INTRODUCTION

Indonesia is currently the third largest producer of cocoa beans in the world. Capitalising on the abundant supply of quality cocoa beans in Indonesia, the Group has established itself as one of the major exporters of cocoa beans in Indonesia in terms of trading volume. According to INCA, for the year ended 31st December, 2004, the Group was the third largest exporter of cocoa beans in Indonesia and amounted to approximately 13.2% of Indonesia's total export of cocoa beans. For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005 the volume of cocoa beans exported by the Group amounted to approximately 23,920 tonnes, 45,790 tonnes, 54,440 tonnes and 50,200 tonnes respectively, while the Group's turnover was approximately HK$300.9 million, HK$610.2 million, HK$619.1 million and HK$573.7 million, respectively. The Group's trading product is one of the major raw materials used for the production of a variety of food products including chocolate, beverages and cakes, various pharmaceutical and cosmetic products such as soaps and moisturising creams.

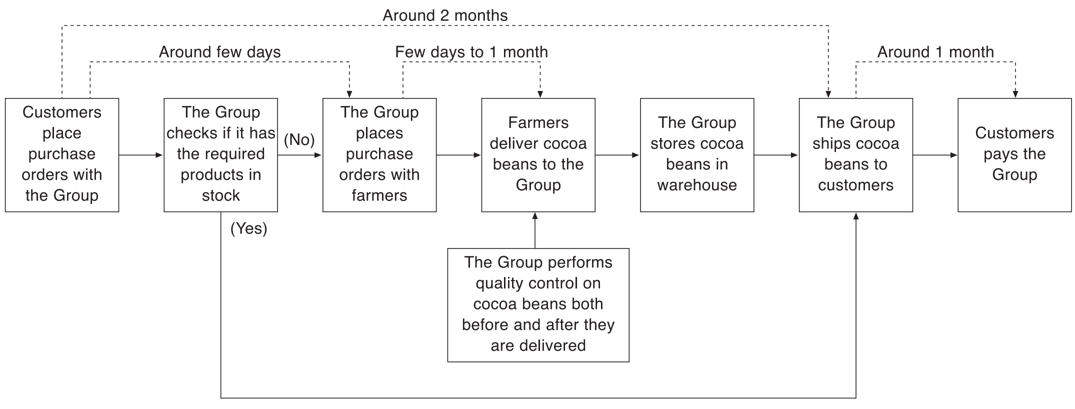
Since January 2001, the Group has ceased to sell its products to the domestic market in Indonesia and only sold to the export market. It is due to the demand and selling price commanded from the overseas markets is far superior to the domestic market. The Directors believe that this situation would continue and would not re-enter the domestic market in Indonesian in the next couple of years. The Group currently sells its products to five established importers in Europe, namely ICBT in the UK, Orebi in France, Westermann, Unicom and Theobroma in Netherlands, who resell the products to other cocoa bean trading companies and cocoa processing and/or manufacturing companies mainly in the Netherlands, UK and US. In October 2002, the Group entered into the Sales Agreements with each of Unicom, ICBT and Westermann whereby these customers agreed to purchase an annual minimum of 12,000 tonnes, 9,000 tonnes and 7,000 tonnes of cocoa beans, respectively, from the Group for an initial term of three years. Unicom, ICBT and Westermann had respectively ordered approximately 16,460 tonnes, 12,680 tonnes and 10,460 tonnes, of cocoa beans in the first year and approximately 14,980 tonnes, 13,240 tonnes and 12,680 tonnes of cocoa beans in the second year, which exceeded their respective annual commitments under the Sales Agreements by approximately 37.16%, 40.8% and 49.94% respectively for the first anniversary, and approximately 24.83%, 47.11% and 81.14% respectively for the second anniversary. The old Sales Agreements had expired in October 2005. To ensure a continuous flow of business from its customers, the Group renewed the Sales Agreements of the three existing customers, Unicom, ICBT and Westermann at the same month, whereby these customers agreed to purchase an annual minimum volume of purchase 13,500 tonnes, 12,000 tonnes and 8,500 tonnes of cocoa beans respectively from the Group for a further term of another three years from October 2005 to October 2008. In addition, Orebi and Theobroma have a strict internal policy that does not allow having long term purchase agreements with any external parties.

For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005, the Group sourced all of its cocoa beans directly from over 800, 1,800, 1,900 and 1,778 farmers in Sulawesi, respectively. Sourcing from a diversified base of farmers allows the Group to: (i) better control the quality and price of its purchases; (ii) maintain a stable and reliable supply of its products; and (iii) improve its efficiency and cost effectiveness without going through intermediaries. The Directors consider that there are many farmers in Indonesia that can supply cocoa beans to the Group that meet its requirements. The Group has maintained good relationships with farmers and selects its suppliers based mainly on the availability of the cocoa beans that meet the quality and quantity as required by the Group.

The Group is one of the few purchasers in Indonesia which can provide farmers with 50% advance payments for the purchase of cocoa beans. This is very important in dealing with the farmers since they will sell the better quality cocoa beans from their harvest and at a more competitive price to purchasers which can provide a meaningful advance payment. Given that the Group is one of the major exporters of cocoa beans in Indonesia and that it is able to provide farmers with advance payments and place large purchase orders, the Group is able to source cocoa beans from farmers at more competitive prices.

The Group distinguishes itself from other cocoa beans traders in Indonesia by maintaining good relationships with farmers through the provision of certain value-added services. The Group provides farmers with, on an informal basis, general information on the cocoa market, such as the customers' forecast demand for cocoa beans and feedback on the quality of the cocoa beans supplied by the farmers. In addition, the Group also assists farmers on an informal basis in improving the yield and quality of their cocoa beans harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques.

