Annual Report 2006

Heng Tai Consumables Group Limited

亨泰消費品集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 0197)

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Mr. Lam Kwok Hing *(Chairman)*
Mr. Chu Ki
Mr. Fong Yiu Ming, Anson
Ms. Lee Choi Lin, Joecy
Mr. Peng Zhanrong
Mr. Chiau Che Kong

Non-Executive Director:

Ms. Chan Yuk, Foebe

Independent Non-Executive Directors:

Mr. John Handley
Mr. Poon Yiu Cheung, Newman
Ms. Mak Yun Chu

COMPANY SECRETARY

Mr. Wong Siu Hong

AUDITORS

RSM Nelson Wheeler
Certified Public Accountants
7th Floor, Allied Kajima Building
138 Gloucester Road
Wanchai
Hong Kong

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

31st Floor, Guangdong Finance Building
88 Connaught Road West
Sheung Wan
Hong Kong

PRINCIPAL BANKERS

Bayerische Hypo- und Vereinsbank AG
CITIC Ka Wah Bank Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
HSH Nordbank AG
Oversea-Chinese Banking Corporation Limited

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited
26th Floor
Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

On behalf of the board of directors (the "Board" or "Directors") of Heng Tai Consumables Group Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2006.

FINANCIAL PERFORMANCE

During the year under review, the Group demonstrated another successful year with its turnover grew by approximately 32% to HK$1,217 million and net profit attributable to shareholders surged by approximately 16.3% to HK$122.3 million when compared with the preceding financial year. Operating profit increased to approximately HK$128.8 million from HK$93.8 million and operating margin improved to approximately 10.6% from 10.2% when compared with the preceding financial year.

Share of profits of a combined result of associated companies decreased to HK$6 million from HK$14 million when compared with the preceding financial year. The decrease was mainly attributable to the decrease in share of net profit by HK$2 million from the Group's investment in a listed company in Hong Kong, Daqing Petroleum & Chemical Group Limited ("Daqing") and increase in share of net loss by HK$6 million from Zhongshan logistic centre.

Though the Group managed an admirable growth in turnover and operating profit, such increase was somewhat levelled off by the increase in finance costs and decrease in share of results of associated companies during the year under review. Net profit attributable to shareholders reached to approximately HK$122.3 million, representing an increase of approximately 16.3% compared to HK$105.1 million in the preceding financial year.

Due to the enlarged share capital base from issue of new shares for top-up placement and open offer during the year under review, earnings per share were decreased to 11.5 HK cents, compared with 13.1 HK cents in the preceding financial year. However, with the commencement of operations of Shanghai logistics centre during the year under review and the commencement of operations of Zhongshan logistics centre in November 2006, net profit attributable to shareholders and thus earnings per share are expected to improve in the coming year.

DIVIDEND

The Board does not recommend the payment of the final dividend in respect of the year ended 30 June 2006. Though the Group maintained a strong financial position throughout the year under review, the Board decided to maintain an adequate and safe level of cash reserves to prepare for the working capital requirements for our newly completed logistics projects in Shanghai and Zhongshan of the PRC and for the investment of the proposed logistics centre in Dalian of the PRC.

CHAIRMAN'S STATEMENT

BUSINESS MODEL REVIEW

During the year under review, the Group has consistently performed as a fast growing one-stop services platform provider conducting distribution, brand-building and value-added functions for the fast moving consumable goods, cosmetics, cold chain products and fresh produce industry. The Group's business model and development plans have proven to be a great success in capitalizing the economic growth in the People's Republic of China (the "PRC"). Consecutive annual double-digit growth in turnover and net profit attributable to shareholders since the Group's first public annual result announcement in 2002 has been achieved while margin improvement has also been consistently attained. Net assets have grown from HK$103 million as at 2002's year-end date to HK$1,139 million as at 2006's.

In addition to reinforcing its core distribution business, the Group has also successfully diversified from a distribution mentality to a service-oriented conglomerate to broaden its scope of services during the year under review.

DEVELOPMENT STRATEGIES TO SUSTAIN GROWTH

During the year under review, the Group have achieved admirable increase in turnover and operating profit. Such growth has been achieved through our carefully planned business development strategies in the past years and is now gradually realised and reflected in our top-line growth and bottom-line improvement.

During the year under review, the Group had continually implemented its product enrichment and refinement process. A procurement office had been established in Australia to strengthen the sourcing network. Other procurement offices in Germany, Korea, Thailand and Holland would be established in the coming years. In addition, the Group has established a PRC entity to perform the marketing and product researches on the PRC consumer market. Such researches would provide timely and valuable information in our product enrichment and refinement process.

Shanghai logistics centre has commenced its operations in October 2005 and is now fully functional. Its cold-chain operations have progressively soared as planned and it contributed approximately 9% of the Group's turnover during the nine months ended 30 June 2006 since commencement of operations. With its ever-expanding operations and client base, Shanghai logistics centre would be able to further uplift its contribution to the Group's turnover and net profit in the coming year.

Zhongshan logistics centre is another growth-driver project committed by the Group to widen its scope of service and implement product diversification. The centre provides a modern trade platform where fresh produce will be traded, processed and repacked by overseas and domestic growers before being distributed to ultimate customers. The centre will become the first mover to operate a nation-wide network of cold-chain distribution and logistics platform for fresh produce in the PRC. Zhongshan logistics centre would have its grand opening in early November 2006.

In August 2006, the Group completed the acquisition of 100% equity interest of Sunning State Group Limited and its subsidiaries ("Sunning Group"). Sunning Group is principally engaged in the wholesaling and distribution of overseas and domestic brand name cosmetics and skincare products in the PRC. Since the completion of the first acquisition of 70% equity interest of Sunning Group in April 2006, the Group had been able to carry out the integration of its existing distribution business in toiletry products to the cosmetics business of Sunning Group. The acquisition of Sunning Group would enable the Group to capture the ample potentials offered by the steadily growing cosmetics, skincare and toiletries markets in the PRC.

In addition to the continuous refinement to our business model to realise top-line growth, extra management efforts had also be spent to achieve margin improvement during the year under review. Investments in our Shanghai logistics centre for cold chain products had uplifted the Group's overall gross profit margin. Further, sales of nourishing and exclusively licensed branded products and cosmetics products had also enabled the Group to uplift the Group's overall gross profit margin. Further developments in these products would enable the Group to further improve its profit margin in the coming year.

PROSPECT

In the years ahead, we will continue to enhance our business model and consistently pursue our mission to become a leading integrated provider of distribution, logistic services and brand building in the fast moving consumable goods and cold-chain products industry and continuously create shareholder value through compounding our growth.

APPRECIATION

The development and success of the Group would not be possible without the commitment and vision of my fellow management team. I would like to take this opportunity to express my appreciation to them and our staff for their dedication to the Group's success during the year. I also wish to thank for the full support and trust from our shareholders and business partners in our business expansion strategy.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong, 20 October 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Heng Tai Consumables Group Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in investment holding, distribution of packaged food, beverages, household consumable products, cosmetics, cold chain products and fresh fruit. During the year under review, the Group has consistently performed as a fast growing one-stop services platform provider conducting distribution, brand-building and value-added functions for the fast moving consumable goods, cosmetics, cold chain products and fresh produce industry. China's retail and consumer markets continued to be the market place where the Group secured its business and growth.

