

INDUSTRY OVERVIEW

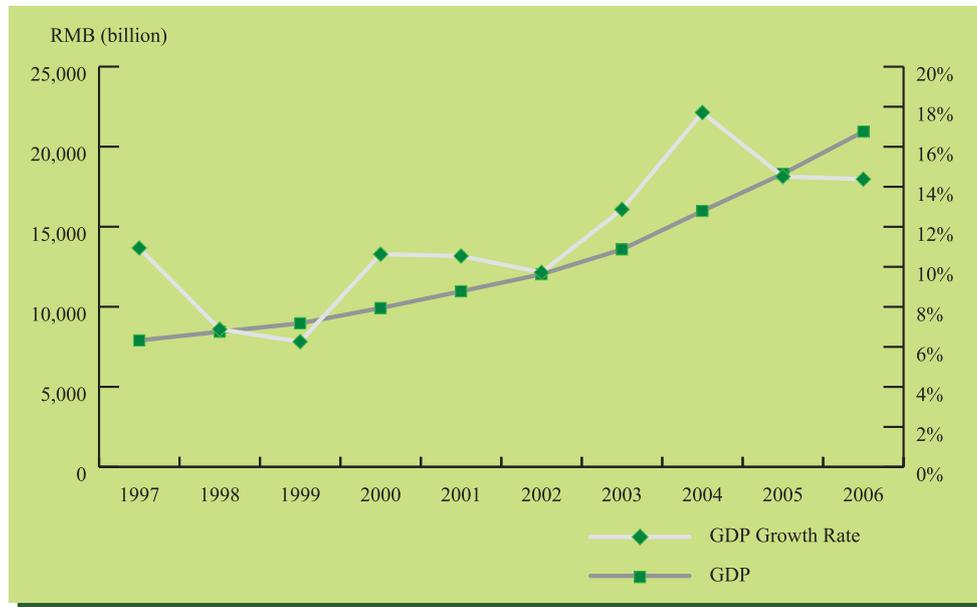
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GDP GROWTH AND CONSUMPTION IN THE PRC

Strong Economic Growth

In recent years, China has emerged as one of the fastest growing economies in the world. With a record-breaking nominal GDP of RMB20.9 trillion in 2006, China has managed to maintain a double-digit GDP growth for the 4th consecutive year. China's economy has grown at an annualised rate of 11.1% in the first three months of 2007.

China's GDP Growth Rate (1997–2006)

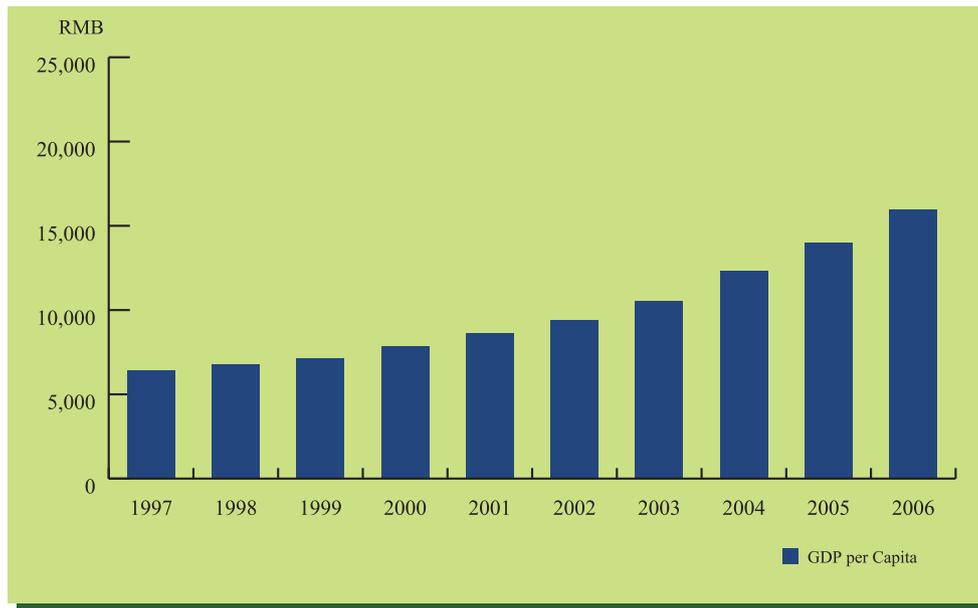


Source: National Bureau of Statistics of China

A wealthier population and higher living standards are the results of this booming economy. Data from the National Bureau of Statistics of China shows that the compound annual growth rate of China's GDP has been rising since 1999. From 2000 and onwards, China's GDP has been growing at over 8% per year, implying a rapid increase in the consumption power of the nation.

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GDP Per Capita of China (1997–2006)

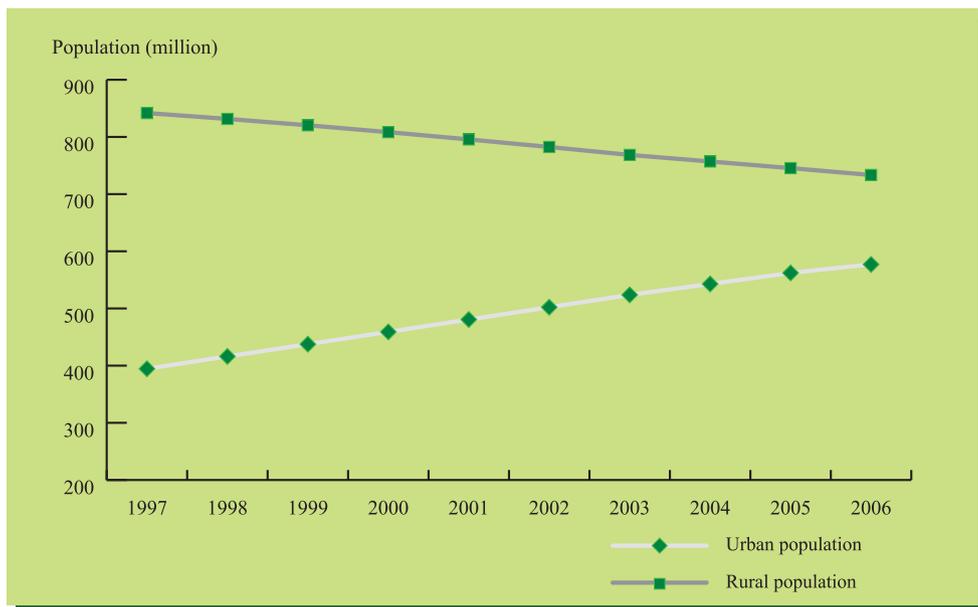


Source: National Bureau of Statistics of China

Urbanisation and Enhanced Purchasing Power

Urbanisation in China, as measured by dividing the urban population by the total population, has grown rapidly from 31.9% in 1997 to 43.9% in 2006. The chart below illustrates urban and rural population trends in China from 1997 to 2006.