The following diagram summarises the Group's operations, further details of which are set out under the paragraphs headed "Sales and marketing", "Sourcing", "Inventory" and "Quality control" below:



PRINCIPAL STRENGTHS

Major player in the cocoa bean trading industry in Indonesia

The Group has established itself as one of the major exporters of cocoa beans in Indonesia in terms of trading volume. According to INCA, for the year ended 31st December, 2004, the Group was the third largest exporter of cocoa beans in Indonesia, accounting for approximately 13.2% of the country's total export volume for that period.

Ability to source and sell cocoa beans at competitive prices

The Directors believe that the Group is one of the few purchasers in Indonesia which provides farmers with 50% advance payments for the purchase of cocoa beans. This is an important strategy of the Group in dealing with the farmers since the Directors believe that farmers will sell their better quality cocoa beans from their harvest at a more competitive price to purchasers which can provide a meaningful advance payment. In addition, the Directors believe that the Group's ability to place large orders with farmers also enables the Group to obtain more competitive prices from the farmers. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers, quality cocoa beans at attractive prices.

Good and stable relationships with a diversified base of farmers

The Group has been sourcing cocoa beans directly from farmers in Sulawesi, Indonesia, since early 2001. For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005, the Group sourced all its cocoa beans from over 800, 1,800, 1,900 and 1,778 farmers, respectively. The Directors consider that there are many farmers in Indonesia that can supply cocoa beans to the Group that meet its requirements. Having direct access to such a diversified base of farmers allows the Group (i) to better control the quality and price of its purchases; (ii) to maintain a stable and reliable supply and (iii) to improve its efficiency and cost effectiveness without going through intermediaries. The Group has not experienced any difficulty in sourcing cocoa beans during the Track Record Period and does not expect any such difficulty in future. The Group's ability to make advance payments and place large orders enhances relationships between the Group and the farmers. Furthermore, the Group also maintains good relationships with the farmers through the provision of certain value-added services. The Group provides farmers with, on an informal basis, general information on the cocoa market. Further, the Group assists farmers on an informal basis in improving the yield and quality of their cocoa beans harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques. The good and stable relationships with a diversified base of farmers allows the Group to source products with the required quantity and quality that meet its customers' requirements.

Good and stable relationships with customers

The Group has maintained good and stable relationships with its overseas customers as evidenced by the Sales Agreements entered into between the Group and three of its customers, whereby these customers have agreed to purchase an aggregate annual minimum amount of 28,000 tonnes of cocoa beans from the Group for an initial term of three years from October 2002 to October 2005. In addition, the Group has not experienced any customers' complaints or returned sales during the Track Record Period. In October 2005, the Sales Agreements signed in October 2002 had expired and the Group renewed the Sales Agreements of the three existing customers, Unicom, ICBT and Westermann, whereby these customers agreed to purchase an annual aggregate minimum amount of 34,000 tonnes of cocoa beans for a further term of another three years from October 2005 to October 2008. The Directors believe that the Group's ability to provide its customers with quality cocoa beans at attractive prices and to provide quality and reliable service to these customers are important in becoming a long-term trading partner with its overseas customers since these customers are well established cocoa product suppliers which source cocoa beans all over the world.

Stringent quality control systems

The Group's quality control staff are involved in performing on-site quality control inspections of the cocoa beans purchased at the farmers' warehouses. The Group's quality control staff also undertake regular quality control inspections at the Group's warehouse and before shipment of products to customers. The Directors believe that the adoption of these stringent quality control procedures can ensure that the quality of the cocoa beans sourced from the farmers meets the customers' requirements. During the Track Record Period, the Group did not experience any customers' complaints or returned sales.

Strong industry background of the senior management team

Each of Mr. Judianto, Mr. Herkiamto and Mr. Zulfian has an average of over 11 years of experience in the cocoa industry and possess good relationships with both customers and suppliers of cocoa beans. Their relationships and knowledge in the cocoa beans industry have enabled the Group to rapidly increase its sales and profitability. The Directors believe the Group can leverage on the expertise and business relationships of its senior management team to further develop its sales to existing customers and to diversify its customer base in the overseas markets.

PRICING

Both the sale and purchase prices of the Group's cocoa beans are determined with reference to, amongst other things: (i) the prevailing US dollar-denominated prices as quoted on the NYCSCE, (ii) the ability to provide farmers with meaningful advance payments; (iii) the climate in Indonesia since this affects the supply and quality of the cocoa crop; and (iv) the size of the purchase. Both the sale and purchase prices are determined at the time when purchases are placed by the Group's customers with the Group, and the Group with the farmers, respectively. Since Indonesia is one of the largest suppliers of cocoa beans in the world and there are abundant supplies of cocoa beans in Indonesia, local purchasers and local sellers must consider the domestic market's supply and demand in addition to NYCSCE's price in setting prices. Accordingly, the price of cocoa beans in Indonesia generally fluctuates in the same direction as the price of coca beans quoted on the NYCSCE, but not necessarily to the same extent given the domestic market's supply and demand situation. Given that the Group is one of the major exporters of cocoa beans in Indonesia, generally provides farmers with advance payments of approximately 50% of the purchase amount and makes large purchases, the Group has been able to source cocoa beans from farmers at competitive prices which are normally at a significant discount to the reference prices as quoted on the NYCSCE.