BUSINESS ENVIRONMENT

During the year under review, China still demonstrated itself as one of the world's strongest growing economies and most exciting markets. According to the official releases from National Bureau of Statistics of China, China's economy continued to grow at a fast pace with the quarterly growth rate of its Gross Domestic Product at approximately 10% for the first 2 quarters of Year 2006. The gradual enlargement in the proportion of the middle-class consumers relative to the PRC's total population and the continued process of urbanisation in the PRC have also generated enormous demands for quality imported consumables. The favourable performance of Renminbi in the foreign exchange market has lifted consumer spending power on imported consumables in the PRC. These various positive factors had continually created favourable macro economic climate under which the Group was well positioned to capitalise prevailing market potentials in the PRC by utilizing its extensive and well-established distribution network and management experience and expertise.

FINANCIAL PERFORMANCE

During the year under review, the Group has achieved continuous growth in turnover and net profit attributable to shareholders. Turnover increased to approximately HK$1,217.0 million, representing an increase of approximately HK$296.7 million or 32.2% when compared with the preceding financial year. The increase in turnover was mainly attributable to (i) the increased sales quantity sold to the established distribution network; (ii) sales of cold chain products achieved by our Shanghai logistics centre since its commencement of operations in October 2005; (iii) sales of nourishing and exclusively licensed branded products; and (iv) share of the post acquisition contribution in turnover from newly acquired cosmetics business.

Gross profit margin improved continually to approximately 18.3% during the year under review when compared with approximately 16.5% in the preceding financial year. The improvement in gross profit margin was mainly attributable to the improvement in client mix to on-premise customers and continuous refinement of product mix as a result of sales of cold chain products, nourishing and exclusively licensed branded products and cosmetics products with their relatively higher gross profit margin contribution. The Group would continue its margin improvement process in the coming years through enlargement of sales mix of such higher profit margin products in its existing product portfolio.

Selling and distribution expenses recorded approximately 59% increase or increased from approximately 4.3% to 5.1% of the turnover when compared with the preceding financial year. Such increase was mainly attributable to the increase in marketing and promotion campaigns, headcounts for sales force and miscellaneous selling expenses with extra outlay for strengthening market awareness of nourishing and cold chain products and the geographical presence for the PRC sales network with establishment of liaison offices in Dalian, Harbin, Mudanjiang and Chengdu during the year under review.

Administrative expenses recorded approximately 110% increase to HK$35.1 million when compared with the preceding financial year. Such increase was mainly attributable to expansion of the Group's existing distribution operations and cosmetics business in the PRC, the newly established operations for nourishing products and exclusively licensed products and the administration costs incurred for our newly established procurement office in Australia and our Shanghai logistics centre since its commencement of operations during the year under review.

Finance costs increased from HK$2.4 million to approximately HK$9.0 million during the year under review. The increase was mainly attributable to the interest expenses incurred for a three-year term loan facility of HK$78 million drawn in June 2005 and the full year effect of the relevant interest expense was recorded during the year under review.

During the year under review, the Group recorded share of a combined result of associated companies of approximately HK$6 million, which consisted of the share of net profit of approximately HK$13 million from Daqing Petroleum & Chemical Group Limited ("Daqing"), a public company listed on The Stock Exchange of Hong Kong Limited with 13.29% equity interest owned by the Group and the share of net loss of approximately HK$7 million from Zhongshan logistics centre with 50% equity interest owned by the Group. Share of the net loss from Zhongshan logistics centre was attributable to our share in its pre-startup expenses. In view of the commencement of operations of Zhongshan logistics centre in November 2006, share of results of associated companies by the Group is expected to significantly improve in the coming years.

Profit from operations increased to approximately HK$128.8 million, representing an increase of approximately 37.4% compared to approximately HK$93.8 million (restated) in the preceding financial year. Though the Group managed an admirable growth in turnover and profit from operation, such increase was levelled off by the increase in finance costs and decrease in share of results of associated companies during the year under review. Net profit attributable to shareholders increased to approximately HK$122.3 million, representing an increase of approximately 16.3% compared to HK$105.1 million (restated) in the preceding financial year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a strong financial position throughout the year under review. The Group financed its operations and business development with internally generated resources, equity funding and banking facilities provided by its principal bankers in Hong Kong.

On 25 July 2005, the Company entered into a top-up placing and subscription agreement for the placing of 164,000,000 ordinary shares of the Company to independent placees at an issue price of HK$1.25 per share. The net proceeds of approximately HK$202 million would provide an enlarged shareholder base with additional resources to the Group's development and as general working capital of the Group.

On 20 April 2006, the Company issued 407,180,000 ordinary shares, on the basis of two offer shares for every five shares held on the record date, of HK$0.01 each to the shareholders of the Company at HK$0.75 per share through an open offer. The net proceeds of approximately HK$298 million are intended to the business development and as general working capital of the Group.

During the year, the Company raised funds from the issuance of 29,000,000 new shares through exercise of share options by option holders with net proceeds of approximately HK$34 million.

At 30 June 2006, the Group had interest-bearing bank borrowings of approximately HK$149.4 million (30 June 2005: HK$188.4 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and approximately 50% mature within one year. All of the Group's banking borrowings were floating-interest bearing and secured by corporate guarantees given by the Company and certain subsidiaries of the Company.

A significant portion of sales and purchases of the Group were either denominated in Hong Kong dollars and US dollars. The Directors consider that the operations of the Group are not exposed to any significant foreign currency exchange risk in view of the stability of the exchange rates between Hong Kong and US dollars. The Group did not have any significant hedging instrument outstanding as at 30 June 2006.

At 30 June 2006, the Group's current assets amounted to approximately HK$741.0 million (30 June 2005: HK$355.7 million) and the Group's current liabilities amounted to approximately HK$138.0 million (30 June 2005: HK$122.1 million). The Group's current ratio improved to approximately 5.4 as at 30 June 2006 (30 June 2005: 2.9). The improvement in the current ratio was mainly attributable to the increase in various current assets financed by enlarged shareholders' equity from issuance of share capital and current year's earnings. At 30 June 2006, the Group had total assets of approximately HK$1,363.5 million (30 June 2005 (restated): HK$689.0 million) and total liabilities of approximately HK$224.4 million (30 June 2005: HK$223.7 million) with a gearing ratio of approximately 11.0% (30 June 2005 (restated): 27.3%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets. The decrease in gearing ratio was mainly attributable to the decrease in bank borrowings and increase in total assets financed by enlarged shareholders equity from insurance of share capital and current year's earnings.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

The Group is principally engaged in investment holding, distribution of fast moving consumable goods, cosmetics, cold chain products and fresh produce. The product groups distributed by the Group included packaged food, beverages, household consumable products, cosmetics, cold chain products and fresh fruit with their respective contribution of approximately 53%, 5%, 7%, 2%, 9% and 24% to the Group's turnover for the year ended 30 June 2006. The categories of packaged food were mainly biscuits, candies, chocolate, condiments, margarine, milk power products, healthy food, noodles, snacks, rice and nourishing and exclusively licensed branded products. Beverages were mainly beers, wines and soft drinks and the household consumable products were mainly batteries and toiletries. Cosmetics products included make-up, perfumes, fragrance and skin and sun care products. Cold chain products comprised frozen meat, seafood and diary products. Fresh fruit was mainly pipfruit and citrus.

During the year under review, the Group had been making good progress in shifting its customer base to the on-premise sector as part of the management plans for gross profit margin improvement. Though wholesalers were still the main customer category, which accounted for approximately 70% of the Group's turnover, the retailer and on-premise sectors had increased its stake in the client max and accounted for the remaining 30% of the Group's turnover for the year ended 30 June 2006. Such shift in client mix was mainly attributable to continuous refinement of product mix to cater for demands from on-premise customers as a result of sales of newly introduced cold chain products. In the years ahead, the Group will keep on reallocating more resources in expanding its customer base to the on-premise sector to seek for a higher gross profit margin relative to the wholesaler sector. Moderate attention will still be paid for sales to the retailer sector to maintain product publicity while avoiding direct competition with the wholesalers.

