BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the Period under review, the Group was principally engaged in investment holding, distribution of fast moving consumable goods, cosmetics and cold chain products and provision of third party logistics services. The product groups distributed by the Group included packaged food, beverages, household consumable products, cosmetics and skincare products, frozen and chilled products and fresh fruit with their respective contribution of approximately 53%, 4%, 5%, 9%, 10% and 19% to the Group's turnover for the Period. The categories of packaged food were mainly biscuits, candies, chocolate, condiments, margarine, milk power products, healthy food, noodles, snacks, rice and nourishing and exclusively licensed branded products. Beverages were mainly beers, wines and soft drinks and the household consumable products were mainly batteries and toiletries. Cosmetics products included make-up, perfumes, fragrance and skin and sun care products. Cold chain products consisted of frozen meat, seafood and diary products and fresh fruit.

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 were still the main customer category, which accounted for approximately 62% of the Group's turnover for the Period and the Group had been consistently expanding its customer base in retailer and on-premise sectors.

During the Period under review, the Group had 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, frozen and chilled products and fresh produce industry. In addition to strengthening its core distribution business, the Group had also been expanding its scale through diversification of its business scope and development of logistics business in the PRC.

The logistics, processing and repackaging plant in Shanghai of the PRC was mainly equipped with stringent hygiene and temperature-controlled HACCP cold-chain standard facilities and was engaged in distribution of a wide variety of imported frozen and chilled meat, seafood and dairy products to the PRC wholesale, retail, hotel and restaurant customers. Besides, the logistics plant also served as the Group's headquarters and processing and repackaging hub for fast moving consumable goods distributing to the eastern and southern parts of the PRC. During the Period under review, sales from distribution of frozen and chilled products represented approximately 10% of the Group's turnover through the utilization of the cold-chain infrastructure in Shanghai logistics plant. In addition, during the Period under review, the Group had also commenced to provide third-party logistics solutions for frozen and chilled products to certain foreign and domestic retail stores. Such third-party logistics solutions had been delivered by the Group through providing the centralized storage hub by our Shanghai logistic plant and distribution to the various outlets of such retail stores by our logistics teams. The provision of the third-party logistics services would enable the Group to tap on another revenue stream by uplifting the utilization of Shanghai's cold chain facilities and our logistics and transportation business.

On 31 August 2006, the Group had completed the acquisition of the remaining 30% equity interest of Sunning State Group Limited and its subsidiaries ("Sunning State Group") at a consideration of HK$40 million. During the Period under review, the Group had been successfully carrying out the integration of its existing distribution business in toiletry products to the cosmetics business carried out by Sunning State Group and turnover from sales of cosmetics products represented approximately 9% of the Group's turnover. The realisation process of the synergic benefits by further diversifying Sunning State Group's cosmetics product categories in the Group's existing distribution network and vice versa would continue to capture the ample potentials of cosmetics, skincare and toiletries products in the PRC steadily growing market in the years ahead.

On 4 November 2006, Hurdle Limited, a wholly-owned subsidiary of the Group, entered into the Sale and Purchase Agreement to acquire the remaining 50% equity interests in Senox for a consideration of HK$211 million. The acquisition was subsequently approved by shareholders in the extraordinary general meeting in December 2006 and the remaining balance of the consideration of HK$180 million had been paid subsequent to the Period under review. Upon completion of the acquisition in January 2007, the Group would be able to consolidate the financial performance and position of Senox and its subsidiaries into its consolidated financial statements in the year ending 30 June 2007 since completion. With full control of Senox, the Group would be able to fully integrate its existing distribution networks with the facilities of Zhongshan logistic centre, and to utilize its capacities to store and distribute the Group's fresh fruit products to better serve the Group's clients. Such acquisition would also compliment the Group's distribution and logistics networks in the PRC by improving the coverage in the southern region in the PRC.

The Group's investment in Zhongshan logistics centre was another milestone among its expansion plan in logistics business in the PRC. Zhongshan logistics centre was principally engaged in the provision of various logistic services in fresh produce such as provision of trading stalls and offices, handling, packaging, grading, export certification systems, marketing and distribution and would become the first mover to operate a nation-wide network of cold-chain distribution and logistics platform for fresh produce in the PRC. A great variety of fresh produce would be traded, processed and repacked in the centre before being distributed to ultimate customers through the centre's unbroken cold-chain logistics facilities. To maximize the return from the investment in the infrastructure, in addition to the provision of third party logistics services in fresh produce, Zhongshan logistics centre would also take up a trading function itself. The trading function would operate from the upper stream of the vertical operation model by performing sourcing function itself, through processing, grading and packaging in the logistics centre and reaching the lower stream by distributing to the Group's sales network in the PRC. Besides, Zhongshan logistics centre would also perform domestic sourcing functions and export fresh produce overseas to fully utilise its logistics infrastructure. The Group was also conducting a feasibility study in setting up a hygiene and quarantine centre of internationally recognised standard in Zhongshan logistics centre. Upon properly established and certified, such centre would be able to issue quarantine clearance recognised by overseas governments for the export of fresh produce domestically sourced and hence hygiene and quarantine inspection upon their arrival on overseas countries would be either exempted or minimised.

In addition to the two strategically located logistics centres already established in the eastern and southern regions of the PRC, the Group had been in the process of forming a PRC subsidiary, namely Jin Tao (Dalian) Fresh Produce Logistics Co., Ltd. in Dalian, PRC to implement its logistics coverage expansion plans in the PRC. The Dalian logistic centre, with a budgeted cost at HK$160 million invested by the Group, with funding earmarked and details disclosed in the Company's public announcement dated 1 March 2006, would be engaged in the provision of various logistics services for the import and distribution of fresh produce in the north-eastern region of the PRC. Upon completion of the formal establishment of the PRC subsidiary, the Group would be interested in 80% equity interest while the remaining 20% interest would be owned by a local PRC enterprise with expertise in infrastructure development. The establishment of the logistic centre in Dalian would significantly raise the Group's processing capacity and complement its distribution network of imported fresh produce in the PRC together with the two logistic centres in Shanghai and Zhongshan of the PRC.

To cope with the further development and complement the distribution network in fresh produce logistics business, the Group was also evaluating investment plans to establish logistic hubs and depots in other different regions of the PRC. Such logistics infrastructures would be in the form of either a logistic hub or depot strategically located in Beijing, Changsha, Mudanjiang and Yunnan of the PRC. Besides serving the distribution functions to their respective locations, the logistic hubs and depots would also carry out its sourcing, transit and packaging functions in their surrounding areas for distribution to the Group's other hubs and depots. If properly executed, the Group's sourcing, processing and distribution capability of fresh produce in a nation-wide geographical coverage would bring to it overwhelming competitive edge over those fragmented operations currently in place in the PRC agricultural marketplace.

On 23 November 2006, the Group, as the single largest shareholder interested in 294,040,000 ordinary shares of Daqing at that time, had irrevocably undertaken to subscribe 147,020,000 open offer shares, on the basis of one offer share for every two existing shares held, at a subscription price of HK$0.3 per share in the issued share capital of Daqing, at an aggregate subscription price of HK$44,106,000. The net proceeds from the open offer of approximately HK$305 million would be used to finance the establishment and development of its coal-related chemical business and as the general working capital of Daqing. Subsequent to subscription of the open offer shares of Daqing, the Group was interested in 441,060,000 ordinary shares of Daqing, representing 13.99% of the issued share capital of Daqing.

The Group will continue to enhance its business model in the fast moving consumable goods while with a more focused strategy in logistics development for cold-chain and agro-based products to create the growth driver in the years ahead.