Management Discussion and Analysis

BUSINESS ENVIRONMENT

During the year under review, the retail and consumer markets in the PRC continued to be the market place where the Group secured its business and growth. The PRC still demonstrated itself as one of the world's strongest growing economies with an approximately 8% growth rate during the year. The steady increase in the proportion of the middle-class consumers relative to the PRC's total population and the continued process of urbanisation in the PRC have also generated enormous demands for quality imported consumables. The accession of the PRC into the World Trade Organisation is also another incentive factor to attract overseas suppliers to enter into the lucrative PRC consumer market through the Group's established distribution platform in the PRC. With its extensive and well-established distribution network and management experience and expertise, the Group is well positioned to capitalise prevailing market potentiality in the PRC by providing a distribution platform with its integrated, comprehensive and flexible features.

FINANCIAL PERFORMANCE

During the year under review, the Group has achieved marvellous growth in turnover and net profit attributable to shareholders. Turnover increased to approximately HK$713 million, representing an increase of approximately HK$160 million or 29% when compared with the previous financial year. The increase in turnover was mainly attributable to the increased sales volume from existing and new products sold to the established distribution network and also to expanding network mainly covering certain second tier cities in the eastern and northern parts of the PRC.

Gross profit margin remained fairly stable at approximately 16% during the year under review. The continual refinement of product and client mix by the Group contributed to the maintenance of an overall stable gross profit margin during the year.

Net profit attributable to shareholders increased to approximately HK$74 million, representing an increase of approximately HK$27 million or 58% when compared with the previous financial year. Increase in net profit after tax of approximately HK$5 million was attributable to the share of nearly half year's net profit of Daqing since 11 January 2004 when it became an associated company of the Group. The increase in the Group's net profit of approximately HK$22 million was attributable to the growth in its core distribution business.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a strong financial position with a net cash position throughout the year under review. The Group financed its operations and business development with internally generated resources, equity funding and banking facilities provided by its principal bankers in Hong Kong.

At 12 May 2004, the Company entered into a subscription and placing agreement for the placing of 55,750,000 new ordinary shares of the Company to independent placees at an issue price of HK$1.00 per share. The net proceeds of approximately HK$54 million would provide an enlarged shareholder base with additional resources to the Group's development.

At 30 June 2004, the Group had interest-bearing bank borrowings of approximately HK$68.6 million (30 June 2003: HK$65.6 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and mature within one year. All of the Group's banking borrowings were floating-interest bearing and secured by corporate guarantees given by the Company and certain subsidiaries of the Company.

Management Discussion and Analysis

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

A significant portion of sales and purchases of the Group were either denominated in Hong Kong or US dollars. The Directors consider that the operations of the Group are not exposed to any significant foreign exchange risk in view of the stability of the exchange rates between Hong Kong and US dollars. The Group did not have any hedging instrument outstanding as at 30 June 2004.

At 30 June 2004, the Group's current assets amounted to approximately HK$221.5 million (30 June 2003: HK$216.4 million) and the Group's current liabilities amounted to approximately HK$91.3 million (30 June 2003: HK$72.2 million). The Group's current ratio remained to stay at a sound level at approximately 2.4 as at 30 June 2004 (30 June 2003: 3.0). The slightly decrease in the current ratio was mainly attributable to the net effect from cash invested in long-term assets which were non-current in nature. At 30 June 2004, the Group had total assets of approximately HK$411.6 million (30 June 2003: HK$280.2 million) and total liabilities of approximately HK$97.6 million (30 June 2003: HK$84.6 million) with a gearing ratio of approximately 16.7% (30 June 2003: 23.4%). The gearing ratio was expressed as a ratio of bank borrowings to total assets. The change in gearing ratio was mainly attributable to the continued growth in total assets invested through cash generated from earnings and equity funds raised during the year under review while current year's bank borrowings remained at a level similar to the previous financial year.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the year under review, the Group has consistently performed as a fast growing one-stop services platform provider conducting distribution, brand-building and value-added functions for the fast moving consumable goods and fresh produce industry.