Clientele spreading out will still be one of the Group's expansion agenda in the coming year through strengthening of geographical market presence by establishment of liaison offices in certain second tier cities and enrichment of product variety and diversification of product range. During the year under review, the Group had established four liaison offices in Dalian, Harbin, Mudanjiang and Chengdu in the PRC.

The Group's products were mainly sourced from the Southeast Asia, the United States of America, Europe, Australia, New Zealand and South Africa and sold to wholesalers, retailers and on-premise customers mainly in the eastern, southern and northern parts of the PRC. Recognizing the procurement network as one of the key success factors to its core business, the Group had established a procurement office in Australia during the year under review. In the years ahead, the Group will proceed to establish procurement offices in Germany, Korea, Thailand and Holland to strengthen its sourcing network. Further, the Group will keep on in refining its product selection process; enriching the product variety and diversifying the product range; and taking a more active role as a one-stop value-added services platform provider.

In addition to reinforcing its core distribution business, the Group has also successfully diversified from a distribution mentality to a service-oriented conglomerate to broaden its scope of services during the year under review. The investments in the diversification process would turn into the Group's growth drivers to pave the way for top-line growth and bottom-line improvement in the years ahead.

The Shanghai logistics centre became fully functional in October 2005 and now not only serves as the Group's headquarters and a back-up infrastructure to the Group's existing distribution business in the PRC, but also provides cold-chain logistics solutions to overseas frozen and dairy product suppliers with targeted customer base in the PRC. The frozen and chilled products processed by Shanghai logistics centre are all imported and premium-graded and under stringent hygiene and temperature-controlled HACCP cold-chain standard. During the nine months ended 30 June 2006, turnover from sales of cold-chain products represented approximately 9% of the Group's turnover and its client group was mainly on-premise customers. With the Group's established network in the PRC and expertise in distribution, the Shanghai logistics centre will be a significant growth driver to the Group's turnover and net profit in the coming years.

Zhongshan logistics centre is regarded as another growth driver for bottom-line improvement of the Group in the years ahead. Zhongshan logistics centre is principally engaged in the provision of various logistic services in fresh produce such as packaging, grading, export certification systems, marketing and distribution and would become the first mover to operate a nation-wide network of cold-chain distribution and logistic platform for fresh produce in the PRC. A great variety of fresh produce would be processed and repacked in the centre before being distributed to ultimate customers through centre's unbroken cold-chain logistic facilities. Currently, Zhongshan logistics centre has been in its trial-run state and would have its grand opening in early November 2006. To carve the significant moment of its grand opening in China's fresh produce industry, Zhongshan logistics centre has been endorsed by the relevant government authorities to be the host for 2006 China (Zhongshan) International Fruit Trade Fair, Standardization of Fruit and Vegetable Industries Forum and Cold-Chain Management, Fresh Produce Inspection and Quarantine Forum during the period from 9 to 11 November 2006. These trade fair and conference would serve as a meeting point for leading executives from the international fresh produce industry with the local importers and exporters, officials from the PRC Government and various countries to understand the latest cold-chain logistics development for fresh produce in the PRC. Knowledgeable presentations and panel discussions led by experts, international speakers and authoritative professionals of the industries would dwell on China's emerging role in the global fresh produce industry. Most importantly, such Forum and Fair would greatly raise the publicity of Zhongshan logistics centre in China's fresh produce industry.

To maximize the return from the investment in the infrastructure of Zhongshan logistics centre, in addition to the provision of third party logistics services in fresh produce, Zhongshan logistics centre has been well prepared to take up the trading function itself. The trading function would operate from the upper stream of the vertical operation model by performing sourcing function itself, through processing, grading and packaging in Zhongshan logistics centre and reaching the lower stream by distributing to the sales outlets in supermarkets and chain-stores in the PRC. To support the sourcing function, Senox Group, being the holding company and its subsidiaries beneficially owns Zhongshan logistics centre, entered into a sole and distribution agreement to secure the exclusive quality supply from certain collaborative growers of Thai fresh fruit for a five-year term and a acquisition agreement to acquire 60% of Nature Intuition Group. Nature Intuition Group is principally engaged in the cultivation, sales and export of fresh produce in Guangdong province of the PRC. By acquiring Nature Intuition Group, Senox Group is able to participate in the upper stream of the vertical operation and accordingly ensure a steady supply of a wide-variety of quality-assured fresh produce and an unbroken flow of fresh produce from cultivation to ultimate sales outlets and more importantly, a maximization of profitability in its fresh produce operations.

On 25 July 2005, the Company entered into a top-up placing and subscription agreement for the placing of 164,000,000 ordinary shares of the Company to independent placees at an issue price of HK$1.25 per share. The subsequent subscription was completed on 5 August 2005 with 164,000,000 new ordinary shares of the Company issued at HK$1.25 per share. The net proceeds of approximately HK$202 million from the placement were intended to be used as to (i) approximately HK$50 million originally intended for the acquisition of another 20% equity interests in Zhongshan project were subsequently applied as part of the further capital contribution in Zhongshan project; (ii) approximately HK$15 million for enhancement in operating equipment of Shanghai logistics centre; (iii) approximately HK$15 million for establishment of packaging plant for nourishing products in Hong Kong; (iv) approximately HK$15 million for development of brand name used for the Group's products; (v) approximately HK$10 million for expansion of PRC sales network; (vi) approximately HK$10 million for expansion of overseas procurement network; and (vii) the balance of approximately HK$87 million for general working capital for the Group. The placement had also served to increase the liquidity of the Company's shares and would provide an enlarged shareholder base with additional working capital to the Group's business development.

On 9 December 2005, to cope with the business development of Zhongshan logistics centre, the shareholders of Senox Group agreed to increase their total equity investment from HK$130 million to HK$310 million. The Group, being a 50% shareholder had made an additional pro rata capital contribution of HK$90 million to its investment Senox Group. The additional capital contribution was used as to (i) HK$25 million to secure the sole and distribution rights for the exclusive quality supply from certain collaborative growers of Thai fresh fruit for a five-year term; (ii) HK$55 million to acquire 60% equity interest in Nature Intuition Group; and (iii) HK$100 million as additional working capital of Senox Group to support its enlarged operations.

In addition to the two strategically located logistics centres in the eastern (Shanghai) and southern (Zhongshan) regions of the PRC, the Group has been looking for suitable business opportunities in the north-eastern region of the PRC to further expand and complement its distribution network in the PRC. The Group is still in its assessment stage to establish a fresh produce logistic centre in north-eastern region of the PRC. The estimated investment cost for such logistic centre by the Group was approximately HK$160 million. The establishment of the logistic centre in north-eastern region of the PRC would significantly raise the Group's processing capacity and complement its distribution network of imported fresh produce in the PRC together with the two logistic centres in Shanghai and Zhongshan of the PRC.

On 26 January 2006, the Group entered into the acquisition agreement to acquire 70% equity interest of Sunning State Group Limited and its subsidiaries ("Sunning Group") at a consideration of HK$77 million. Sunning Group is principally engaged in the wholesaling and distribution of overseas and domestic brand name cosmetics and skincare products in the PRC. In view of the ample potentials of cosmetics, skincare and toiletries products in the PRC steadily growing market, the acquisition offered the Group an excellent business opportunity to further diversify its product lines whilst at the same time allowed the Group to extend its existing distribution network in the PRC. The addition of new product lines and new distribution network will have a synergic effect to the Group's existing toiletry product lines and distribution network for enhanced economy of scales and efficiency when both the new and existing product lines are channelled for distribution in the integrated and extended distribution network of the Group. Sunning Group had reported an audited consolidated turnover and net profit of approximately HK$64 and HK$14 million respectively for the 9 months ended 30 June 2006. The Group, being entitled to share 70% of the financial results of Sunning Group after the acquisition completion date on 1 April 2006 had been able to share its 70% post-acquisition turnover and net profit in the sum of approximately HK$21 million and HK$4 million respectively in its consolidated income statements for the year ended 30 June 2006.