The reasons for the Group being able to obtain the discount rate to reference price quoted on NYCSCE as below:

(1) The Company provides indirect financing to the cocoa beans farmers such as 50% advance payment of the purchase order;

(2) The Company purchases directly from the farmers rather than from the small cocoa beans trading companies;

(3) The Company has established good and long term relationships with the local farmers; and

(4) Indonesian cocoa beans price is already discounted to NYCSCE terminal price, the price quoted on NYCSCE just for reference to the international clients.

The purchased price is discounted to the reference prices as quoted on NYCSCE during each of the three years ended 31st December, 2004 as below:

For the year ended	**2002**	**2003**	**2004**
Highest discount	39.4%	36.5%	36.5%
Lowest discount	8.6%	4.9%	11.55%

The Group's customers generally place purchase orders approximately two months before the designated delivery time. Following receipt of the orders from customers, the Group will source from farmers to fulfill customers' requirements if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customers' purchase orders and the Group will source the cocoa beans from the farmers within a few days after receiving the customers' purchase orders. Because there is a time lag of a few days between the time when the customers place the purchase orders to the Group and the Group places the purchase orders to the farmers, the Group is subject to risks arising from fluctuations in cocoa beans prices within these few days. In addition, since farmers quote prices to the Group and the Group quotes prices to its customers, amongst other things, with reference to the prices quoted on the NYCSCE, the Group effectively earns a margin between the quoted prices, and the absolute amount of the Group's gross profit and hence its profitability will increase as prices of cocoa beans quoted on the NYCSCE increase (and vice-versa), all other factors being equal.

PRODUCTS

The Group sells cocoa beans which have been fermented and dried. Cocoa beans are one of the major raw materials used for the production of a variety of food products including chocolate, beverages and cakes, various pharmaceutical and cosmetic products such as soaps and moisturising creams. Since early 2001, the Group has only been selling to export customers. The export-quality cocoa beans sold by the Group are generally characterised by the larger in size, higher level of fat and less water content, less insect damage, and better general appearance than those sold domestically for domestic consumption. Export-quality cocoa beans sold by the Group are homogeneous with cocoa beans sold by other Indonesian suppliers for the export market. The Directors believe that the Group's products have been able to meet the quality requirements of its customers as a result of the stringent quality control procedures applied to the Group's purchases.

SALES AND MARKETING

The Group has established itself as a major exporter of cocoa beans in terms of trading volume in Indonesia. According to INCA, for the year ended 31st December, 2004, the Group was the third largest exporter of cocoa beans in Indonesia, accounting for approximately 13.2% of the country's total export volume of cocoa beans for that year. Given that the Group's sales continue to increase since its establishment in December 1999 and the Group has entered into the Sales Agreements in October 2002 which have been renewed in October 2005 for a further term of another three years, the Directors believe that the Group will continue to be one of the largest exporters of cocoa beans in Indonesia in the foreseeable future.

As at 31st October, 2005, the Group had a sales and marketing team comprising 22 staff. The sales and marketing team maintains close contact with its customers, from whom they collect the latest market information and provide it to the farmers through the purchasing department of the Group (further details of which are set out under the paragraph headed "Sourcing" below). The Directors believe this assists the Group in enabling it to source from farmers the products that satisfy customers' requirements.

As indicated in the following table, the Netherlands is the major market for the Company's products. Sales to the Netherlands accounted for more than half of the Company's turnover during each of the two years ended 31st December, 2003, 2004 and the ten months ended 31st October, 2005. The breakdown of the Company's sales to the three geographic locations is as follows:

Geographical location	**For the year ended 31st December**						**Ten months ended 31st October,**	
	2002		**2003**		**2004**		**2005**	
	(HK$ million)	*%*	*(HK$ million)*	*%*	*(HK$ million)*	*%*	*(HK$ million)*	*%*
The Netherlands	138.7	46.1	360.0	59.0	371.4	60.0	372.9	65.0
The UK	98.7	32.8	168.4	27.6	164.1	26.5	134.2	23.4
France	63.5	21.1	81.8	13.4	83.6	13.5	66.6	11.6
Total	300.9	100.0	610.2	100.0	619.1	100.0	573.7	100.0

Since January 2001, the Group has ceased sales to the domestic market in Indonesia and focused only on the export market since overseas customers generally place larger orders with the better price. The Group currently sells its products to five established importers based in Europe who resell the products to other cocoa beans trading companies and cocoa processing and/or manufacturing companies in the US. The following table sets out the name, location, and contribution to the Group's turnover by each of these five customers during the Track Record Period:

		Contribution to the Group's turnover			
		For the year ended 31st December,			**Ten months ended 31st October,**
Name	**Location**	**2002**	**2003**	**2004**	**2005**
		(%)	*(%)*	*(%)*	*(%)*
Unicom	The Netherlands	37.4	36.0	29.1	30.0
ICBT	The UK	32.8	27.6	26.5	23.4
Orebi	France	21.1	13.4	13.5	11.6
Westermann *(Note 1)*	The Netherlands	8.7	23.0	21.6	20.5
Theobroma *(Note 2)*	The Netherlands	—	—	9.3	14.5
		100.0	100.0	100.0	100.0

Notes:

1. The Group commenced sales to Westermann in October 2002.

2. The Group commenced sales to Theobroma in September 2004.

Unicom, established in 1991 and based in the Netherlands, trades cocoa beans and other cocoa-related products. It is a member of the FCC and CMAA. Unicom sources cocoa beans from Indonesia, Cote d'Ivoire, Ghana, Nigeria, Brazil and Cameroon and sells cocoa-related products to Europe, US, Russia and Estonia. The Group has supplied cocoa beans to Unicom since November 2000 and there have been 18, 28, 24 and 22 transactions with Unicom for each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005 respectively. The Group has not made any bad and doubtful debt provisions for sales to Unicom during the Track Record Period.

