

# Management Discussion and Analysis

## BUSINESS AND FINANCIAL REVIEW

During the year, the Group recorded a loss attributable to shareholders of approximately HK\$27.1 million (2004: HK\$104.5 million) and net assets of approximately HK\$26.7 million (2004: net liabilities of HK\$16.2 million).

The turnover of the Group was approximately HK\$115.8 million, a decrease of 50.9% from 2004. The substantial decrease was due to the loss of confidence of the Group's customers as result of our former Chairman being charged of misappropriating funds by the Independent Commission Against Corruption in late 2004. The Group's gross loss was approximately HK\$0.6 million, a decrease of 98% from 2004. The significant decrease in gross loss and operating loss for the year was mainly due to the cessation of raw materials trading which generated lower gross profit and the relatively lower raw material cost during the year.

In order to finance the Group's expansion and general operations, in August 2005, the Group raised net proceeds of approximately HK\$52.7 million by way of a rights issue of 100,000,000 rights shares at a price of HK\$0.54 per rights share on the basis of one rights share for every two existing shares held.

In mid December 2005, the Group completed the acquisition of a 70% stake in Beilei (Tianjin) Dairy Co., Ltd ("Beilei"), a company engaged in the production and sale of dairy products, at a cash consideration of approximately HK\$52.9 million. Beilei ceased its production before the acquisition and has restarted its operations in late December 2005.

## CHANGE OF SUBSTANTIAL SHAREHOLDER

On 12 April 2005, Wisechoice Assets Limited and Accuport Development Limited, the then controlling shareholders of the Company entered into a sale and purchase agreement ("Sale and Purchase Agreement") to sell its entire equity interests in the Company to Orientelite Investments Limited ("Orientelite") and immediately following the completion of the Sale and Purchase Agreement, Orientelite was interested in 75% of the then issued share capital of the Company. Pursuant to the rules of the Hong Kong Codes on Takeovers and Mergers, Orientelite was obliged to make mandatory unconditional cash offers of all the issued shares of the Company other than those already owned by it and parties acting in concert with it ("Offer"). On closure of the Offer on 15 June 2005, one shareholder holding 10,000 shares accepted the Offer resulting Orientelite interested in 75.005% of the issued share capital of the Company. In this connection, on 5 July 2005, Orientelite sold 10,000 shares in the market so as to maintain the public float requirement under the Listing Rules. At 31 December 2005, Orientelite, the substantial shareholder of the Company, was interested in 225,000,000 shares of the Company, representing 75% of the issued share capital of the Company.

The change in shareholding immediately alleviated the Group's financial stress and provided an improved operating environment for the Group.

## PROSPECTS

Following the acquisition of the new business line in production and sale of dairy products, the Group continues to pursue the existing business as its principal business. The Group intends to leverage on the new management's experience and expertise in the management and operation of businesses in the PRC food and beverage industry to streamline the new acquired dairy company's operations and increase efficiency and to seek suitable opportunities to expand the dairy company's business with a view to improving its profitability.

The Group will continuously seek additional manufacturing opportunities and identify suitable new investment opportunities to further develop the Group.

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## LIQUIDITY AND FINANCIAL RESOURCES

With the proceeds raised from the rights issue in August 2005 and the acquisition of Beilei in December 2005, the Group has enhanced its liquidity and asset position during the year. At 31 December 2005, the Group's cash and bank balances amounted to approximately HK\$27.5 million (2004: HK\$11.5 million) and the total assets and the net assets were approximately HK\$142.1 million (2004: HK\$90.7 million) and HK\$26.7 million (2004: net liabilities of HK\$16.2 million), respectively.

At 31 December 2005, the Group's current assets and current liabilities were approximately HK\$71.6 million (2004: HK\$58.2 million) and HK\$45.6 million (2004: HK\$106.6 million), respectively, resulting in net current assets of approximately HK\$26.0 million (2004: net current liabilities of HK\$48.4 million).

On 12 April 2005, Orientelite had entered into a deed of assignment with Standard Chartered Bank (Hong Kong) Limited ("Coordinating Bank") and ten of the bank creditors of the Group ("Assigning Banks") whereby the Coordinating Bank and the Assigning Banks agreed to assign their rights, title and interest under the banking facilities, which in aggregate approximately HK\$69.3 million, to Orientelite. At 31 December 2005, the Group's total borrowings amounted to approximately HK\$81.9 million (2004: 73.0 million) and comprised mainly the shareholder's loan from Orientelite. The gearing ratio of the Group as at 31 December 2005, calculated as total debts divided by total assets, was 57.6%. Excluding the shareholder's loan, the gearing ratio as at 31 December 2005 was reduced to 8.7%.

## CHARGE OF ASSETS

At 31 December 2005, there was no charge on the Group's assets (2004: Nil).

## CONTINGENT LIABILITIES

At 31 December 2005, the Group had no material contingent liabilities (2004: Nil).

## EXPOSURE TO FOREIGN CURRENCY RISK

The Group has minimal exposure to foreign currency risk, as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, US dollars and Renminbi. It is the Group's treasury policy to manage its foreign currency exposure, if any, only when its potential financial impact is material to the Group. The Group will continue to monitor its foreign exchange position and, if necessary, will hedge its foreign currency exposure by forward foreign exchange contracts.

## EMPLOYEE AND REMUNERATION POLICY

At 31 December 2005, the Group had approximately 2,493 (2004: 2,803) employees with total staff costs amounted to approximately HK\$33.3 million (2004: HK\$33.3 million). Remuneration of employees is offered at competitive standards, generally structured with reference to market terms and individual qualifications.