On 1 March 2006, the Company announced to propose to raise approximately HK$298 million through an open offer, after deducting all the relevant expenses of approximately HK$7 million, by issuing 407,180,000 offer shares on the basis of two offer shares at HK$0.75 each payable in full on application for every five shares held on the record date on 24 March 2006. The estimated net proceeds of the open offer of approximately HK$298 million was intended to be used as to (i) approximately HK$160 million for the establishment of a fresh produce logistic centre in Dalian of the PRC; (ii) approximately HK$70 million for the acquisition of a logistics and transport company operating in the Far East region; and (iii) the remaining balance of approximately HK$68 million as working capital of the Group. 407,180,000 ordinary shares of HK$0.01 each in the Company were issued at HK$0.75 per share on 20 April 2006.

In June 2006, the Group acquired a logistics and transport businesses in the PRC at HK$25 million. Such acquisition would enable the Group to carry out the door to door truck delivery and freight forwarding services in the PRC and was aimed at further catering for the expanded logistics and distribution operations of the Group and complementing the Group's delivery capacity in its well developed one-stop value-added logistics services.

On 24 June 2006, the Group entered into the acquisition agreement to acquire the remaining 30% equity interest of Sunning Group at a consideration of HK$40 million. Since the completion of the first acquisition of 70% equity interest of Sunning Group in April 2006, the Group has been able to carry out progressively the integration of its existing distribution business in toiletry products to the cosmetics business by Sunning Group. To accelerate the realisation of synergic effect and speed up the integration process by further diversifying Sunning Group's cosmetics product categories in the Group's existing distribution network, the Group decided to acquire the remaining 30% equity interest to get hold of the full control in Sunning Group. The acquisition had been completed on 31 August 2006 and the Group would be able to consolidate the entire turnover and net profit of Sunning Group into its consolidated income statement since the completion date for the year ending 30 June 2007.

In the years ahead, the Group will continue to enhance its business model and consistently pursue its mission to become a leading integrated provider of distribution, logistic services and brand building in the fast moving consumable goods, cosmetics and cold-chain products industry.

DIRECTORS, SENIOR MANAGEMENT AND STAFF

EXECUTIVE DIRECTORS

Mr. LAM Kwok Hing, aged 50, is the Chairman and Managing Director of the Company. He has over 25 years' experience in the consumer products industry and worked as a division supervisor in the Consumer Sales Division of Dodwell Hong Kong Limited for 10 years before founding the business of the Group in 1994. Mr. Lam is responsible for the strategic planning, corporate policy, overall management and marketing strategy of the Group. Mr. Lam is the spouse of Ms. Lee Choi Lin, Joecy, an Executive Director of the Company.

Mr. CHU Ki, aged 53, is an Executive Director of the Company and a founder of the Group. Mr. Chu has over 25 years' managerial experience in the food and beverage and the transportation industries, both in Hong Kong and in the PRC. Mr. Chu is responsible for the Group's overall development, management and external corporate and investor communication. Mr. Chu was an Executive Director of Daqing Petroleum & Chemical Group Limited ("Daqing") during the period from 13 January 2004 to 14 December 2005.

Mr. FONG Yiu Ming, Anson, aged 44, is an Executive Director of the Company and a founder of the Group. Mr. Fong has over 20 years' experience in the consumer products industry and worked as a sales representative in the Wine & Spirits Division of Dodwell Hong Kong Limited prior to joining the Group. Mr. Fong is responsible for the sales and marketing management of the Group.

Ms. LEE Choi Lin, Joecy, aged 46, is an Executive Director of the Company and a founder of the Group. Ms. Lee is currently responsible for the general administration and management of the Group. She has over 10 years' experience in the consumer products industry. Ms. Lee is the spouse of Mr. Lam, an Executive Director of the Company.

Mr. PENG Zhanrong, aged 36, is an Executive Director of the Company and is responsible for the overall management and business development of the Group's investment in a listed company on the Main Board of The Stock Exchange of Hong Kong Limited, Daqing. Mr. Peng graduated from the South China University of Technology majoring in chemical engineering in the PRC. Mr. Peng has over 10 years' experience in the auto and petroleum industries in the PRC prior to joining the Group in February 2004. Mr. Peng is also an Executive Director of Daqing.

Mr. CHIAU Che Kong, aged 38, is an Executive Director of the Company. Mr. Chiau is specialized and has over 10 years' experience in the trading industry of consumer products in Hong Kong and the PRC prior to joining the Group in April 2004. Mr. Chiau is responsible for the Group's overall product and marketing development. Mr. Chiau is also an Executive Director of Daqing.

NON-EXECUTIVE DIRECTOR

Ms. CHAN Yuk, Foebe, aged 37, is an Non-Executive Director of the Company. Ms. Chan holds a Bachelor Degree in Accountancy from the Queensland University of Technology in Australia. Ms. Chan has over 10 years' experience in corporate finance and management. Prior to joining the Group in May 2002, Ms. Chan held senior positions in a listed company and an investment company. Ms. Chan is responsible for the overall business development of the Group and also of the Group's investment in Daqing. Ms. Chan is also an Executive Director of Daqing.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. John HANDLEY, aged 63, is an Independent Non-Executive Director of the Company appointed in November 2001. Mr. Handley has a Postgraduate Diploma in Export Marketing and 30 years' experience in marketing consumer products in Australia and the Far East. During the last 15 years, he has completed a number of business consultancy contracts in the PRC and Asia for major European manufacturers. Mr. Handley is a member of the Institute of Export in United Kingdom, a member of the Hong Kong Institute of Marketing and a Voting Member of the Hong Kong Jockey Club.

Mr. Poon Yiu Cheung, Newman, aged 52, is an Independent Non-Executive Director of the Company appointed in November 2003. Mr. Poon obtained a Bachelor of Art Degree, majoring in accounting and economics in the University of Alberta in Canada. Mr. Poon is a senior executive of a multinational insurance company and has over 25 years' experience in insurance and accounting.

Ms. Mak Yun Chu, aged 48, is an Independent Non-Executive Director of the Company appointed in April 2004. She is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, and has over 10 years' experience in accounting and administration.

SENIOR MANAGEMENT

Mr. WONG Siu Hong, Horris, aged 39, is the Chief Financial Officer and Company Secretary of the Company. He is responsible for the Group's financial planning and management, and corporate governance. Mr. Wong obtained a Bachelor of Business Degree, majoring in accounting and commercial law in Australia. He is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia. Prior to joining the Group in March 2003, Mr. Wong worked in a multinational accounting firm and has over 10 years' experience in accounting and auditing. Mr. Wong is also an independent non-executive director of Huafeng Textile International Group Limited, a listed company on the Main Board of the Stock Exchange.

Ms. HUNG Sau Yung, Rebecca, aged 40, is the Administration and Accounting Manager of the Group. Ms. Hung obtained a Bachelor of Business Degree in Australia. Ms. Hung joined the Group in March 1998 and is responsible for overseeing the financial operations and administrative function of the Group. She has over 10 years' experience in accounting and administration.