ICBT, established in 1989 and which has offices in the UK and Singapore, is a member of the CMAA. ICBT sources cocoa beans from Indonesia, Cote d'Ivoire, Ghana, Nigeria and Cameroon for sale in European countries, the US and Russia. The Group has supplied cocoa beans to ICBT since November 2000 and there have been 14, 23, 21 and 18 transactions with ICBT for each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005 respectively. The Group has not made any bad and doubtful debt provisions for sales to ICBT during the Track Record Period.

Orebi is an associate company of Orebi & Cie. Orebi & Cie was set up in 1985 with offices in France and Singapore and is a member of the FCC. Orebi & Cie sources cocoa beans from Indonesia, Ghana, Nigeria, Brazil and the Cote d'Ivoire for sale to customers all over the world, but mainly to the Netherlands, the UK and the US. The Group has supplied cocoa beans to Orebi since November 2000 and there have been 11, 14, 12 and 9 transactions with Orebi for each of the three years ended 31st December, 2004 and the ten month ended 31st October, 2005, respectively. The Group has not made any bad and doubtful debts provision for sales to Orebi during the Track Record Period.

Westermann, a trading company established in 1991 and based in the Netherlands, is a member of the FCC. It sources cocoa beans from Indonesia, Cote d'Ivoire and Ghana for sale to Europe, the US and Russia. The Group has supplied cocoa beans to Westermann since October 2002 and there have been 4, 21, 19 and 15 transactions with Westermann for the three years ended 31st December, 2004 and the ten months ended 31st October, 2005 respectively. The Group has not made any bad and doubtful debts provision for sales to Westermann during the Track Record Period.

Theobroma, is a company established in Amsterdam, the Netherlands in 1922. It sources cocoa beans from Indonesia, Cote d'Iviore, Ghana, Brazil and Ecuador for sale in Europe and the US. The Group has supplied cocoa beans to Theobroma since September 2004 and there have been 6 and 12 transactions for the year ended 31st December, 2004 and the ten months ended 31st October, 2005 respectively. The Group has not made any bad and doubtful debts provision for sales to Theobroma during the Track Record Period.

To ensure a continuous flow of business from its customers and formalise the relationships with them, in October 2002, the Group entered into the Sales Agreements with each of Unicom, ICBT and Westermann for an initial term of three years. Under these Sales Agreements, each of Unicom, ICBT and Westermann agreed to purchase from the Group a minimum amount of cocoa beans every year. In October 2005, the Sales Agreements signed in October 2002 had expired and the Group renewed the Sales Agreements of the three existing customers, Unicom, ICBT and Westermann, whereby these customers agreed to purchase an annual aggregate minimum amount of 34,000 tonnes of cocoa beans for further term of another three years from October 2005 to October 2008. The annual minimum purchase amount was determined based on the projected purchases of each of the three customers for the next three years.

In addition, Orebi and Theobroma have a strict internal policy that does not allow to sign any long term purchase agreements with any external parties.

Details of the Sales Agreements signed in October 2002 are summarised as follows:

Name	**Annual minimum amount of cocoa beans to be purchased under the Sales Agreements** *(tonnes)*	**Actual amount of cocoa beans purchased in the first year** *(tonnes)*	**Actual amount of cocoa beans purchased in the second year** *(tonnes)*	**Initial term**	**Expiration date of initial term**
Unicom	12,000	16,460	14,980	3 years	October, 2005 *(Note 1)*
ICBT	9,000	12,680	13,240	3 years	October, 2005 *(Note 1)*
Westermann	7,000	10,460	12,680	3 years	October, 2005 *(Note 2)*

Notes:

(1) The respective terms of the Sales Agreements with Unicom and ICBT provided that the Sales Agreements shall be automatically renewed unless terminated or further discussion by both parties.

(2) Terms for renewal are not specifically provided in the Sales Agreement entered into between the Group and Westermann and will be subject to mutual agreement between the parties.

Pursuant to the Sales Agreements, the price of each purchase shall be determined by mutual agreement between the Group and the respective customer with reference to, amongst other things, the prices of the cocoa beans quoted on the NYCSCE. Each customer is required to purchase the minimum amount stated in its respective Sales Agreement insofar as the Group can reasonably supply such amount. The Directors do not believe the Group will have any problems sourcing cocoa beans to meet the minimum purchase amount under the Sales Agreements since the Group has never experienced any problems sourcing cocoa beans and there is an abundant supply of farmers which can supply such cocoa beans that meet the Group's requirements. Although there is no provision for any specified remedies in respect of failure to meet the annual minimum purchase requirements by the customers and the Group fails to the supply minimum aggregate annual amount of cocoa beans to the customers, the Group will consider taking legal action against the customers in accordance with the terms and conditions of the Sales Agreements if required. In any event, the Directors believe that these customers will meet the minimum purchase amounts under the Sales Agreements given the quantity of cocoa beans sold to each of these customers exceeded the contractual agreed quantity during the Track Record Period. Unicom, ICBT and Westermann have respectively ordered approximately 16,460 tonnes, 12,680 tonnes and 10,460 tonnes of cocoa beans in the first year and approximately 14,980 tonnes, 13,240 tonnes and 12,680 tonnes of cocoa beans in the second year, which have exceeded their respective annual commitments under the Sales Agreements by approximately 37.16%, 40.80% and 49.94% respectively for the first anniversary, and approximately 24.83%, 47.11% and 81.14% respectively for the second anniversary. In October 2005, the Sales Agreements signed in October 2002 had expired. To ensure a continuous flow of business from its customers, the Group renewed the Sales Agreements of the three existing customers, Unicom, ICBT and Westermann at the same month, whereby these customers agreed annual minimum volume of purchase 13,500 tonnes, 12,000 tonnes and 8,500 tonnes of cocoa beans respectively from the Group for a further term of another three years from October 2005 to October 2008. In addition, Orebi and Theobroma have a strict internal policy that does not allow them to sign any long term purchase agreements with any external parties. As acknowledged by the Group's customers, sales to each of these customers during the Track Record Period only represented a small portion of their annual purchases during that period and the Directors believe that the Group will be able to increase sales to these customers and achieve a larger share of their purchases in the future given that they are established cocoa suppliers in Europe which source cocoa beans from all over the world.