Urban and Rural Population in China (1997–2006)

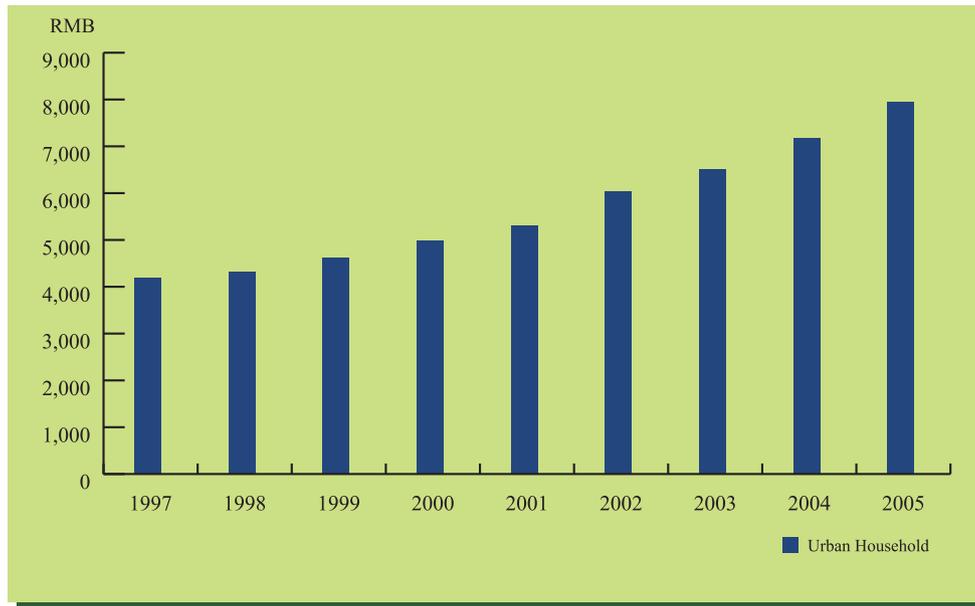


Source: National Bureau of Statistics of China

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According to the National Bureau of Statistics of China, the per capita annual consumption expenditure by China's urban household was approximately RMB4,998 in 2000. This figure had risen to approximately RMB7,943 in 2005, representing a significant increase in consumption expenditure by urban households at a CAGR of approximately 19.7%.

Per Capita Annual Consumption Expenditure of Urban Households

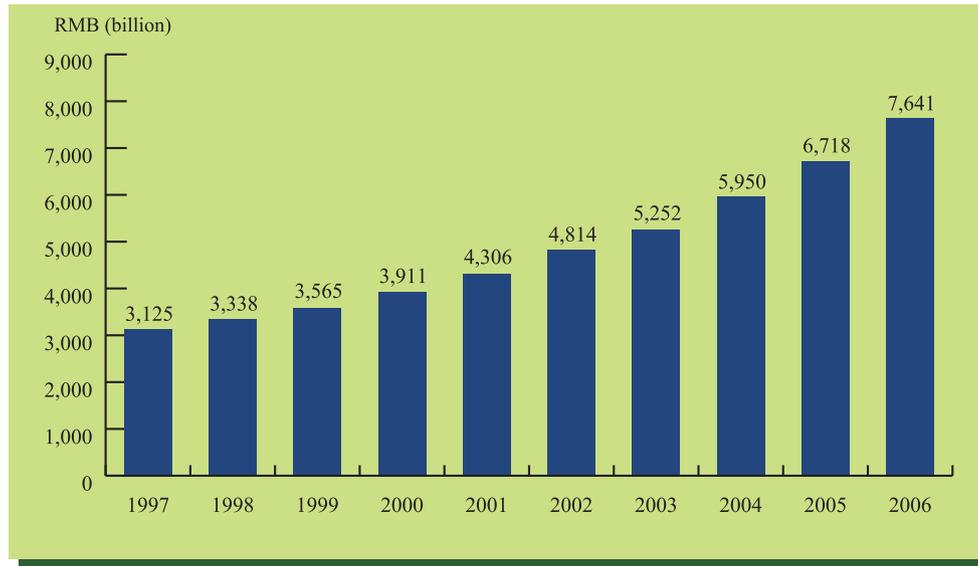


Source: National Bureau of Statistics of China

A similar trend is seen in China's retail sales figures. The increase in the purchasing power of the PRC's urban residents has resulted in a surge in retail sales of consumer goods. According to the National Bureau of Statistics of China, total retail sales of consumer goods in China increased from approximately RMB4,306 billion in 2001 to approximately RMB7,641 billion in 2006. With the strong economic growth and the launch of the 2008 Olympic Games in Beijing, the Group expects a similar level of growth in retail sales in China for the foreseeable future.

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China Retail Sales of Consumer Goods (1997–2006)



Source: National Bureau of Statistics of China

Overview of the Global Automotive Market

There are generally 4 main categories of motor vehicles: passenger vehicles, light commercial vehicles, heavy trucks and buses, among which passenger vehicles account for most of the global motor vehicle production.

Global Motor Vehicle Production by Type in 2006

Rank	Car types	unit produced in 2006 (million)	% accounted for
1	Passenger Vehicles	49.9	72.3%
2	Light Commercial Vehicles	15.5	22.4%
3	Heavy Trucks	3.2	4.6%
4	Buses	0.5	0.7%
Total:		69.1	100.0%

Source: International Organization of Motor Vehicle Manufacturers

Motor vehicle manufacturing in China has become more significant in recent years and continues to grow rapidly over the last decade when compared with other major vehicle manufacturing countries. China accounted for 10.4% of the total global vehicle production in 2006 as compared to 5.6% in 2002. In addition, in 2006, China overtook Germany and Japan in motor vehicle sales, making it the second largest motor vehicle market in the world, behind only the US.

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Motor vehicle sales in China has grown rapidly since its accession to the WTO, offering an immense opportunity to automotive players. As a long term perspective, rising income levels, an increasing rate of urbanisation, and more sophisticated infrastructure development would drive growth in China's automotive market.

The Global Automotive Aftermarket

The automotive aftermarket can generally be divided into 4 segments: (i) the passenger car, light, medium and heavy duty truck segment; (ii) the paint, body and equipment segment; (iii) the automotive warehouse distribution segment; and (iv) the tool and equipment segment. Each of these segments supplies original equipment parts produced by motor vehicle manufacturers as well as non-original equipment parts produced by independent suppliers. The range of products available in the automotive aftermarket includes mechanical products, electrical products, electronic products, exterior and structural products, motor oil, fluids and additives, and appearance chemicals.

The global automotive aftermarket as a whole is growing. According to Datamonitor, a market research firm, the global automotive aftermarket grew 4.2% in 2006, reaching US\$3,321.1 billion. The CAGR was 3.6% for the period 2002–2006.