The products distributed by the Group included packaged food, beverages, household consumable products and fresh fruit with their respective contribution of approximately 63%, 7% 8% and 22% to the Group's turnover for the year ended 30 June 2004. The categories of packaged food were mainly biscuits, candies, chocolate, condiments, margarine, milk power products, healthy food, noodles and snacks. Beverages were mainly beers, wines and soft drinks and the household consumable products were mainly batteries. Fresh fruit was mainly pipfruit and citrus. Wholesalers are still the main customer category, which accounted for approximately 85% of the Group's turnover for the year ended 30 June 2004. The Group sets to reallocate more resources in expanding its customer base in retailer and on-premise sectors. With the increasing awareness of the healthiness and fitness of the consumers, there has been a steady increase in demand for healthy food products and fresh fruit in the PRC's consumer market. In the year ahead, the Group will keep on its sale efforts by furthering its geographical presence in certain second tier cities such as Chongqing, Kunming, Wuxi, Zhongshan and Zhuhai of the PRC and carrying on intensive market research to meet customer-initiating market demands.

The Group's products were mainly sourced from the Southeast Asia, the United States of America, Europe, Australia and New Zealand and sold to wholesalers, retailers and on-premise customers mainly in the eastern and southern parts of the PRC. Recognizing the procurement network as one of the key success factors in its core business, the Group will proceed to establish procurement offices and networks in Europe and the United States of America to widen its procurement networks, refine its product selection process and enrich the product range, in particular, with products featuring healthy, green and organic concept in the year ahead.

Management Discussion and Analysis

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT *(Continued)*

In addition to reinforcing its core distribution business, the Group is also striving for other growth drivers to pave the way for top-line growth and bottom-line improvement in the years ahead. The Group has been consistently diversifying from a distribution mentality to a service-oriented conglomerate to broaden its scope of services with certain well-defined development projects well underway during the year.

The logistic, processing and repackaging plant in Shanghai of the PRC is scheduled to commence operations in the first half of Year 2005. The Shanghai logistic plant will not only serve as the Group's headquarters in the PRC, but also focus in providing logistic solutions to overseas suppliers with targeted customer base in the PRC. The Shanghai logistic plant will be equipped with highly developed cold chain facilities and refrigerated delivery fleet to facilitate its distribution functions for a wide variety of frozen and chilled products, such as meat, seafood and dairy products. With the Group's established network in the PRC and expertise in distribution, our management is confident that the Shanghai logistic plant will be a growth driver to the Group's turnover and net profit commencing from the year ending 30 June 2005.

During the year under review, the Group has an investment of 30% equity interest in an associated company, which is principally engaged in the development and operations of a fresh produce logistic centre in Zhongshan of the PRC. This fresh produce logistic centre will be built at a parcel of land with a site area of approximately 80,000 sq.m. and upon the scheduled completion in the first quarter of Year 2005, it will address the ever-growing demand from importers and exporters of fresh produce through provision of packaging, grading, export certification systems, marketing and distributing in the PRC. The Zhongshan logistic centre is considered to be an integrated operation to the Group's existing distribution business in fresh produce and to be another significant growth driver to the Group's turnover and net profit commencing from the year ending 30 June 2006.

On 11 January 2004, the Group acquired an aggregate of 175,560,000 shares, representing approximately 18.83% of the issued share capital of Daqing at a consideration of approximately HK$87 million. The shares of Daqing are listed on the Main Board of the Stock Exchange and its subsidiaries are mainly engaged in the manufacture and sale of petroleum refined products. By the end of February 2004, the Group appointed three directors to sit in the board of Daqing to participate in its financial and operating policy decisions and strive to initiate the business synergy between the two listed entities. On the business front, the Group considered that through forming the strategic alliance with equity interest in Daqing, the Group would be able to expand its distribution network and customer portfolio to other parts of the PRC where Daqing has established strong business network, especially those gas station convenient stores in the northern part of the PRC. Currently, the Group has been exploring the investment opportunities for border trade between Suifenhe of the PRC and Ussurriysk of Russia through the business connection of Daqing. The participation of the border trade by the Group will bring along various benefits to the Group's core distribution business in the future. On the financial front, Daqing has demonstrated strong profitability in its track records. Through the significant influence by the Group's representation in Daqing's board of directors, the Group's net profit and hence shareholder value are expected to be further uplifted by equity accounting for Daqing's net profit in accordance with the Group's shareholding in Daqing.