The Group will continue to expand its sales to its existing customers and to diversify its customer base in overseas markets. Sales to each of the existing customers only accounted for a small portion of the respective total purchases of cocoa beans of these customers during the Track Record Period since they purchase cocoa beans from a number of major cocoa beans producing countries. The Directors are confident that the Group will be able to increase sales to its existing customers and achieve a larger share of their cocoa bean purchases in the future since not only can it provide its customers with export-quality cocoa beans at attractive prices but also provide quality, reliable service to these customers which are very important since these customers are established cocoa product suppliers in Europe. The Group's ability to sell more cocoa beans to these customers is already evident since the volume of cocoa beans sold to these customers have increased from 23,920 tonnes for the year ended 31st December, 2002 to 45,790 tonnes for the year ended 31st December, 2003 and to 54,440 tonnes for the year ended 31st December, 2004. In addition, the Group will increase its sales and marketing activities in order to secure new customers from overseas markets.

To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, their respective associates or Shareholders who owned more than 5% of the issued share capital of the Company had any interest in any of the Group's customers during the Track Record Period.

All of the Group's shipments of cocoa beans are made on a "free-on-board" basis to the shipping point. Under this arrangement, the Group's customers are responsible for the costs of the shipment and insurance in connection with the transportation of cocoa beans from the shipping point in Sulawesi, Indonesia to the destination designated by the customers. In addition, the customers also bear the risk of loss and damage to the cocoa beans during transportation from the shipping port in Indonesia to its destination. This arrangement allows the Group to minimise its transportation and insurance costs.

All of the Group's sales are denominated in US dollars. Customers normally expect shipment to take place two months after the order is placed. Customers are normally required to pay the Group by telegraphic transfer within one to two months following shipment of the goods. For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005, the debtors' turnover period of the Group was approximately 45.6, 46.5, 49.1 and 43.7 days respectively. There has not been, and the Group has not made any provisions for, any bad and doubtful debts during the Track Record Period. All trade debts from these customers as at 31st December, 2004 were fully settled by the beginning of May 2005. The Group has also not experienced any customers' complaints or returned sales during the Track Record Period.

The Group's provisioning policy for bad and doubtful debt is based on the evaluation of collectiability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of the customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. During the Track Record Period, the Group had not made any allowances for doubtful debts.

SOURCING

The Group has been sourcing cocoa beans directly from farmers in Sulawesi, Indonesia, since early 2001. For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005, the Group sourced from over 800, 1,800, 1,900 and 1,778 farmers respectively. Having direct access to such a diversified base of farmers allows the Group: (i) to better control the quality and price of its purchases; (ii) to maintain a stable and reliable supply; and (iii) to improve its efficiency and cost effectiveness without going through intermediaries. The Directors consider that there are many farmers in Indonesia that can supply the Group with the cocoa beans that meet the Group's requirements. As a result, the Group has not experienced any difficulty in sourcing cocoa beans during the Track Record

Period. The Group has maintained good relationships with farmers and selects its suppliers mainly based on the availability of the cocoa beans that meet the quality as required by the Group.

The Directors believe that the Group is one of the few purchasers which can provide farmers with 50% advance payments for its purchases. This is an important strategy of the Group in dealing with the farmers since they will sell better quality cocoa beans from their harvest and at more competitive prices to purchasers which can provide meaningful advance payments. In addition, the Group distinguishes itself from other cocoa beans traders in Indonesia by maintaining good relationships with farmers through the provision of certain value-added services which include:

1. providing farmers with, on an informal basis, general information on the cocoa market, such as the customers' forecast demand for cocoa beans and feedback on the quality of the cocoa beans supplied by the farmers; and

2. assisting farmers on an informal basis in improving the yield and quality of their cocoa beans harvests by arranging education and training sessions for the farmers on topics such as improved farming, harvesting and after-harvesting work methods including fermentation and drying techniques.

There are generally two harvest periods for cocoa beans produced in Indonesia: (i) March to July; and (ii) September to December. Cocoa beans generally have a maximum storage life of approximately five months under normal conditions and this allows farmers in Sulawesi to maintain stocks of cocoa beans in their warehouses between the two harvest periods.

During the Track Record Period, the Group's five largest suppliers accounted for less than 1% of the Group's total purchases. To the best knowledge of the Directors, as at the Latest Practicable Date, none of the Directors, their respective associates or Shareholders who owned more than 5% of the issued share capital of the Company had any interest in any of the five largest suppliers of the Group during the Track Record Period.