Value of the Global Automotive Aftermarket



Source: Datamonitor, "Global Automotive Retail Industry Profile", March 2007. This report is based on a combination of primary research, including online, face-to-face and telephone interviews with consumer and industry players, and secondary research from International Organization of Motor Vehicle Manufacturers, Automotive Aftermarket Industry Association, and other various sources (including trade associations, news providers and others).

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From Upstream to Downstream: The Concept of 4S Outlets

In addition to motor vehicle manufacturing (which is an upstream function in relation to motor vehicle sales), the automotive industry is increasingly focusing on downstream profit opportunities; these include supplying after sales services and spare parts. One avenue is through the development and establishment, in industry jargon, of “4S outlets” from or instead of “3S outlets”.

Typically, 3S outlets provide the following products and services: (i) Sales (i.e. motor vehicle sales); (ii) Services; and (iii) Spare parts. In addition to those products and services, 4S outlets also conduct Surveys and solicit customer feedback. 4S outlets also possess the following distinguishing characteristics:

- Each 4S outlet is dedicated to and serves only one brand of motor vehicles.
- Each 4S outlet is certified by the relevant motor vehicle manufacturer and is required to comply with strict technical specifications and facilities requirements.
- Each 4S outlet is required to procure vehicles and parts from manufacturer, and manufacturer will provide training and technical support to 4S outlets.

Thus with 4S outlets, motor vehicle manufacturers can: (i) distribute genuine spare parts to end-users directly without allowing unauthorised dealers and repair shops to profit from this value chain (consumers generally feel more comfortable purchasing motor vehicles and spare parts from 4S outlets); (ii) have better control over the aftermarket for their products; and (iii) ensure a consistent brand service.

Overview of the Automotive Market in Hong Kong

Statistics from the Transport Department of Hong Kong show that the automobile market experienced a sharp decline in 2003 due to the outbreak of SARS and a change in the First Registration Tax computation in Hong Kong. Motor vehicle sales rebounded in 2004 and have since remained steady at around 30,000 units per year in recent years.

	Hong Kong Brand New Vehicle Registration				
	2002	2003	2004	2005	2006
	<i>(Units)</i>	<i>(Units)</i>	<i>(Units)</i>	<i>(Units)</i>	<i>(Units)</i>
Private Cars	27,692	21,345	25,598	24,372	24,497
Taxis	2,665	1,511	587	451	389
Buses	1,103	871	722	647	671
Light Buses	428	529	937	1,232	157
Goods Vehicles	5,362	4,500	6,042	6,501	6,762
Special Purpose					
Vehicles	160	103	107	159	85
Government Vehicles	709	403	409	378	380
Total	<u>38,119</u>	<u>29,262</u>	<u>34,402</u>	<u>33,740</u>	<u>32,941</u>

Source: *Monthly Traffic and Transport Digest December 2006, Transport Department of Hong Kong*

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Note:

1. “Brand New” refers to registration of brand new vehicles.
2. Usually customers would have local modifications before registration, as such the registration number include non brand new vehicles which include locally assembled vehicles.
3. Exclude motor cycles

The Automotive Aftermarket in Hong Kong

According to import statistics from the Census and Statistic Department of Hong Kong, the total value of sales of spare parts was over HK\$3.5 billion in 2006. Major sources of imports include Japan, China, Germany, Singapore, Malaysia and England.

Future Developments

Tax Incentive programme for environmentally-friendly petrol private cars

There is an increasing concern over the roadside air pollution in Hong Kong. In order to tackle this problem, the Hong Kong Government encourages the use of environmentally-friendly petrol private vehicles with both low emissions and high fuel efficiency by granting a 30% reduction in the First Registration Tax (of up to HK\$50,000) to buyers of newly registered environmentally-friendly petrol private vehicles. It is expected that the use of environmentally-friendly petrol private vehicles would be promoted under this programme.

Replacement scheme for pre-Euro and Euro I diesel commercial vehicles

To improve air quality, Hong Kong Government has offered, for a specific period, a one-off grant to vehicle owners who replace their diesel commercial vehicles that comply with pre-Euro and Euro I emission standards with new commercial vehicles that comply with Euro IV emission standards. The application deadline for the grant for replacing all Euro I diesel commercial vehicles is 31 March 2010. For all pre-Euro emission standards diesel commercial vehicles, the deadline is 30 September 2008, except for vehicles with body type which are registered as concrete mixers, gully emptiers, lorry cranes or pressure tankers, for which the deadline is 31 March 2010. The Company expects that the effect of this scheme on the sales and replacement of commercial vehicles would emerge close to the first deadline of 30 September 2008 because vehicle owners tend to replace their vehicles close to the application deadline.

Overview of the PRC Motor Vehicle Market

The US, Japan, China and Germany are the largest motor vehicle manufacturing countries in the world, accounting for an aggregate of 51.7% of total global motor vehicle production. China’s motor vehicle production reached 7 million units in 2006, overtaking Germany to become the third largest motor vehicle producer in the world. China also overtook Germany and Japan in terms of vehicle sales in 2006, making it the second largest motor vehicle market, behind only the US. In 2005, 18,480,700 cars were privately owned in China, registering a growth rate of 538% in 10 years as compared with only 2,896,700 units in 1996. With a population of 1.3 billion and private vehicle ownership rate of only 1.4%, growth opportunities in the Chinese automobile market are tremendous.

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Private Car Ownership in China (1996–2005)



Source: National Bureau of Statistics of China

The market share held by local motor vehicle brands in China was nearly 26% in 2006, which overtook the market share held by imported brands from Germany, Japan, the US and South Korea. The motor vehicle market in China is currently dominated by Sino-foreign joint ventures. Shanghai General Motors Co., Ltd., Shanghai Volkswagen Automotive Co., Ltd. and FAW-VW Automobile Co., Ltd., had the highest vehicle sales in China in 2006 with sales of 413,400, 352,000, and 350,000 units respectively.

Top Ten Motor Vehicle Manufacturers in China, as measured by units sold (2006)

		<i>units</i>
1	Shanghai General Motors Co., Ltd.	413,400
2	Shanghai Volkswagen Automotive Co., Ltd.	352,000
3	FAW-VW Automobile Co., Ltd.	350,000
4	Chery Automobile Co., Ltd.	300,000
5	Beijing Hyundai Automobile Co., Ltd.	280,000
6	Guangzhou Honda Automobile Co., Ltd.	260,000
7	Geely International Corporation	204,690
8	Dongfeng Peugeot Citroen Automobile Company Ltd.	200,000
9	Shen Yang Brilliance JINBEI Automotive Co., Ltd.	200,000
10	Changan Ford Mazda Engine Co., Ltd.	194,010

Source: China Association of Automobile Manufacturers*

* China Association of Automobile Manufacturers (CAAM) is an organization approved by the Ministry of Civil Affairs of the People's Republic of China.

