MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2004 (the "Period"), the Group has sustained continuous growth in turnover and net profit attributable to shareholders. The retail and consumer markets in the PRC continued to be the market place where the Group secured its business and growth. The strong demand driven forces in the PRC consumer market has enabled the Group to realise its growth momentum through its well-established global sourcing network, extensive sales network and management experience and expertise.

Turnover for the Period was HK$434.5 million, representing an increase of 30% compared to HK$333.2 million in the same period last year. The increase in turnover was mainly attributable to the increased sales quantity from existing and new products sold to the established distribution network and 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 Period under review. The Group will carry on continual refinement of product mix to maintain an overall stable gross profit margin for its core distribution business.

Net profit attributable to shareholders increased to HK$51.7 million, representing an increase of 49% compared to HK$34.6 million in the same period last year. Increase in net profit after tax of HK$7.2 million was attributable to the share of half year's net profit of Daqing Petroleum & Chemical Group Limited ("Daqing"), which is a public company listed on the Stock Exchange and became an associated company of the Group on 11 January 2004. Increase in the net profit of HK$9.9 million was attributable to the growth in the Group's core distribution business.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

The Group is principally engaged in the distribution of fast moving consumable goods and fresh fruit. The products distributed by the Group included packaged food, rice and beverages, household consumable products and fresh fruit with their respective contribution of approximately 61%, 8%, 7% and 24% to the Group's turnover for the Period under review.

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 in the PRC. Wholesalers are still the main customer category, which accounted for approximately 82% of the Group's turnover for the Period and the Group has been expanding its customer base in retailer and on-premise sectors.

During the Period 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. In addition to strengthening its core distribution business, the Group is also equipping itself by diversifying from a trading mentality to a service-oriented conglomerate through certain well-defined projects, which have been well underway during the Period under review.

The logistics, processing and repackaging plant in Shanghai of the PRC is scheduled to commence operations in the first half of year 2005. The Shanghai logistics plant will be equipped with recognized standard cold-chain facilities and its own refrigerated truck fleet to facilitate its distribution functions for a wide variety of frozen and chilled products. The Shanghai logistics plant will not only serve as the Group's headquarters in the PRC, but also focus in providing logistics, processing and repackaging solutions to overseas principals with targeted customer base in the PRC. At the date of this report, Shanghai logistics plant has secured a management and service contract by providing a manufacturing base, processing management, logistics services and sales network to an overseas renowned specialty chocolate producer for its debut in the PRC market. Such management and service contract would enable the Group to secure a regular stream of fixed income upon the commencement of operations of Shanghai logistics plant. In addition, the Group is also keeping close contact with multinational corporations, which rely on third-party logistics services in respect of their imported frozen and chilled products to be delivered to their outlets in different locations of the PRC.

The construction of Zhongshan logistics centre is scheduled to complete by the second half of year 2005. Zhongshan logistics centre is principally engaged in the provision of various logistic services in fresh produce such as packaging, grading, export certification systems, marketing and distribution in the PRC. Recently, Zhongshan logistics centre has been organising orientation presentations and roadshows to solicit potential targeted clients. Given their positive responses to the establishment of Zhongshan logistics centre, on 4 February 2005, the shareholders of Zhongshan logistics centre agreed to increase their total investment from HK$94.3 million (RMB100 million) to HK$130 million in Zhongshan logistics centre. The Group, being a 30% shareholder as at 31 December 2004 would make an additional pro rata capital contribution of approximately HK$10.7 million to its investment in the associated company. The capital contribution will be invested to build up extra handling and storage capacity with advanced facilities. Such uplift in capacity will not only enable Zhongshan logistics centre to capture escalating market demand, but also to be developed into a size which will enjoy higher scale of economy. In addition to the profit contribution from its own operations, Zhongshan logistics centre is also considered to be an integrated operation to the Group's existing distribution business in fresh fruit and its establishment will reinforce the Group's core distribution business. Accordingly, the Group is planning to acquire a controlling stake from other shareholders of Zhongshan logistics centre. Success in securing such controlling interest shall enable the Group to direct the operations and future development strategy of Zhongshan logistics centre and most importantly to initiate synergy with the Group's existing distribution business in fresh fruit.

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 at a subscription price of HK$0.30 each in the issued share capital of Daqing at an aggregate subscription price of HK$26,334,000. Subsequent to completion of the rights issue, the Group remained as the single largest shareholder and was interested in 263,340,000 ordinary shares or 18.17% of the issued share capital of Daqing.

During the Period under review, the Group has made substantial progress in its border trade's development through the strong business connection of Daqing in the Northern part of the PRC. In November 2004, the Group signed a memorandum of understanding ("November MOU") with a Sino-Russian trading market developer. Detailed development plans are being worked out to utilize our management expertise and other resources to complement existing unstructured trade markets in Russia so as to satisfy its huge demand for fast moving consumer goods. Pursuant to the November MOU, the Group would seek to secure the management rights of the wholesale and retail market "Asian Commercial City" developed by the Sino-Russian entity in Khabarovsk Krai, Ussurriysk of Russia through provision of centralizing merchandise supplies from global suppliers, logistics and related transportation services, marketing and operational management services. In the medium run, the Group strives for managing the Asian Commercial City to become a sourcing and transit hub in the Far Eastern part of Russia. The Asian Commercial City has received strong support from the municipal government of Khabarovsk, Russia and Mudanjiang, the PRC in terms of taxation and policy concession and is expected to embark on its operations by the end of year 2005. Partaking in border trade is considered by the Group to be an important step in reinforcing its core business in the years ahead.

During the Period under review, the Group has finalized plan to start trade in packaged nourishing products in Hong Kong consumer market. Such nourishing products include instant-serving bird's nest, shark's fin, abalone and their respectively mixed products and will be sold in supermarkets and chain-stores in Hong Kong. The launch of such products will enable the Group to catch the ever-escalating demand in nourishing products in the domestic consumer market and uplift the Group's overall gross profit margin with their higher margin contribution relative to the Group's existing products distributed in the PRC market. Within an apposite timeframe after commencement of the trading, the Group plans to seek for suitable OEM suppliers to launch such products in accordance with the Group's specifications and under the Group's own brand name to further tap on domestic business opportunity.

In February 2005, the Group signed a memorandum of understanding ("February MOU") with New Zealand Government & Enterprise. Pursuant to the February MOU, the Group would be appointed by this official trade-endorsed bureau to bring New Zealand products into the full view of the PRC consumer market through a carefully planned and ongoing promotional campaign. Through such campaign, small and medium seized New Zealand suppliers would be offered opportunities to launch their quality and premium products into the PRC consumer market on a government-funded promotional campaign. The campaign will aim at producing a notable increase in the volume of consumer food and beverage products from New Zealand suppliers through the Group's management expertise and well-established sales network.

In the years ahead, we will continue to reinforce our core distribution business while compounding our growth through our investments in the logistics business. The Group will consistently pursue its mission to become a leading integrated provider of distribution, logistics services and brand building in the fast moving consumable goods and cold-chain products industry and to continuously create shareholder value.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a strong financial position throughout the Period 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. During the Period under review, the Company raised funds from the issuance of capital through exercise of share options by option holders totaling approximately HK$28 million.

At 31 December 2004, the Group had interest-bearing bank borrowings of approximately HK$77.3 million (30 June 2004: HK$68.6 million) of which over 90% and approximately 83% of the bank borrowings were denominated in Hong Kong dollars and mature within one year respectively. 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.