All of the Group's purchases are denominated in IDR and are made on a cash basis or through bank account transfer. When the Group began sourcing directly from farmers in 2001, the Group generally paid the farmers upon receipt of cocoa beans. In 2002, the Group normally provides farmers with advance payments of approximately 50% of the purchase amount when the purchase order is made, with the balance settled upon delivery. The Group has not experienced any failure by the farmers to deliver the cocoa beans purchased by the Group following the payment of the 50% advance payment during the Track Record Period. Delivery of the cocoa beans from the farmers usually occurs within approximately a few days to one month following the placement of purchase orders by the Group. In the event that the Group places purchase orders with the farmers for immediate delivery and the farmers have the required cocoa beans readily available, all payments will be due upon delivery of the products and there will be no advance payment. The Group has not experienced any disputes in relation to payments or delivery with farmers during the Track Record Period.

FLUCTUATIONS OF EXCHANGE RATES

The Group's sales are denominated in US dollars while its purchases are denominated in IDR. The Group's customers generally place purchase orders in US dollars approximately two months before the designated shipment time. Following receipt of the orders from customers, the Group will source from farmers to fulfill customers' requirements in IDR if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customers' purchase order and the Group will source the cocoa beans from the farmers within a few days after receiving the customers' purchase orders. Farmers normally deliver the cocoa beans to the Group within a few days to a month after the Group places the purchase orders with them. Cocoa beans are stored in the Group's warehouse following delivery by the farmers until they are shipped to the customers at the designated shipment time as specified in the customers' purchase orders. The Group then receives payment from the customers approximately one month after the goods are shipped. Because there is a time lag between the time the Group pays for the goods in IDR and the time when the Group receives its US dollar receipts, the Group is subject to risks arising from the fluctuations in the IDR/US dollar exchange rate.

The financial statements of Nataki are prepared in IDR which is also its functional currency. Should the US dollar appreciate or depreciate against the IDR, the Group will realise an exchange gain or exchange loss, respectively. According to the IDR/US dollar exchange rates quoted by Bank Indonesia (Central Bank of Republic of Indonesia), the IDR/US dollar exchange rates fluctuated significantly during the Track Record Period. During the first half of 2002, IDR appreciated against the US dollar from approximately 10,320 to approximately 8,730. Thereafter, no significant fluctuation occurred during the second half of 2002. During the year ended 31st December, 2003, the IDR/US dollar exchange rate ranged between approximately 9,200 and 8,200 and settled at approximately 8,465 as at 31st December, 2003. During the year ended 31st December, 2004, the IDR/US dollar exchange rate ranged between approximately 9,415 and 8,441, and settled at approximately 9,290 as at 31st December, 2004. During the ten months ended 31st October, 2005, the IDR/US dollar exchange rate fluctuated between approximately 10,800 and 9,133 and settled at approximately 10,090 as at 31st October, 2005.

For each of the three years ended 31st December, 2004 and the ten months ended 31st October, 2005, the Group's exchange gain/(loss) from trading operations was approximately HK$(3.5) million, HK$(5.3) million, HK$3.8 million and HK$2.6 million, respectively, representing approximately 1.2%, 0.9%, 0.6% and 0.5% of the Group's turnover, and approximately 1.5%, 1.1%, 0.8% and 0.6% of the Group's cost of sales, respectively. During the Track Record Period, the Group has not entered into any agreement or purchased any instrument to hedge against fluctuations of foreign exchange rates. According to INCA, it is uneconomical and impractical, and thus not common for cocoa beans traders in Indonesia to enter into foreign exchange contracts because banks in Indonesia charge a very high premium and require a large deposit to cover the foreign exchange contract. However, the Group may decide to do so in future when the cost of the hedging contract will be less than the potential foreign exchange loss and when the deposit required by the bank is at a level acceptable by the Group.

The Group also had an exchange gain of approximately HK$1.5 million for the year ended 31st December, 2002, as a result of the settlement in September 2002 of the US dollar-interest accrued for the period before the unsecured loan was converted to IDR, details of which are set out in the paragraph headed "Financial resources and working capital" under the section headed "Financial Information" of Listing Document. Since 2003, there has not been any exchange gain or loss attributable to the loan as the loan was converted from US dollar to IDR in 2001.

INVENTORY

Cocoa beans are perishable goods with a maximum storage life of approximately five months under normal storage conditions. According to INCA, there is only one type (i.e. grade) of cocoa beans in Indonesia for the export market and such export quality cocoa beans are homogeneous. Accordingly, the Group adopts the FIFO method of physical stock control to reduce the risk of perished stock. Under the FIFO method, goods first stored into the warehouse will be the first to be delivered to customers.

The Group's customers generally place purchase orders approximately two months before the designated delivery time. Following receipt of the orders from customers, the Group will source from farmers to fulfil customers' requirements if such orders are not covered by the inventory maintained by the Group. Normally, inventory on-hand is insufficient to fulfill all of the customers' purchase orders and the Group will source the cocoa beans from the farmers within a few days after receiving the customers' purchase orders. The farmers transport the cocoa beans directly to the Group's warehouse and are responsible for the costs of transportation and have to bear the risk of loss and damage to the cocoa beans during transportation from the farmlands to the Group's warehouse. This arrangement allows the Group to minimise its transportation and insurance costs. Cocoa beans are stored in the Group's warehouse following delivery by the farmers until they are shipped to the customers. Under this trading pattern, the Group does not normally hold inventory in anticipation of the customers' orders and the inventory holding period represents the time between the delivery of cocoa beans by the farmers to the Group and the shipment by the Group to the customers. The Directors expect that the Group will follow the same trading pattern and inventory policy in the future. During the Track Record Period, the Group's average inventory turnover periods were approximately 31.1, 9.8, 4.1 and 1.7 days respectively, which are less than the maximum storage period of cocoa beans under normal storage conditions. There has not been, and the Group has not made, any provisions for any obsolete inventory during the Track Record Period.