Management Discussion and Analysis

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT *(Continued)*

On 11 March 2004, the Board proposed a bonus issue of shares by way of a special dividend on the basis of one bonus share for every five shares held by shareholders whose names appeared on the register of members of the Company on 23 April 2004. Upon completion of the bonus issue of shares, there have been additional 120,100,000 ordinary shares of HK$0.01 each in the issued share capital of the Company ranking pari passu in all respects with the shares in issue. The bonus share issue would enhance the liquidity of the Company's shares in the market and also provide shareholders with an opportunity to obtain further equity participation in the Company.

At 12 May 2004, the Company entered into a subscription and placing agreement for the placing of 55,750,000 new ordinary shares of the Company to independent placees at an issue price of HK$1.00 per share. The share placing was completed on 17 May 2004 with net proceeds of approximately HK$54 million. The net proceeds are intended to be applied as to (i) approximately HK$20 million for additional capital contribution in respect of constructing and developing the fresh produce logistic centre in Zhongshan of the PRC; (ii) approximately HK$9 million for the establishment of procurement offices and networks in Europe and the United States of America; (iii) approximately HK$5 million for the promotion of fresh produce products under the Group's brand name "Golden Delight"; and (iv) the balance of approximately HK$20 million for general working capital of the Group. The top-up placement would provide an enlarged shareholder base with additional resources to the Group's development.

On 5 August 2004, Daqing proposed to raise approximately HK$145 million before expenses by way of the rights issue of 483,200,000 rights shares at a price of HK$0.30 each on the basis of allotting one rights share for every two shares held by the then shareholders in Daqing. On 9 September 2004, the Group, as the single largest shareholder interested in 175,560,000 ordinary shares of Daqing at that time, had irrevocably undertaken to subscribe for 87,780,000 rights shares in Daqing. Upon completion of the rights issue, the Group had subscribed 87,780,000 rights shares of HK$0.01 each in the issued share capital of Daqing at an aggregate subscription price of HK$26,334,000. The Directors believe that the participation of the rights issue in Daqing would provide adequate funds to Daqing for furthering its business and operations, in particular, in respect of the establishment and operations of the joint venture entity engaged in the production of vinyl acetate, which is a product with ever-increasing market demand in the organic chemical industry while the manufacturing process commanded by Daqing's production technology will not require crude oil as raw materials. Accordingly, Daqing's investment in the production of vinyl acetate would avoid the impact from the fluctuation in crude oil prices and is considered necessary to remain competitive in the long-term. The Directors consider that the Company will benefit from its investment in Daqing in the form of capital gain in the short-term and in the form of cash dividend once its investment in vinyl acetate generates steady income.

In the years ahead, the Group will consistently pursue its mission to become a leading integrated provider of distribution, logistic services and brand building in the fast moving consumable goods and cold-chain products industry and to continuously create shareholder value.

Management Discussion and Analysis

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 attributed to the customers based in the PRC.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2004, the Group had 82 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 also participates in 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 eligible participants of the share option scheme. At 30 June 2004, a total of 1,200,000 share options remain unexercised.

DIVIDEND

The Board recommends the payment of a final dividend of HK$0.01 per ordinary share for the year ended 30 June 2004. This proposed final dividend, subject to the approval of shareholders at the forthcoming annual general meeting, will be payable on or before 23 December 2004.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 24 November 2004 to 26 November 2004, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar by no later than 4:00 p.m. on 23 November 2004.