Mr. ONG Hong Hoon, Bernard, aged 56, joined the Group in November 2004 as General Manager of the fresh produce division. Mr. Ong is responsible for managing the operations and development of the fresh produce logistics business of the Group. Mr. Ong holds a master degree in business administration from Golden Gate University, USA. Mr. Ong is an associate member of Yayasan Pengurusan Malaysia (Malaysian Institute of Management and an associate of the Institute of Bankers of United Kingdom. Mr. Ong has over 15 years' experience in managing various large-scale projects relating to consumer business, construction, manufacturing, import/export and logistics operations in Hong Kong and the PRC.

Mr. WONG Kam Wing, aged 53, joined the Group in September 1995 and now as Deputy General Manager of the Group's fresh produce division. Mr. Wong is responsible for managing the operations and development of the fresh produce logistics business of the Group. Mr. Wong has over 15 years' work experience in the consumer goods industry.

Ms. GUO Qin Jian, aged 45, is the General Manager of a PRC subsidiary of the Company. Ms. Guo obtained a Bachelor of Business Degree, majoring in business administration in Fudan University of the PRC. Ms. Guo has over 20 years' experience in accounting, finance and also managerial experience in the distribution and logistic industries. Ms. Guo joined the Group in March 2004 and is responsible for the management and business development of the Group's logistic business in the PRC.

Mr. Dirk Butch WALTER, aged 43, joined the Group in May 2005 as Food Service Manager. Mr. Walter is responsible for managing the cold-chain operations in Shanghai logistics centre. Mr. Butch holds a master craftsman's diploma and is a certified German Masterbutcher. He has over 12 years' experience in importing and supplying high quality frozen meat and seafood and catering products to the hotels, restaurants, airline catering and on-premise sectors in the PRC.

Mr. Daniel KEY, aged 28, joined the Group in February 2003 as Business Development Manager. Mr. Key is responsible for the Group's product procurement and development and is specialized in product management and global sourcing of cold-chain products. Mr. Key obtained an Bachelor Degree in British Law in the United Kingdom.

Mr. HO Sik Leung, Alex, aged 39, joined the Group in April 2006 as Director of a Company's subsidiary engaged in logistics business. Mr. Ho is responsible for managing the Group's logistics business in cold chain products. Mr. Ho obtained a Bachelor of Arts Degree in Hong Kong and has over 15 years' experience in international shipping, container terminals services, trade development and cold chain logistics in Hong Kong and the PRC. Mr. Ho is a member of the transport expert committee of the Government of Shenzhen Special Economic Zone and a chartered member of the Chartered Institute of Logistics and Transport.

Mr. HUNG Ling Ming, aged 52, joined the Group in April 2006 as Business Development Manager in fast moving consumables goods. Mr. Key is responsible for the Group's product development and sales and marketing functions. Mr. Hung obtained a Bachelor Degree in the United Kingdom and a Master of Business Administration Degree in Hong Kong and has over 20 years' work experience in sales and marketing.

Mr. ONG Chew Sheng, aged 36, joined the Group in April 2005 as Senior Business Development Manager of the fresh produce division. Mr. Ong is responsible for business development of the Group's cold-chain business. Mr. Ong obtained a Bachelor of Arts Degree in Business Organisation in Malaysia and has over 10 years' work experience in sales and marketing in Malaysia and the PRC.

Mr. CHENG Hok Ming, aged 56, joined the Group in July 2005 as Assistant General Manger of the fresh produce division. Mr. Cheng is responsible for operational, trading and warehousing functions of the Group's cold-chain business. Mr. Cheng has over 12 years' work experience in logistics and warehouse management and retail chain stores operations in Hong Kong and Taiwan.

Mr. VOON Fu Hiung, aged 28, joined the Group in June 2005 as Operation and Warehouse Supervisor of the fresh produce division. Mr. Voon is responsible for supervising and managing the operations and inventory flow in the cold-chain warehouse. Mr. Voon obtained a Bachelor of Arts Degree in Logistics and Supply Chain Management in the United Kingdom and has over 3 years' relevant work experience in cold chain and logistics operations in Malaysia.

DIRECTORS' REPORT

The directors herein present their report together with the audited financial statements of the Group and of the Company for the year ended 30 June 2006.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The principal activities of the subsidiaries are set out in note 22 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

An analysis of the Group's performance by business and geographical segments for the year ended 30 June 2006 is set out in note 8 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 30 June 2006 and the state of the Group's and the Company's affairs at that date are set out in the financial statements on pages 33 to 36.

The directors do not recommend the payment of any dividend in respect of the year.

RESERVES

Movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in note 32 to the financial statements respectively.

FIVE YEAR FINANCIAL INFORMATION

A summary of the consolidated results and of the consolidated assets, liabilities and equity of the Group for the last five financial years is set out below:

Results

	Year ended 30 June				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	
Profit attributable to:					
– Equity holders of the Company	**122,319**	105,142	72,094	46,222	38,408
– Minority interests	**1,299**	(7)	–	–	–
Profit for the year	**123,618**	105,135	72,094	46,222	38,408

Assets, liabilities and equity

	At 30 June				
	2006	2005	2004	2003	2002
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(Restated)	(Restated)	(Restated)	
Total assets	**1,363,505**	689,023	409,761	280,159	183,829
Total liabilities	**(224,389)**	(223,661)	(97,611)	(84,643)	(80,456)
Total Equity	**1,139,116**	465,362	312,150	195,516	103,373

Note: The results of the Group for the four years ended 30 June 2002, 2003, 2004 and 2005 and of the assets, liabilities and equity of the Group as at these dates have been extracted from the audited financial statements of the Company for the respective years and restated as appropriate. The results of the Group for the year ended 30 June 2006 and of the assets, liabilities and equity of the Group as at 30 June 2006 are those set out in page 33 and pages 34 to 35 of the financial statements, respectively.

FIXED ASSETS

Details of the movements in fixed assets of the Group and of the Company are set out in note 16 to the financial statements.

CONSTRUCTION IN PROGRESS

Details of the movements in construction in progress of the Group are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company are set out in note 31 to the financial statements.

DISTRIBUTABLE RESERVES

At 30 June 2006, the Company had distributable reserves of approximately HK$861,702,000. Under the Companies Law (Revised) of the Cayman Islands, the share premium account of the Company of approximately HK$761,205,000 as at 30 June 2006 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, redeemed or sold any of the Company's listed securities during the year ended 30 June 2006.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the sales to the Group's five largest customers taken together accounted for less than 30% of the Group's total sales for the year.

Purchases from the Group's five largest supplying principals taken together and the Group's largest supplying principal accounted for approximately 52% and 26%, respectively, of the Group's total purchases for the year.

MAJOR CUSTOMERS AND SUPPLIERS *(Continued)*

None of the directors, their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the major customers or supplying principals noted above.

