MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS ENVIRONMENT

The continuing growth of the economy in the People's Republic of China (the "PRC") creates favourable environment for the Group to further penetrate into the PRC's retail and consumer market. It has proven that the Group has been able to capture the growth. With the PRC's accession to the World Trade Organisation, changes including reduction in import tariffs, enlargement of import quotas and simplified customs procedures will create plenty of room for the Group's further expansion as more and more overseas suppliers will seek to enter the lucrative PRC consumer market. The Group is well positioned by providing a distribution platform for these overseas suppliers with its extensive and well-established distribution network and management experience and expertise to capitalise prevailing market potentiality.

FINANCIAL PERFORMANCE

During the year under review, the Group recorded turnover of approximately HK$553 million from approximately HK$495 million for the year ended 30 June 2002, representing an increase of approximately HK$58 million or 11.8%. The increase in turnover was mainly attributable to the distribution of new products and expanding distribution network.

The gross profit margin improved slightly as a result of product mix refinement. Net profit attributable to shareholders increased to approximately HK$46.6 million for the year from approximately HK$38.4 million for the year ended 30 June 2002, representing a growth of approximately 21.4%.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations and business development with internally generated resources, equity funding and banking facilities provided by its principal bankers in Hong Kong.

On 20 February 2003, the Company entered into a subscription and placing agreement for the placing of 100,000,000 new ordinary shares of the Company to independent placees at an issue price of HK$0.59 per share. The share subscription and placing were completed on 6 March 2003 with net proceeds of approximately HK$56 million. The net proceeds are mainly applied for the establishment of the logistic, processing and repackaging plant in Shanghai of the PRC and further development on the Group's distribution business.

At 30 June 2003, the Group had interest-bearing bank borrowings of approximately HK$65.6 million (30 June 2002: HK$32.4 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and over 80% were mature within one year. All of the Group's banking borrowings were floating-interest bearing. At 30 June 2003, the banking facilities of the Group were secured by corporate guarantees given by the Company and certain subsidiaries of the Company.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

A significant portion of sales and purchases of the Group are either denominated in Hong Kong dollars or US dollars. Accordingly, 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. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2003.

At 30 June 2003, the Group had current assets of approximately HK$216.4 million (30 June 2002: HK$165.2 million) and current liabilities of HK$72.2 million (30 June 2002: HK$80.5 million). The Group's current ratio had improved to approximately 3.0 as at 30 June 2003 from approximately 2.0 as at 30 June 2002. The improvement in current ratio was mainly attributable to the increase in cash and bank balances from equity funding during the year. The Group had total assets of approximately HK$280.2 million (30 June 2002: HK$183.8 million) and total liabilities of approximately HK$84.6 million (30 June 2002: HK$80.5 million), with a gearing ratio of approximately 23.4% as at 30 June 2003 as compared with approximately 17.6% as at 30 June 2002. The gearing ratio is expressed as a ratio of bank borrowings to total assets. The change in gearing ratio was mainly attributable to the increase in long-term bank borrowings to finance long-term development assets.

BUSINESS DEVELOPMENT AND PROSPECT

The products distributed by the Group included packaged food, beverages, household consumable products and fresh fruit, accounting for approximately 72%, 9%, 6% and 13% respectively of the total turnover of the Group for the year ended 30 June 2003. The categories of packaged food were mainly biscuits, candies, chocolate, condiments, margarine and milk powder. Beverages were mainly beer and soft drinks and the household consumable products were mainly batteries. During the year under review, the Group started its distribution business in fresh fruit to the PRC market. The Group's products were mainly sourced from the Southeast Asia, the United States of America, Europe, Australia and New Zealand.

In respect of the core distribution business, the Group has recorded continued growth in turnover through the introduction of new products, featuring healthy, green and organic concept. During the year under review, the Group embarked on distribution of fresh fruit and healthy products mainly sourced from New Zealand fruit growers and suppliers and the results were encouraging. The Group also furthered its geographical presence to expand its distribution network through establishment of liaison offices in the western and northern cities of the PRC. To widen the procurement network and enrich the product range, the Group established representative offices in strategic locations in New Zealand and Thailand during the year. Advertising and promotion of the Group's brand name "Golden Delight" was also under way and applied to the Group's fresh fruit to establish loyalty in ultimate consumers.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS DEVELOPMENT AND PROSPECT *(Continued)*

In respect of new business development, the Group has worked out detailed strategic planning to diversify its scope of services. The Group is in the process of constructing a logistics, processing and repackaging plant in Shanghai of the PRC. The entire investment project is budgeted at approximately HK$50 million, of which HK$15 million is financed by long-term bank borrowings and the remaining balance will be financed by shareholders' funds. The new infrastructure and facilities are expected to complete and comes into operations by the first half of 2004. Other investment plans and business opportunities are also being assessed. This is part of the management effort evident to diversifying and transforming the Group's business from a distribution mentality to a service-oriented conglomerate.

The Group also performed a comprehensive review on the investment return and devotion of management efforts on the Group's business segments with a focus on their contribution to the Group's net profit. Accordingly, the Group decided to dispose of its wholly-owned subsidiaries, Kelso Lake International Limited, Kelso Lake (Tianjin) Beverage Co., Ltd. and Heng Yui & Associates Limited, which were either dormant, or engaged in the manufacturing field and not making enough progress in the bottom-line contribution while had cost a disproportionately large amount of management efforts. These subsidiaries had been disposed of to independent third party at a consideration of approximately HK$4,673,000. The management believed that such disposals will improve the Group's financial performance in the coming years through a more efficient utilisation of the Group's resources and allowing the management to concentrate their efforts on the well-planned development in the service-oriented sector.

SEGMENT INFORMATION

During the year, all of the Group's turnover was attributable to the distribution of packaged food, beverages, household consumable products and fresh fruit and over 95% of the Group's turnover was made to the customers in the PRC.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2003, the Group had 48 staff for its operations in Hong Kong, Macau and the PRC. The Group's employees are remunerated in accordance with their work performance and experience. The Group has operated a defined Mandatory Provident Fund Scheme for its staff in Hong Kong and a retirement benefit scheme for its staff in the PRC. The Group has adopted a share option scheme of which the Board may, at its discretion, grant options to participants of the share option scheme. At the date of this report, a total of 1,000,000 share options remain unexercised.

MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND

The Board recommends the payment of a final dividend of 1.5 HK cents per ordinary share for the year ended 30 June 2003. This proposed final dividend, together with the interim dividend of 1 HK cent per ordinary share, amounting to a total dividend of 2.5 HK cents per ordinary share for the whole year. Subject to the approval of shareholders at the forthcoming annual general meeting, the final dividend will be payable on 18 December 2003.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 14 November 2003 to 18 November 2003, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by relevant share certificates must be lodged with the Company's branch share registrar by no later than 4:00 p.m. on 13 November 2003.