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Measures for the Implementation of Administration of Branded Automobile Sales (汽車品牌銷售管理實施辦法)

On 21 February 2005, the Ministry of Commerce of the People's Republic of China promulgated Measures for the Implementation of the Administration of Branded Automobile Sales 《汽車品牌銷售管理實施辦法》 (the "Measures"). They came into effect on 1 April 2005. The Measures categorise enterprises engaged in branded automobile sales into general automobile distributors and automobile brand dealer. Both categories of distributors must be approved by the Ministry of Commerce and registered with the Ministry of Commerce and the State Administration for Industry and Commerce for archival filing.

General automobile distributors are defined by the Measures as enterprises that provide automotive resources to automobile brand distributors, including automobile manufacturers and general automobile distributors who have been authorised by automobile manufacturers to establish nationwide sales and services networks of branded automobiles and to engage in automobile distribution. General automobile distributors supply automobiles and parts. They also make trademarks available for use in marketing and appoint dealers to establish sales networks. Unless otherwise authorised, general automobile distributors may not sell directly to retail customers within the authorised distribution territories or regions of automobile brand dealer.

Automobile brand dealer are defined by the Measures as enterprises that are authorised by general automobile distributors to conduct automobile sales and services and generally engage in automobile sales, after-sales services, and parts sales within the scope authorised by the general automobile distributors. Unless they are otherwise permitted by the relevant general automobile distributor, automobile brand distributors may only make direct sales of branded authorised automobiles to end users.

The Group is a general automobile distributor for certain brands of automobiles in China, and is a automobile brand distributor for other brands of automobiles in China.

The PRC Automotive Aftermarket

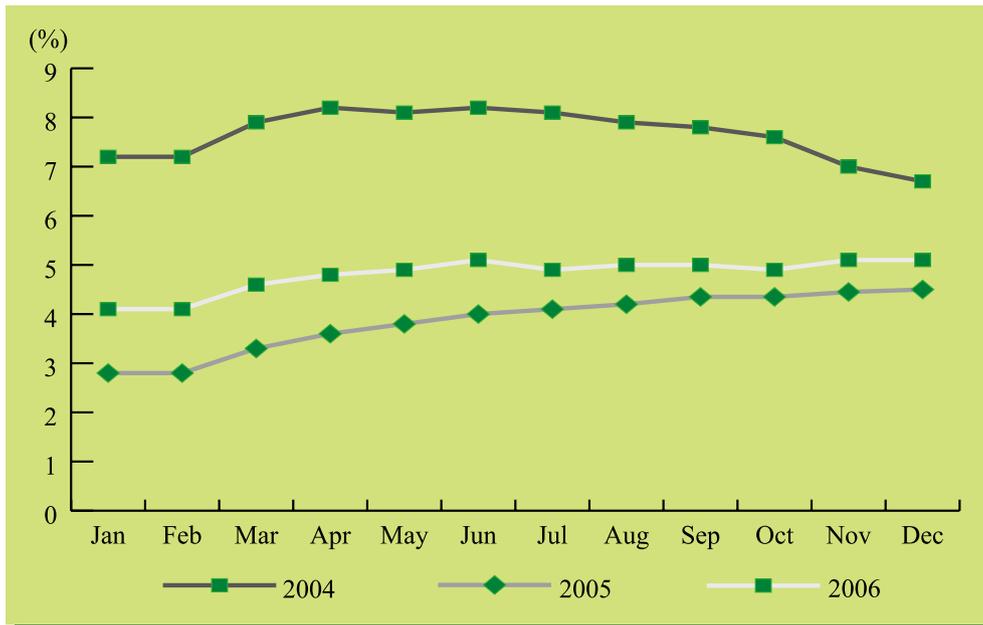
In view of the strong growth in motor vehicle sales in China, it is expected that the PRC automotive aftermarket will also post strong levels of growth in the near future. The Chinese Government believes that this after-sales market for cars could reach RMB300 billion in 2010. Starting on 1 January 2002, tariffs on imported vehicles reduced by 10% each year. As at 1 July 2006, after 6 tariff reductions, the average tariff was approximately 25%. The average tariff on motor vehicle parts has been lowered to 10%. In view of the lower selling price of vehicles and parts, it is expected that the PRC automotive aftermarket would experience a robust growth going forward.

The Development of 4S Outlets

Since China joined the WTO in December 2001, the automotive industry has experienced a series of transformations. With automotive import quotas coming to an end in 2005, and the average tariff on imported motor vehicles reducing to as low as 25% in mid-2006, competition between local car manufacturers and imported car dealers has intensified. Despite experiencing unit sales growth every year, car manufacturers in China recorded a decrease in profit margins in 2005.

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China's Motor Vehicle Industry Pre-Tax Profit Margins (2004–2006)

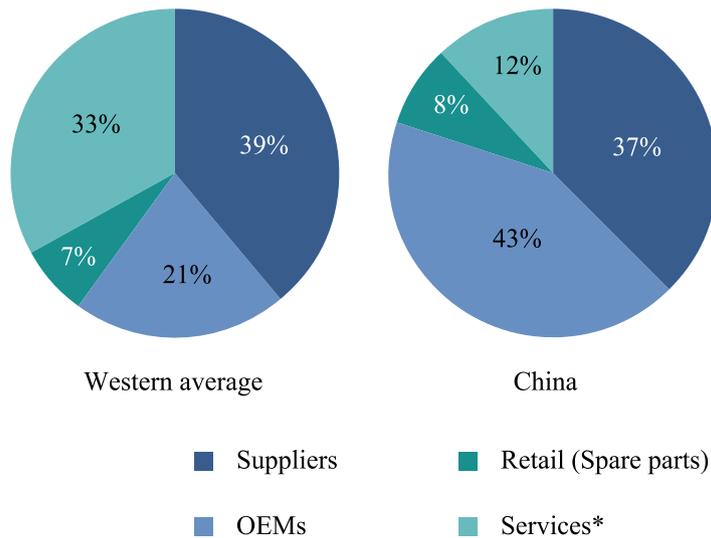


Source: China Association of Automotive Manufacturers

As a result, some automakers have tried tapping into downstream profits, by capturing the aftermarket services market through 4S outlets.

In 2005, profits generated from spare parts and services made up of only 20% of the industry's profits in China compared to 40% in Western markets. Thus, there is a high growth potential for 4S outlets in China.