DIRECTORS

The directors of the Company during the year were as follows:

Executive directors

Mr. Lam Kwok Hing
Mr. Chu Ki
Mr. Fong Yiu Ming, Anson
Ms. Lee Choi Lin, Joecy
Mr. Peng Zhanrong
Mr. Chiau Che Kong

Non-executive director

Ms. Chan Yuk, Foebe
(re-designated from executive director to non-executive director on 14 December 2005)

Independent non-executive directors

Mr. John Handley
Mr. Poon Yiu Cheung, Newman
Ms. Mak Yun Chu

In accordance with the Company's articles of association, Ms. Chan Yuk, Foebe, Mr. John Handley, Mr. Poon Yiu Cheung, Newman and Ms. Mak Yun Chu will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Mr. John Handley, Mr. Poon Yiu Cheung, Newman and Ms. Mak Yun Chu were appointed for a term of three years expiring on 5 November 2007, 25 November 2006 and 7 April 2007 respectively.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of directors of the Company and senior management of the Group are set out on pages 14 to 17 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Lam Kwok Hing, Mr. Chu Ki, Mr. Fong Yiu Ming, Anson and Ms. Lee Choi Lin, Joecy entered into service contracts with the Company respectively for an initial term of three years commencing on 1 July 2001, which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Ms. Chan Yuk, Foebe entered into a service contract with the Company on 14 December 2005 for a term of one year which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Mr. Peng Zhanrong and Mr. Chiau Che Kong entered into service contracts with the Company on and with effective from 13 February 2004 and 8 April 2004 respectively which are terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2006, the interests and short positions of each director and chief executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code"), were as follows:

Interests in shares of the Company

Name of director	*Notes*	Number of issued ordinary shares held	Percentage of the issued share capital
Mr. Lam Kwok Hing	*1*	239,400,000	16.80%
Ms. Lee Choi Lin, Joecy	*2*	85,680,000	6.01%
Mr. Chu Ki	*3*	16,800,000	1.18%

Notes:

1. These shares are owned by Best Global Asia Limited ("Best Global"), a company incorporated in the British Virgin Islands (the "BVI"). The entire issued share capital of Best Global is beneficially owned by Mr. Lam Kwok Hing, the spouse of Ms. Lee Choi Lin, Joecy.

2. These shares are owned by World Invest Holdings Limited ("World Invest"), a company incorporated in the BVI. The entire issued share capital of World Invest is beneficially owned by Ms. Lee Choi Lin, Joecy, the spouse of Mr. Lam Kwok Hing.

3. These shares are owned by Asia Startup Group Limited ("Asia Startup"), a company incorporated in the BVI. The entire issued share capital of Asia Startup is beneficially owned by Mr. Chu Ki.

All the interests disclosed above represent long position in the shares of the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

(Continued)

Save as disclosed above, as at 30 June 2006, none of the directors or chief executive of the Company and their respective associates had any interests or short positions in shares, underlying shares or debentures of the Company, its subsidiaries or any associated corporations (within the meaning of Part XV of the SFO) which were required to be entered into the register kept by the Company pursuant to Section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, or the chief executives or their spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

Details of the Company's share option scheme are set out in note 31 to the financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Interests in shares of the Company:

Name of substantial shareholder	*Notes*	Number of issued ordinary shares held	Nature of interests	Approximate percentage of interest
Best Global	*1*	239,400,000	Corporate interests	16.80%
World Invest	*2*	85,680,000	Corporate interests	6.01%
Value Partners Limited	*3*	170,733,800	Corporate interests	11.98%
Mr. Cheah Cheng Hye	*3*	170,733,800	Corporate interests	11.98%
Arisaig Greater China Fund ("Arisaig")	*4*	92,424,000	Corporate interests	6.49%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	*4*	92,424,000	Corporate interests	6.49%
Lindsay William Ernest Cooper	*4*	92,424,000	Corporate interests	6.49%
Pope Asset Management, LLC		75,603,010	Corporate interests	5.30%
UBS AG		73,807,800	Corporate interests	5.18%

Notes:

1. These shares were held by Best Global as beneficial owner and duplicate the interest held by Mr. Lam Kwok Hing in the Company.

2. These shares were held by World Invest as beneficial owner and duplicate the interest held by Ms. Lee Choi Lin, Joecy in the Company.

3. Value Partners Limited was holding 170,733,800 shares as investment manager. Mr. Cheah Cheng Hye was deemed to be interested in the shares through 32.77% interest in Value Partners Limited.

4. This represented a direct shareholding of the Company by Arisaig. Arisaig Mauritius was the investment manager of Arisaig. This represented an interest in the shares arised by viture of Arisaig Mauritius acting as discretionary investment manager of Arisaig pursuant to the SFO. Lindsay William Ernest Cooper was deemed to be interested, through his indirect 33.33% beneficial interest, in Arisaig Mauritius.

SUBSTANTIAL SHAREHOLDERS' INTERESTS *(Continued)*

All the interests disclosed above represent long position in the shares of the Company.

Save as disclosed above, as at 30 June 2006, no person, other than the directors and chief executive of the Company, whose interests are set out in the section "Directors' interests and short positions in shares and underlying shares" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the directors as at the date of this report, there is a sufficient public float of not less than 25% of the Company's issued shares in the market as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year and up to the date of this report, no director of the Company is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined by the Listing Rules, other than those businesses of which the directors of the Company were appointed as directors to represent the interests of the Company and/or the Group.

CONNECTED TRANSACTIONS

During the year and up to the date of this report, no connected transactions were entered into between the Company or any of its subsidiaries and a connected person as defined under the Listing Rules.

CORPORATE GOVERNANCE

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules during the year ended 30 June 2006.

AUDIT COMMITTEE AND REVIEW OF THE FINAL RESULTS ANNOUNCEMENT

The Company has an Audit Committee which was established in accordance with the requirements of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of three independent non-executive directors of the Company.

The financial statements of the Group for the year ended 30 June 2006 have been reviewed by the Audit Committee, who are of the opinion that such financial statements comply with the applicable accounting standards, and the requirements of the Listing Rules and the applicable laws, and that adequate disclosures have been made.

POST BALANCE SHEET DATE EVENTS

Details of the significant post balance sheet date events of the Group are set out in note 38 to the financial statements.

AUDITORS

RSM Nelson Wheeler retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong
20 October 2006

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "Board") believes that good corporate governance is crucial to improve the efficiency and performance of the Group and to safeguard the interests of the shareholders. Throughout the year ended 30 June 2006, the Company has applied the principles of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and complied with all the applicable code provisions of the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all the Company's directors any non-compliance with the Model Code during the year ended 30 June 2006 and they all confirmed that they had fully complied with the required standard set out in the Model Code.

BOARD OF DIRECTORS

During the year ended 30 June 2006, the composition of the Board was as follows:

Executive directors

Mr. Lam Kwok Hing
Mr. Chu Ki
Mr. Fong Yiu Ming, Anson
Ms. Lee Choi Lin, Joecy
Mr. Peng Zhanrong
Mr. Chiau Che Kong

Non-executive director

Ms. Chan Yuk, Foebe (re-designated from executive director to non-executive director on 14 December 2005)

Independent non-executive directors

Mr. John Handley
Mr. Poon Yiu Cheung, Newman
Ms. Mak Yun Chu

The Board members have no financial, business or other material/relevant relationships with each other except that Ms. Lee Choi Lin, Joecy is the spouse of Mr. Lam Kwok Hing, there is no relationship between members of the Board.

During the year ended 30 June 2006, the Board had at all times at least one independent non-executive director who has appropriate professional qualifications or accounting or related financial management expertise.

The principal roles of the Board are to oversee the strategic development, to determine the objectives, strategies and policies of the Group, to monitor and control the financial performance and to ensure effective internal controls and risk management. Implementation of strategies and day-to-day operations are delegated to the management.

During the year ended 30 June 2006, four board meetings were held and the attendance records were as follow:

Name of Director	Number of Board Meetings Attended	Attendance Rate
Executive directors		
Mr. Lam Kwok Hing	4/4	100%
Mr. Chu Ki	4/4	100%
Mr. Fong Yiu Ming, Anson	4/4	100%
Ms. Lee Choi Lin, Joecy	4/4	100%
Mr. Peng Zhanrong	2/4	50%
Mr. Chiau Che Kong	4/4	100%
Non-executive director		
Ms. Chan Yuk, Foebe	4/4	100%
Independent non-executive directors		
Mr. John Handley	4/4	100%
Mr. Poon Yiu Cheung, Newman	4/4	100%
Ms. Mak Yun Chu	4/4	100%

INDEPENDENT NON-EXECUTIVE DIRECTORS

Each independent non-executive directors of the Company has confirmed his/her independence with the Company and the Company considers these directors to be independent under Rule 3.13 of the Listing Rules.