Inventories are stated at the lower of cost and net realisable value. Cost comprises of purchase cost and is determined on a FIFO basis. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale. Due to the nature of the Group's business as a cocoa beans trader, the Group do not have a general provisioning policy on inventory based on ageing given the nature of the inventories and it only make provision on specific items which has been identify as obsolete or when the estimate of net realizable value is below the cost of inventory. During the Track Record Period, the Group has not had any material write downs in the value of its inventory to reflect decreases in net realisable value below cost.

However, since the Group does not normally hedge against fluctuations of foreign exchange rates during the stock holding period, its gross profit margin will be affected if IDR fluctuates against the US dollar during the stock holding period. For further details of the risks arising from the fluctuations of foreign exchange rates, please refer to the paragraphs headed "Fluctuations of exchange rates" under the section headed "Business" and "Exposure to fluctuations of foreign exchange rates and currency conversion risks" under the section headed "Risk Factors" of Listing Document.

QUALITY CONTROL

The Group has a team of experienced quality control staff to implement its stringent quality control procedures to ensure that the quality of the cocoa beans sourced from the farmers meet the customers' requirements. They will take a sample from a few bags of cocoa beans from each truck and mix them together for inspection. They will check the water content, size of the cocoa beans and percentage of waste materials in the sample. The Group's quality control staff will perform on-site quality control inspections of the cocoa beans purchased at the farmers' warehouses. The Group's quality control staff also undertake regular quality control inspections at the Group's own warehouse and before shipment of products to customers. In particular, the Group's quality control procedures comprise the following three stages:

Stage 1: Incoming inspection

The cocoa beans are inspected before they are accepted from the farmers. First, the Group's quality control staff will visit the farmers' warehouses to inspect the cocoa beans before they are delivered to the Group's own warehouse. When the cocoa beans arrive at the Group's warehouse, they will be inspected once again. In the event that the cocoa beans do not pass inspection at the Group's warehouse, the Group will reject the order and ask the farmer to replace the order. However, the Directors confirm that the Group has never had a problem with the cocoa beans when they arrive at the warehouse for the second inspection. This dual inspection procedure ensures that all cocoa beans purchased by the Group will meet the customers' requirements.

Stage 2: Storage

Normally, cocoa beans must be stored under specific conditions in terms of ventilation, temperature, humidity, exposure to sunlight and certain other room conditions. The Group's quality control staff regularly check the warehouse conditions in order to maintain the warehouse under the specific conditions suitable for the storage of cocoa beans. In addition, the Group also performs regular fumigation at the warehouse to protect the cocoa beans from damage caused by insects.

In order to facilitate the shipment of its products directly from Sulawesi to the overseas customers' designated destination, the Group stores its inventory in a warehouse in Makassar, Sulawesi, Indonesia rented from an Independent Third Party. The warehouse has a floor area of approximately 4,608 sq.m. and a maximum storage capacity of approximately 5,000 tonnes of cocoa beans. Further details of the warehouse are set out in the paragraph headed "Property Interests" under the section headed "Financial Information" and the section headed "Property Valuation" in Appendix IV to Listing Document. In order to enhance the storage conditions of the Group's cocoa beans, the Group plans to acquire or construct its own warehouse in Sulawesi. The Directors regard the cocoa trading business as a long term business, therefore it is more appropriate for the Group to own its own warehouse where it can ensure the quality of the warehouse and provide proper hygienic and ventilation conditions for the cocoa beans. The planned acquisition or construction of a warehouse in Sulawesi, Indonesia can enhance the efficiency for the transportation of cocoa beans from the farmers to this warehouse in preparation for shipment to the overseas customers from the shipping port in Sulawesi, Indonesia. This warehouse will also cater for the future cocoa processing business of the Group.

It is expected that the area of the new warehouse in Sulawesi will be at least equal to or larger than the area of the Group's existing warehouse. The Directors foresee that the Group will maintain its current inventory policy following the acquisition or construction of the new warehouse. However, as the trading volume of cocoa beans increases and the cocoa processing business begins, inventory will increase accordingly and hence require additional storage space.

The following diagram shows the locations of Makassar, Sulawesi and Serang, Java, Indonesia:

Stage 3: Outgoing inspection

The Group's quality control staff inspect the packaging conditions of cocoa beans in accordance with the customers' requirements before deliveries are made to the respective customers.

The Directors believe that the Group's quality control procedures have been effective given that it has not experienced any customers' complaints or returned sales during the Track Record Period.

INSURANCE

All of the Group's shipments of cocoa beans made to overseas markets are made on a "free-on-board" basis from the shipping port in Indonesia to customers' designated destinations. Also, the farmers bring their own cocoa beans directly to the Group's warehouse and they are responsible for the loss or damage during the transportation from their farms to the Group's warehouse. The Group has only taken out insurance for its inventory stored at the warehouse. The insurance policy for the Group's inventory does not cover loss arising from natural disasters such as earthquake, fire following earthquake, volcanic eruption, tsunami, war and terrorism but covers accidents such as windstorm, flood and water damage. The total coverage is approximately IDR10 billion (equivalent to approximately HK$7.68 million). The Directors confirm that, as at the Latest Practicable Date, the Group has not made any insurance claims.