2005 Profit Segmentation in the Automotive Industry



* Includes maintenance, financing, repairs etc

Source: China Association of Automotive Manufacturers

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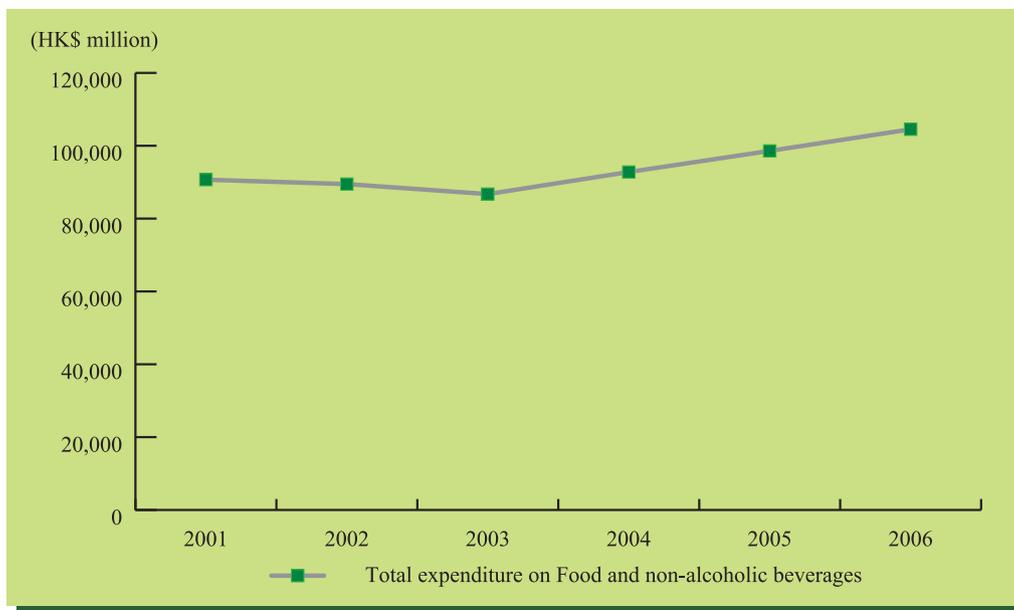
OVERVIEW OF THE FOOD INDUSTRY IN HONG KONG

The food and beverages industry in Hong Kong is largely characterised by its active trading activities, such as re-export activities. According to the Hong Kong Trade Development Council, the PRC market is currently the largest export market for Hong Kong's processed food and beverages (accounting for approximately 37.9% of total exports), followed by ASEAN (approximately 15.1%), Macao (approximately 13.8%) and Taiwan (approximately 12.9%).

Most of the food and beverages produced in Hong Kong are for local consumption. Main product categories include instant noodles, spaghetti, biscuits, cakes, and canned, preserved and processed seafood and seasoning. In view of the increasing Western interest in oriental food such as moon cakes and oyster sauce, many Hong Kong branded processed food and beverages have been successfully launched in overseas markets.

According to the Census and Statistics Department of Hong Kong, the total expenditure on food and non-alcoholic beverages increased from HK\$90,684 million in 2001 to HK\$104,513 million in 2006, representing an increase of 15.2% in five years. Total expenditure on food and non-alcoholic beverages in Hong Kong in 2005 accounted for 12.1% of the total consumption expenditures, being one of the largest expenditure items after housing and clothing.

Food Expenditure in Hong Kong



Source: Census and Statistics Department of Hong Kong

The Food Services Industry in Hong Kong

Hong Kong has more than 9,000 restaurants, offering an array of cultural cuisines and dining options, generating revenues of HK\$61.6 billion in 2006. This represented an increase of approximately 9.5% compared to 2005.

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Frozen, Chilled and Packaged Food in Hong Kong

Frozen food is food preserved by the process of freezing. It is a common food preservation method which slows down food degradation by storing food at a constant temperature of -18 degrees Celsius or below. Chilled food is generally stored at 0 to 4 degrees Celsius.

According to the Census and Statistics Department of Hong Kong, the total retail value of packaged food in 2006 was approximately HK\$35.3 billion, representing 71% of the retail food market by value. Non-packaged food, including fresh and frozen food from wet market and valuing approximately HK\$14.2 billion, accounted for the remaining 29% of the retail food market.

According to the Census and Statistics Department of Hong Kong, in 2006, the total consumption of edible oil in Hong Kong was 101,250 metric tons, representing a decrease of 13.5% from 117,106 metric tons in 2005.

Distribution of Frozen, Chilled and Packaged Food in Hong Kong

Wholesale and food service are the two major channels of distribution for frozen and chilled food. The wholesale sector comprises primarily wet market wholesalers who sell directly or distribute products to sub-distributors rather than retail consumers. The food service sector comprises primarily hotels, fast food outlets, canteens, cafes and restaurants.

According to the Hong Kong Census and Statistics Department, the market value of frozen, chilled or fresh food sold in Hong Kong was approximately HK\$14,256 million, HK\$16,062 million, and HK\$17,183 million in 2004, 2005 and 2006 respectively. An upward growth trend is expected by the Group for the coming years. The number of food service outlets increased from 11,593 in 2004 to 12,354 in 2005, which reflected a positive growth in the consumer food sector.

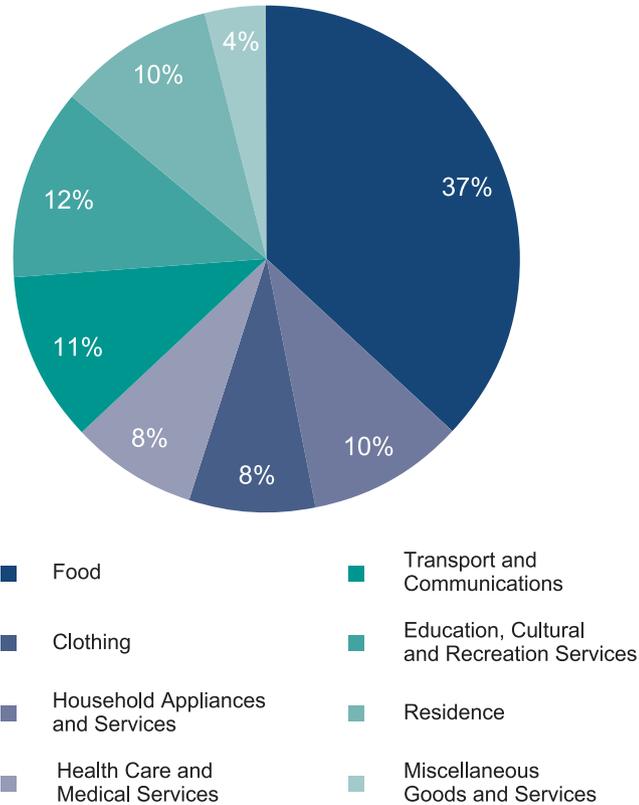
With the increasing demand for frozen and chilled food items due to price competition and food safety concerns with other food, more fast food outlets, restaurants and cafes are switching their consumptions towards frozen meat. Consumer demand for frozen and chilled meat is also expected to rise. The increased inbound tourism also led to a growth in demand for value added services supplied by restaurants and hotels, which in turn resulted in a slight increase in the demand for frozen or chilled food products.