All the independent non-executive directors of the Company were appointed for a term of three years. All directors appointed during the year are subject to re-election by shareholders at the next annual general meeting after their appointment and every director (including those appointed for a specific term) is subject to retirement by rotation at least once every three years in accordance with the Company's articles of association.

DISTINCTIVE ROLES OF CHAIRMAN AND CHIEF EXECUTIVE DIRECTOR

The roles of chairman and chief executive officer are segregated in order to ensure a balance of power and authority in the management of the Board and the day-to-day management of the business. The Chairman of the Company is Mr. Lam Kwok Hing and the Chief Executive Officer is Mr. Chu Ki.

AUDIT COMMITTEE

Current members of the Audit Committee are:

Ms. Mak Yun Chu, *Independent Non-executive Director*
Mr. John Handley, *Independent Non-executive Director*
Mr. Poon Yiu Cheung, Newman, *Independent non-executive Director*

The Audit Committee has adopted terms of reference which are in line with the Code.

The financial statements of the Group for the year ended 30 June 2005 and 30 June 2006 and for the six months ended 31 December 2005 have been reviewed and approved by the Audit Committee.

REMUNERATION COMMITTEE

The Company established the Remuneration Committee in July 2005. The current members of the Remuneration Committee are:

Ms. Mak Yun Chu, *Independent Non-executive Director*
Mr. Poon Yiu Cheung, Newman, *Independent non-executive Director*
Mr. Lam Kwok Hing, *Executive Director*

The Remuneration Committee has adopted terms of reference which are in line with the Code.

The first Remuneration Committee meeting was held in the third quarter of Year 2005.

NOMINATION COMMITTEE

The Company established the nomination Committee in July 2005. The current members of the Remuneration Committee are:

Ms. Mak Yun Chu, *Independent Non-executive Director*
Mr. Poon Yiu Cheung, Newman, *Independent non-executive Director*
Mr. Lam Kwok Hing, *Executive Director*

The Nomination Committee has adopted terms of reference which are in line with the Code.

The first Remuneration Committee meeting was held in the third quarter of Year 2005.

AUDITORS' SERVICES

For the year ended 30 June 2006, the Group engaged RSM Nelson Wheeler, auditors of the Company, to perform audit service only.

DIRECTORS' RESPONSIBILITY STATEMENT

The directors acknowledge that it is their responsibility to prepare the accounts for each financial period which give a true and fair view of the state of affairs of the Group and to present a balanced, clear and understandable assessment of the financial results and disclosures of the Group under the Listing Rules and other rules and statutory requirements.

On behalf of the Board
Wong Siu Hong
Company Secretary

Hong Kong, 20 October 2006

AUDITORS' REPORT

RSM Nelson Wheeler
羅 申 美 會 計 師 行
Certified Public Accountants

TO THE SHAREHOLDERS OF
HENG TAI CONSUMABLES GROUP LIMITED
(Incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 33 to 100 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and of the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 June 2006 and of the Group's results and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

RSM Nelson Wheeler
Certified Public Accountants

Hong Kong
20 October 2006

For the year ended 30 June 2006

	Note	Year ended 30 June 2006 HK$'000	2005 HK$'000 (Restated)
Turnover	*6*	**1,217,041**	920,324
Cost of sales		**(993,935)**	(768,310)
Gross profit		**223,106**	152,014
Other income	7	**10,021**	728
Selling and distribution expenses		**(62,638)**	(39,274)
Administrative expenses		**(35,084)**	(16,712)
Other operating expenses		**(6,618)**	(3,004)
Profit from operations		**128,787**	93,752
Finance costs	*9*	**(8,980)**	(2,400)
Share of profits of associates		**6,116**	13,869
Profit before tax		**125,923**	105,221
Income tax expense	*10*	**(2,305)**	(86)
Profit for the year	*11*	**123,618**	105,135
Attributable to:			
Equity holders of the Company	*13*	**122,319**	105,142
Minority interests		**1,299**	(7)
		123,618	105,135
Earnings per share	*15*		
Basic		**HK11.5 cents**	HK13.1 cents
Diluted		**HK11.5 cents**	HK13.1 cents

CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Note	As at 30 June 2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Fixed assets	16	**155,304**	5,875
Prepaid land lease payments	17	**10,763**	7,019
Construction in progress	18	**–**	79,358
Goodwill	19	**65,437**	–
Other intangible assets	20	**69,225**	15,675
Investment in a club membership	21	**108**	108
Investments in associates	23	**321,702**	225,262
		622,539	333,297
Current assets			
Inventories	24	**113,129**	78,073
Trade receivables	25	**143,777**	99,572
Prepayments, deposits and other receivables		**69,490**	17,785
Bank and cash balances	26	**414,570**	160,296
		740,966	355,726
TOTAL ASSETS		**1,363,505**	689,023
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	31	**14,251**	8,250
Reserves		**1,114,852**	457,084
		1,129,103	465,334
Minority interests		**10,013**	28
Total equity		**1,139,116**	465,362

As at 30 June 2006

		As at 30 June	
		2006	2005
	Note	***HK$'000***	*HK$'000*
			(Restated)
LIABILITIES			
Non-current liabilities			
Bank loans	*28*	**77,726**	101,377
Finance lease payables	*29*	**112**	157
Deferred tax liabilities	*30*	**8,564**	–
		86,402	101,534
Current liabilities			
Trade payables	*27*	**37,178**	23,785
Accruals and other payables		**22,082**	11,051
Bank loans	*28*	**71,626**	87,024
Finance lease payables	*29*	**171**	160
Current tax liabilities		**6,930**	107
		137,987	122,127
Total liabilities		**224,389**	223,661
TOTAL EQUITY AND LIABILITIES		**1,363,505**	689,023
Net current assets		**602,979**	233,599
Total assets less current liabilities		**1,225,518**	566,896

Approved by Board of Directors on 20 October 2006

Lam Kwok Hing	**Chu Ki**
Chairman	*Director*

BALANCE SHEET

As at 30 June 2006

	Note	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS			
Non-current assets			
Fixed assets	*16*	**172**	–
Investments in subsidiaries	*22*	**47,780**	47,780
		47,952	47,780
Current assets			
Prepayments		**25**	234
Amount due from a subsidiary	*22*	**759,470**	213,028
Bank and cash balances		**71,662**	74,116
		831,157	287,378
TOTAL ASSETS		**879,109**	335,158
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*31*	**14,251**	8,250
Reserves	*32(b)*	**863,090**	326,501
Total equity		**877,341**	334,751
LIABILITIES			
Current liabilities			
Accruals and other payables		**1,768**	407
Total liabilities		**1,768**	407
TOTAL EQUITY AND LIABILITIES		**879,109**	335,158
Net current assets		**829,389**	286,971
Total assets less current liabilities		**877,341**	334,751

