares or debentures**

Under the Share Option Scheme ("the SO Scheme"), the Board may, at its discretion, grant share options to eligible participants, including the Directors, to subscribe for shares of the Company. At the date of this interim report, no share options have been granted to any director of the Company.

Save as disclosed above, and other than in connection with the Group Reorganisation, at no time since the incorporation of the Company were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### Substantial shareholders

At 31 December 2001, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 16(1) of the SDI Ordinance.

Name	Number of shares held	Percentage of issued share capital of the Company
Best Global	180,000,000#	36.0%
World Invest	51,000,000#	10.2%

# The shareholding is duplicated in the "Directors' interests in shares" section above.

Save as disclosed above, no persons, other than the Directors, whose interests are set out above, had registered an interest in the issued share capital of the Company that was required to be recorded under Section 16(1) of the SDI Ordinance.

### Employees

At 31 December 2001, the Group employed approximately 90 staff and workers in Hong Kong and the PRC. The employees of the Group are remunerated in accordance with their work performance and prevailing industry practices. The Group also participates in retirement benefits schemes for its staff in Hong Kong and the PRC. The Group operates the SO Scheme of which the Board may, at its discretion, grant options to eligible participants who contribute to the success of the operations of the Group. The SO Scheme became effective upon the listing of the shares of the Company on the Stock Exchange on 3 December 2001. No share options have been granted by the Company since 3 December 2001 and up to the date of this interim report.

**Purchase, sale or redemption of the Company's listed securities**

The shares of the Company were listed on the Main Board of the Stock Exchange on 3 December 2001. Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the listed securities of the Company since 3 December 2001 and up to the date of this interim report.

**Audit committee**

The Company has an Audit Committee which was established in accordance with the Code of Best Practice as set out in appendix 14 of the Listing Rules (the "Code"). The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group. This interim report has been reviewed by the Audit Committee, but has not been audited by the auditors of the Company.

**Code of best practice**

In the opinion of the directors of the Company, the Company has complied with the Code since the listing of the shares of the Company on the Stock Exchange on 3 December 2001.

On behalf of the Board

**Lam Kwok Hing**

*Chairman*

Hong Kong, 22 March 2002