COMPETITION

The international cocoa beans trading industry is competitive with numerous local and overseas suppliers. Cocoa beans traders in Indonesia face competition from other traders in Indonesia and from other major cocoa beans exporting countries such as Cote d'Ivoire and Ghana. According to the National Agency for Export Development and the Ministry of Industry and Trade, there are approximately 60 cocoa beans exporter operating their business throughout Indonesia. In addition, there is a number of intermediate cocoa beans traders and cocoa beans collectors that mostly operates in small-scale business. They trade cocoa beans in a competitive environment and forming the channel of distribution of Indonesian cocoa beans.

There is an abundant supply of cocoa beans in Indonesia. In the crop year of 2003, Indonesia was the third largest producing country of cocoa beans in the world, and the largest in Asia according to "Cocoa Market Report" published by ED&F Man in October 2003. According to INCA, the annual production volume of cocoa beans in Indonesia increased from approximately 10,300 tonnes in 1980 to approximately 478,000 tonnes in 2004. The competition appears in sourcing cocoa beans in terms of quality and the competitiveness of price.

A company must obtain all requisite permits and business licenses to become eligible to engage in the trading of cocoa beans for export and import in Indonesia, for both local and foreign companies. Based on the legal opinion of the Group's Indonesian legal advisers, pursuant to the existing regulations, export and import and wholesaling of cocoa beans as well as cocoa processing operations are fully open to foreign companies. Apart from the regulatory requirements as stated above, knowledge in cocoa commodity and long term well-established relationships with the farmers are also important factors for entry into the cocoa industry. To become successful cocoa beans exporter, one will need to understand the customs of the local cocoa beans farming societies and to have sufficient capital resources for the fulfillment of the relatively large purchase quantity from foreign customers.

Compared to the existing cocoa beans traders, the Directors believe that the Group will be able to maintain its competitive position due to the following reasons:

— the Group has entered into the Sales Agreements with three of its customers to ensure the continuous flow of business from these customers;

— the Group is one of the few purchasers in Indonesia which provide farmers with 50% advance payments for the purchase. This is an important strategy of the Group in dealing with the farmers since they will sell their better quality cocoa beans from its harvest and at a more competitive price to purchasers which can provide a meaningful advance down payment. In addition, the Directors believe that the Group's ability to place large orders with farmers also enables the Group to obtain more competitive prices from the farmers. By purchasing quality cocoa beans at competitive prices, the Group can offer its export customers, all of whom are established cocoa product suppliers in Europe, export-quality cocoa beans at attractive prices. The Directors believe that this is very important to overseas customers as they source cocoa beans from all over the world;

— the Group's senior management team has extensive experience and well established business relationships in the cocoa industry;

— the Group adopts stringent quality control procedures to ensure that the quality of the cocoa beans sourced from the farmers meet the customers' requirements;

— the Group is one of the major exporters of cocoa beans in Indonesia. According to INCA, for the year ended 31st December, 2004, the Group was the third largest exporter of cocoa beans in Indonesia, accounting for approximately 13.2% of the country's total export volume for that year;

— the Group maintains close relationships with the farmers by providing value-added services such as providing latest market information on the cocoa industry and providing informal training on farming and harvesting methods;

— Indonesia is currently the third largest producer of cocoa beans in the world and according to INCA, it aims to be the largest producer by 2010.

INFORMATION ON DAVOMAS

Davomas, an Indonesian company whose shares are listed on the Jakarta Stock Exchange, is principally engaged in the cocoa processing business in Indonesia and is not engaged in any cocoa beans trading operations. Davomas sources cocoa beans from local cocoa beans trading companies and farmers for processing, and sells semi-processed cocoa products to overseas customers. All of the Group's customers, namely Unicom, ICBT, Orebi, Westermann and Theobroma (who are large importers of both cocoa beans and cocoa products), are also Davomas' customers. However, the Group sells cocoa beans to these customers while Davomas sells semi-processed cocoa products to these customers. During the Track Record Period, the Group has not made any sales to, or any purchases from, Davomas. Save and except that Mr. Herkiamto was the president director of Davomas until October 2003, none of the Directors, the Investors, Mr. Mulya or any of their respective associates had any interest in Davomas during the Track Record Period. Given that the Group and Davomas are engaged in different businesses and sell different products, the Directors consider that there exists no direct competition between the Group and Davomas.

The Group will expand into other cocoa-related business such as cocoa processing operations as part of its strategy to become a leading player in the Indonesian cocoa industry. Mr. Herkiamto, an executive Director, previously also served as the president director of Davomas. In order to avoid potential conflicts of interest, Mr. Herkiamto tendered his resignation from Davomas in October 2003. Mr. Herkiamto's resignation became official and effective upon expiration of the 90-day notification period required under the constitutional documents of Davomas. Mr. Herkiamto and his associates have no shareholding interests in either Davomas or the Group (except for the options granted to him under the Pre-IPO Share Option Scheme, details of which are set out under the paragraph headed "A summary of the principal terms of the Pre-IPO Share Option Scheme" in Appendix VI to Listing Document).

None of the the Directors have any interest in the business other than the Group's business which competes with or is likely to compete with the Group or which would require disclosure under Rule 8.10 of the Listing Rules.

GENERAL INFORMATION OF THE GROUP

The business trend of the Group has no significant change since 31st October, 2005. The cocoa beans trading business still is the core business of the Group. In addition, the Directors confirm that there is no relevant information related to the financial and trading prospects of the Group and any special trade factors or risks which are unlikely to be known or anticipated by the general public; and which could materially affect the profit.