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OVERVIEW OF THE PRC FOOD INDUSTRY

According to the National Bureau of Statistics of China, in 2005, the per capita annual expenditure of urban households reached RMB7,943, of which RMB2,914, represented approximately 37% of the total per capita expenditure was spent on food. Compared to food expenditure of RMB1,958 in 2000, expenditure of the urban population on food has been increasing at a CAGR of 8.28%, of which expenditure on pork, beef, mutton and poultry and edible vegetable oils has experienced continuous growth in the past ten years.

Per Capita Annual Expenditure of Urban Households in China (2005)



Source: National Bureau of Statistics of China

Per Capita Annual Expenditure on Major Food Commodities of Urban Households in China

	1995	2000	2005
Pork, beef, mutton and poultry (kg)	23.65	25.50	32.83
Edible vegetable oils (kg)	7.11	8.16	9.25

Source: National Bureau of Statistics of China

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Processing Meat and Packaged Food in the PRC

According to the National Bureau of Statistics of China, annual expenditure of urban households on food reached RMB2,914 in 2005, of which RMB565 was on meat and poultry.

China became a member of the WTO in December 2001. One of China's WTO commitments was to liberalise the domestic food market by reducing import duties to allow entry of more foreign players. Increased competition is expected to have a positive impact on the development of China's food industry in terms of quality and packaging of local production.

Main distribution channels for frozen, chilled and packaged food in the PRC remain wholesale and retail markets such as supermarkets, hypermarkets, grocery, fast food chains, convenience stores, restaurants and hotels.

Edible Oil

2005 was the last year that fats and oilseeds were subject to import quota management in China. With the enhanced urban resident living standards and continuous growth in the food catering and processing industry in China, demand for edible vegetable oil has witnessed an upward trend in recent years. According to the National Bureau of Statistics of China, consumption of edible vegetable oil by urban residents was 9.4 kg per capita in 2006, which is 1.2 kg more than that in 2000. Demand for imported edible vegetable oil has also been growing since the cancellation of the quota management system in 2006. China is now the world's largest importer of soybeans and palm oil. According to PRC Customs statistics, in 2006, China imported 6.71 million tons of edible vegetable oil, valued at US\$ 3.15 billion, 8% and 12% higher than those in 2005 respectively. In view of the increasing volume of China's edible vegetable oil imports, the world's reliance on China's edible oil market has become more prominent.

OVERVIEW OF THE LOGISTICS SERVICES INDUSTRY

In order to develop a successful logistics business centered in Asia, strong customer demand is required to allow new entrants to overcome the high cost barrier of entry. Because logistics is a downstream operation with respect to the production industry, it has a high correlation with the level of GDP in the region in which it is based. With China and India leading the way, GDP growth strengthened across most Asian countries in 2006. GDP growth in the emerging Asia, which includes China, was up by 0.4% to reach at 9% while GDP growth in Asia as a whole was up by the same margin to reach 7.6%. As a result, the Group expects high growth potential in the industry.

Benefits of Outsourcing Logistics Operations

Participants in the current logistics market are realising the benefits of outsourcing their logistics services needs. Direct benefits include a reduced need for human capital, improved cost efficiency, and a better level of service overall. Specifically, outsourcing logistics service allows a company to:

- reduce fixed costs and improve liquidity ratios
- enjoy a higher level of service by choosing the most competitive service provider
- be serviced by a dedicated team focusing on providing logistics services
- be more flexible with customers and offer a wider range of services

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- have access to superior international logistics channels and market proven technology
- focus existing staff on further enhancing the profit generating arm of the business

One of the biggest reasons that companies outsource their logistics operations is that it gives them the ability to focus on their core competency without having to work out minute details of how to get their products to their customers safely and on time. If the logistics function is outsourced, resources could be reallocated to areas in which the company excels and is able to fully utilise its human capital. If a company took its logistics operations in-house, it could be spreading its staff too thinly in attempting to solve problems to which professional third party logistics service providers already have answers.

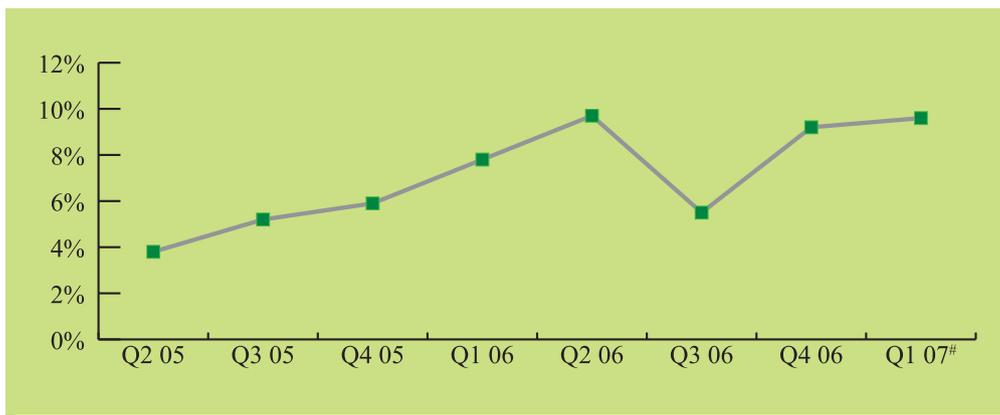
In the logistics industry, substantial benefits can be gained from economies of scale. Because of the capital intensive nature of the industry, it is imperative for a company to properly evaluate its supply chain need before developing in-house operations. Maintaining large distribution centers and minimising lead time can be extremely costly. With high fixed costs, the breakeven point can be high. In order to keep logistics operations in-house, management must be able to properly project revenue figures and assess whether they are sufficient in covering the related cost of running an in-house operation.

Food Supply Chain Management

Hong Kong

Presently, China is the largest market for Hong Kong's exports of processed food and beverages. Chinese consumers base their food purchase decisions mainly on nutritional value, price and taste. A phenomenon of supermarkets replacing wet markets is currently taking place in Hong Kong and China. Combined with changing lifestyles and rising incomes, these reasons together have contributed to the increased expenditure on packaged food.

Percentage Change in Dollar Sales of Hong Kong Restaurants



Provisional figure

Source: Census and Statistics Department of Hong Kong

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With total restaurant revenues and number of restaurants increasing in Hong Kong since 2003, the Group expects increasing demand for professional food logistics companies that provide quality services. Because of this expected demand in quality services, the investments required to deliver food products in a timely manner and comply with strict regulations set by government bodies can be high. This results in a high cost entry barrier to the industry which may make it difficult for new companies to join the industry.

Number of Restaurants in Hong Kong

<u>Year</u>	<u>Number of establishments</u>
2001	11,553
2002	11,342
2003	11,094
2004	11,593
2005	12,354

Source: Census and Statistics Department of Hong Kong

Macao

Macao is a party to the Closer Economic Partnership Arrangement (CEPA). According to China's tariff codes in 2001, 273 products made in Macao, including food and beverages, are allowed to enter China with zero tariff. Imported products made in Macao other than those 273 products have been enjoying zero tariff since 1 January 2006.

The food industry is quite important to Macao, with restaurants and hotels employing 10.3% of Macao's total labour force. In addition, local food is a tourist attraction and 19 items of food are included in CEPA which is likely to promote trade with Hong Kong and China. Foods with strong local features, which are very popular among tourists, are often freshly made. It is therefore feasible to develop such food products, suitable for export, like packaged noodles, flour products and baked food. As the Group is looking to strengthen its supply chain management services, it is possible to capture a greater share of Macao's food logistics services market.

The PRC

In China, Border Hygienic Quarantine Law and Food Hygiene Law govern imported foodstuffs, food additives, food containers, food packaging materials and food-related tools and equipment. China's Commodity Inspection Bureau conducts mandatory inspection of food products. Sales contracts usually specify the required standard to which the products must adhere to. These include standards for quality, weight, quantity, packing, labeling and inspection methods. Such standards must not be lower than the corresponding national standards. Safety licences and regulations are also applicable to imported food. Once a quality certificate for a product is issued, a laser food safety label can be affixed. All products sold in China must have Chinese language labels and must state the food type, brand name, trademark, manufacturer's name and address, country of origin, ingredients, production date and expiry date, etc.

In order for food manufacturers to focus on their core competency, an effective third party logistics service provider specialising in food logistics is in strong demand in China.

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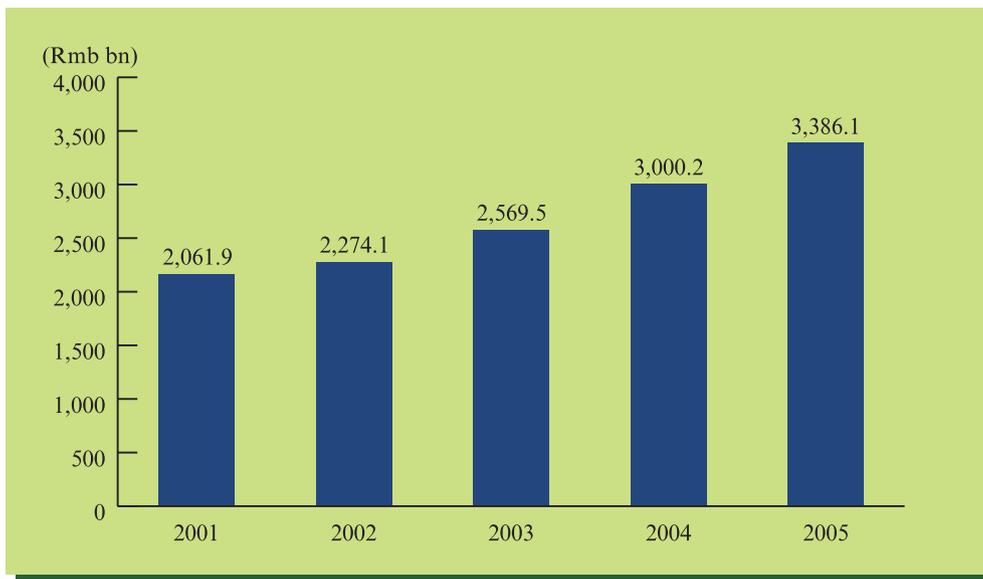
The PRC logistics services and supply chain management industry

The PRC's logistics industry has been experiencing tremendous growth. In 2005, a growth of 12.9% over 2004 brought the total value of logistics expenditure in China to RMB3,386 billion.

Other than the general economic growth of the country, there are also factors that are likely to fuel the growth of companies within the industry. These include:

1. Rapid growth — Implementing China's 11th Five-Year Plan, the Chinese government has invested heavily to improve China's infrastructure. As a result, China's logistics spending, as a percentage of GDP, is almost twice that of the US. Because logistics industry is heavily dependent on the transportation network of the country in which it operates, the improved infrastructure of China will be highly beneficial to the industry.

Social Logistics Total Expenditure



Source: China Logistics Yearbook 2006

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<u>Type of transport</u>	<u>Government plans (11th Five-Year Plan, 2006–2010)</u>
Railway	six railways for passenger transportation, including one between Beijing and Shanghai; five inter-city railways, including one between Beijing and Tianjin; and the upgrading of five existing railways including one between Datong and Qinhuangdao
Highway	14 expressways including one from Beijing to Hong Kong and Macao
Port	transit systems for the transportation of coal and imported oil, gas and iron ore, and containers transport systems at 12 seaports including those in Dalian, Tianjin and Shanghai; coal transit and storage bases in eastern and southern China
Shipping	the third-phase project for dredging the deepwater channel at the mouth of the Yangtze River, the course at the mouth of the Pearl River to the sea, channel dredging in the Yangtze and Pearl River valleys and the Beijing-Hangzhou Canal; and acceleration of port construction along inland rivers
Airport	expansion of ten airports including those in Beijing, Shanghai and Guangzhou; relocation of the two airports in Kunming and Hefei; and airports in central, western and northeastern China to accommodate flights on feeder lines

Source: Xinhua News Agency

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2. Consolidation in a highly fragmented market — There are 18,000 logistics services companies in China, where the largest players in the industry hold less than 2% of the market share. This indicates a highly fragmented industry. Because of this, companies with superior nationwide distribution services and strong international networks will be able to win new customers and gain market share.
3. Increased reliance on third party logistics service providers – Although the concept of outsourcing basic logistics functions is still relatively new to most Chinese companies, many multinational corporations are beginning to be exposed to the idea of procuring third party logistics services.

Although the demand for sophisticated logistics services is potentially high in China, there are certain obstacles to overcome in the inland regions where the infrastructure is less developed. The Group expects both challenges and growth opportunities in those regions.

INDUSTRY OVERVIEW

Obstacles to overcome in the PRC logistics industry

In China, factors that slow the development of the logistics industry include the fragmented distribution systems, limited use of technology and regulatory restrictions.

Although the Chinese Government has invested heavily in the development of infrastructure, greater efficiency and innovation will also have to take place at the same time in order to grow the logistics industry exponentially. Examples of these improvements include better storage systems, timely delivery to customers and safe transportation of goods.

LICENSING REQUIREMENTS

Automotive and Automotive Aftermarket Industry Licensing Requirements in Hong Kong

Some of the Group's motor vehicle and related business activities in Hong Kong are subject to special licence, permit, certificate and registration requirements. Those activities include the import, export and distribution of motor vehicles; trading of motor vehicle spare parts and accessories; motor vehicle repairs and servicing; trading, repairs and maintenance of electrical machinery and automotive equipment; motor vehicle leasing and provision of airport ground support equipment maintenance services. The requirements include registration as importer and distributor under the Motor Vehicles (First Registration Tax) Ordinance, registration as an insurance agent, licence for storage of dangerous goods, removal permit for category 1 dangerous goods, certificate of registration as electrical contractor, hire car permit — private service (limousine), approval for the combination of liquefied petroleum gas and compressed natural gas vehicle workshop, designation as car testing centre, designation as vehicle emission testing centre, use approval of a liquefied petroleum gas vehicle workshop, construction approval of a liquefied petroleum gas vehicle workshop, registration as waste producers, licence for conveyance of dangerous goods in category 5 by vehicles, vehicle registration document, trade licence issued by the Transport Department and certificate of fitness for a pressure vessel (other than a pressurised fuel container). The Group also requires approval from the Civil Aviation Department in order to provide maintenance services to airport ground support equipment and to issue Certificates of Release to Service for aircraft components.

The Group has obtained all necessary special licences, permits, certificates and registrations for its motor vehicle and related business in Hong Kong.

Automotive and Automotive Aftermarket Industry Licensing Requirements in the PRC

Some of the Group's motor vehicle and related businesses in the PRC are subject to special licence, permit, certificate and registration requirements. These businesses include branded motor vehicle dealerships, motor vehicle maintenance and repair services, motor vehicle leasing, and importation of motor vehicle parts for self-consumption. The requirements include registration with the Ministry of Commerce and the State Administration of Industry and Commerce, 《道路運輸經營許可証》 (Road Transport Business Operation Licence), issued by the General Customs Office or its local counterpart, and 《排放污染物許可証》 (Certificate of Approval for Pollutant Discharge) issued by the local Environmental Protection Administrative Departments.

INDUSTRY OVERVIEW

The Group has obtained all necessary special licences, permits, certificates and registrations for its motor vehicles and related business in the PRC, except that (i) 上海滬昌汽車服務有限公司 (Shanghai Huchang Motor Service Co., Ltd), 上海眾鈴汽車銷售服務有限公司 (Shanghai Zhongling Motors Sale and Service Limited), 昆明合達汽車銷售服務有限公司 (Kunming Heda Motors Sale and Service Limited), 湛江市駿華豐田汽車服務有限公司 (Zhanjiang Junhua Toyota Motors Sale and Service Limited), 湛江市駿凱汽車技術服務有限公司 (Zhanjiang Junkai Motors Technology and Service Limited), 湛江市駿誠汽車銷售服務有限公司 (Zhanjiang Juncheng Motors Sale and Service Limited), 湛江市駿浩汽車有限公司 (Zhanjiang Junhao Motors Limited), 湛江市合榮汽車銷售服務有限公司 (Zhanjiang Herong Motors Sale and Service Limited), 廣州合駿汽車貿易有限公司 (Guangzhou Hejun Motors Trading Limited), 北京合眾眾鈴汽車銷售服務有限公司 (Beijing Hezhong Zhongling Motors Sale and Service Limited); 上海眾威汽車銷售服務有限公司 (Shanghai Zhongwei Motors Sale and Service Limited); 江門市怡誠汽車銷售服務有限公司 (Jiangmen Yicheng Motors Sale and Service Limited) and 福州合創汽車貿易有限公司 (Fuzhou Hechuang Motors Trading Limited) are in the process of applying for Certificates of Approval for Pollutant Discharge; (ii) 江門市怡誠汽車銷售服務有限公司 (Jiangmen Yicheng Motors Sale and Service Limited) is in the process of applying for the Road Transport Business Operation Licence for certain automotive businesses currently carried out by these companies.

Food and Consumer Product Industry Licensing Requirements in Hong Kong

In Hong Kong, the Group distributes food, edible oil, alcoholic drinks, electrical appliances, and other consumer products. Some of these businesses are subject to special registration, permits and licensing requirements. They include import and export licences, licences for discharge of commercial trade effluent, food factory licences, fresh provision shop licences, frozen confections permits, wholesaler licences in proprietary Chinese medicine, retailer licences in Chinese herbal medicine, certificates of registration as gas contractor, Hong Kong registered gas installer card, certificates of registration as electrical contractor, approval for installation of domestic gas appliances, certificates of registration as an importer and exporter of pharmaceutical products, registration as importer of frozen meat, chilled meat, frozen poultry and chilled poultry, cold store licences, milk permits, and approval for operating a rice storage facility.

The Group has obtained all necessary special licences, permits, certificates and registrations for trading in food, edible oil, alcoholic drinks, electrical appliances, and other consumer products, except that Dah Chong Hong is currently in the process of applying for a licence for discharge of commercial trade effluent for some of its existing premises.

Food and Consumer Product Industry Licensing Requirements in the PRC

Some of the Group's trading activities in food, edible oil, alcoholic drinks, electrical appliances and other consumer products in the PRC are subject to special licence, permit, certificate and registration requirements. These activities include import and export, storage and sale of edible oil, production and sale of food stuff, wholesale of alcoholic drinks, and food processing. The requirements include 《食品生產許可証》 (Food Production Licence) and 《食品衛生許可証》 (Food Hygiene Licence) issued by the local Hygiene Administrative Department, and 《酒類商品批發許可証》 (Certificates for the Wholesale of Alcoholic Goods) issued by local Authorities for Alcoholic Goods Business Activities.

The Group has obtained all necessary special licences, permits, certificates and registrations for its trading in food, edible oil, alcoholic drinks, electrical appliances, and other consumer products in the PRC.

INDUSTRY OVERVIEW

Logistics Industry Licensing Requirements in Hong Kong

Some of the Group's logistics and warehousing business activities in Hong Kong are subject to special licence, permit, certificate and registration requirements. They include operation of dry and cold storage godown and provision of warehouse and transportations services. The requirements include cold store licences, approval for operating a rice storage facility and vehicle registration documents.

The Group has obtained all the necessary special licences, permits, certificates and registrations for its business activities in Hong Kong in relation to logistics and warehousing services.

Logistics Industry Licensing Requirements in the PRC

Some of the Group's logistics businesses in the PRC are subject to special licence, permit, certificate and registration requirements. Those businesses include road transport, international freight forwarding and foreign trade. The requirements include 《道路運輸經營許可証》(Road Transport Business Operation Licence) issued by the Ministry of Communication, 《進出口企業資格証書》(Import and Export Enterprise Qualification Certificate) issued by the Ministry of Commerce, 《海關保稅倉庫註冊登記証書》(Registration Certificate of Bonded Warehouse) and 《海關出口監管倉庫註冊登記証書》(Registration Certificate of Supervised Export Warehouse) issued by local customs.

The Group has obtained all necessary special licenses, permits, certificates and registrations for its logistic business in the PRC.

Motor trading, food and consumer products trading and provision of logistics and warehousing services are not heavily regulated industries in the PRC and Hong Kong. Apart from licensing requirements in the operating and implementing levels, there is no specific regulatory requirement that governs the Group's operations and business development strategies in these industries.