Approved by Board of Directors on 20 October 2006

Lam Kwok Hing
Chairman

Chu Ki
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Attributable to equity holders of the Company									
	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Revaluation reserve	Retained profits	Proposed final dividend	Sub-total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2004, as previously reported as equity	7,764	132,037	–	–	–	166,386	7,764	313,951	–	313,951
Effect of changes in accounting policies *(Note 2(c))*	–	–	–	–	–	(377)	–	(377)	–	(377)
Effect of changes in accounting policies *(Note 2(f))*	–	–	–	–	–	(1,424)	–	(1,424)	–	(1,424)
At 1 July 2004, as restated	7,764	132,037	–	–	–	164,585	7,764	312,150	–	312,150
Capital injection by a minority shareholder	–	–	–	–	–	–	–	–	35	35
Share of reserves of associates	–	(738)	80	–	11,011	–	–	10,353	–	10,353
Net income recognised directly in equity	–	(738)	80	–	11,011	–	–	10,353	35	10,388
Profit for the year	–	–	–	–	–	105,142	–	105,142	(7)	105,135
Total recognised income and expense for the year	–	(738)	80	–	11,011	105,142	–	115,495	28	115,523
Share issued on exercise of share options	486	49,062	–	–	–	–	–	49,548	–	49,548
Final dividend in respect of the previous year approved and paid	–	–	–	–	–	–	(7,764)	(7,764)	–	(7,764)
Interim dividend paid *(Note 14)*	–	–	–	–	–	(4,095)	–	(4,095)	–	(4,095)
2005 proposed final dividend *(Note 14)*	–	–	–	–	–	(9,890)	9,890	–	–	–
	486	49,062	–	–	–	(13,985)	2,126	37,689	–	37,689
At 30 June 2005, as restated	8,250	180,361	80	–	11,011	255,742	9,890	465,334	28	465,362

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2006

	Attributable to equity holders of the Company								Minority interests	Total
	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Revaluation reserve	Retained profits	Proposed final dividend	Sub-total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 July 2005, as previously reported as equity	8,250	180,361	80	–	35,527	258,614	9,890	492,722	–	492,722
Effect of change in accounting policies *(Note 2(b), (c) & (f))*	–	–	–	–	(24,516)	(2,872)	–	(27,388)	28	(27,360)
At 1 July 2005, as restated	8,250	180,361	80	–	11,011	255,742	9,890	465,334	28	465,362
Business combinations	–	–	–	–	–	–	–	–	8,686	8,686
Translation difference	–	–	1,665	–	–	–	–	1,665	–	1,665
Surplus on revaluation of buildings	–	–	–	–	25,716	–	–	25,716	–	25,716
Deferred tax liabilities arising on revaluation of buildings	–	–	–	–	(8,486)	–	–	(8,486)	–	(8,486)
Share of reserves of associates	–	(246)	5,692	711	(13,627)	–	–	(7,470)	–	(7,470)
Net income recognised directly in equity	–	(246)	7,357	711	3,603	–	–	11,425	8,686	20,111
Profit for the year	–	–	–	–	–	122,319	–	122,319	1,299	123,618
Total recognised income and expenses for the year	–	(246)	7,357	711	3,603	122,319	–	133,744	9,985	143,729
Issue of Subscribed Shares *(Note 31(a))*	1,640	200,734	–	–	–	–	–	202,374	–	202,374
Recognition of share-based payment	–	–	–	4,729	–	–	–	4,729	–	4,729
Final dividend in respect of the previous year approved and paid	–	–	–	–	–	–	(9,890)	(9,890)	–	(9,890)
Open offer *(Note 31(b))*	4,071	294,785	–	–	–	–	–	298,856	–	298,856
Share issued on exercise of share options *(Note 31(c))*	290	37,007	–	(3,341)	–	–	–	33,956	–	33,956
	6,001	532,526	–	1,388	–	–	(9,890)	530,025	–	530,025
At 30 June 2006	14,251	712,641	7,437	2,099	14,614	378,061	–	1,129,103	10,013	1,139,116

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006 *HK$'000*	2005 *HK$'000* (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**125,923**	105,221
Adjustments for:		
Finance costs	**8,980**	2,400
Share of profits of associates	**(6,116)**	(13,869)
Interest income	**(5,774)**	(516)
Share-based payment expenses	**4,729**	–
Loss on deemed disposal of an associate	**1,889**	–
Depreciation	**5,615**	1,847
Amortisation of goodwill	**–**	2,508
Amortisation of prepaid land lease payments	**237**	151
Amortisation of other intangible assets	**4,950**	2,100
Fixed assets written off	**43**	–
Operating profit before working capital changes	**140,476**	99,842
Increase in inventories	**(30,848)**	(22,190)
Increase in trade and other receivables	**(35,951)**	(35,265)
Increase in trade and other payables	**12,608**	7,520
Increase in amount due from associates	**(623)**	(119)
Cash generated from operations	**85,662**	49,788
Income taxes paid	**(64)**	(23)
Interest paid	**(8,954)**	(2,376)
Finance lease charges paid	**(26)**	(24)
Net cash generated from operating activities	**76,618**	47,365
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of subsidiaries, net of cash acquired	**(105,671)**	–
Acquisition of further interests in associates, net of cash acquired	**(99,060)**	(86,139)
Interest received	**5,774**	516
Purchases of fixed assets	**(34,395)**	(1,327)
Purchase of other intangible assets	**(58,500)**	–
Increase in prepaid land lease payments	**(3,846)**	–
Increase in construction in progress	**(11,615)**	(40,917)
Net cash used in investing activities	**(307,313)**	(127,867)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 30 June 2006

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of bank loans	**(9,126)**	(6,000)
Drawdown of bank loans	**–**	102,627
(Decrease)/increase in import loans	**(29,923)**	23,129
Repayment of capital element of finance lease	**(165)**	(160)
Capital injection by a minority shareholder	**–**	35
Proceeds from issue of share capital	**535,186**	49,548
Dividends paid to equity holders of the Company	**(9,890)**	(11,859)
Net cash generated from financing activities	**486,082**	157,320
NET INCREASE IN CASH AND CASH EQUIVALENTS	**255,387**	76,818
Effect of foreign exchange rate changes	**(1,113)**	–
CASH AND CASH EQUIVALENTS AT 1 JULY	**160,296**	83,478
CASH AND CASH EQUIVALENTS AT 30 JUNE	**414,570**	160,296
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**414,570**	160,296

1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is 31st Floor, Guangdong Finance Building, 88 Connaught Road West, Sheung Wan, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 22 to the financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised HKFRSs did not result in substantial changes to the Group's accounting polices and amounts reported for the current year and prior years except as stated below.

(a) Presentation of financial statements

HKAS 1 "Presentation of Financial Statements" affects the presentation of minority interests, share of profits of associates and other disclosures.

The adoption of HKAS 1 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in share of profits of associates	**1,121**	3,279
Decrease in income tax expense	**1,121**	3,279

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(b) Minority interests

In previous years, minority interests were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to the shareholders of the Company.

With effect from 1 July 2005, in order to comply with HKAS 1 "Presentation of Financial Statements" and HKAS 27 "Consolidated and Separate Financial Statements", minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. This change in accounting policy has been applied retrospectively.

(c) Leases

Upon the adoption of HKAS 17 "Leases", the land and buildings elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interests in land are reclassified to prepaid land lease payments under operating leases, which are carried at cost and subsequently recognised in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

The adoption of HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of leasehold land from fixed assets to prepaid land lease payments. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease. In prior years, the leasehold land was grouped in construction in progress and was stated at cost less impairment losses. HKAS 17 has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(c) Leases *(Continued)*

The adoption of HKAS 17 resulted in a decrease in retained profits at 1 July 2004 by approximately HK$377,000 and resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in construction in progress	**7,547**	7,547
Increase in prepaid land lease payments	**10,763**	7,019
Decrease in retained profits	**765**	528
Increase in administrative expenses	**237**	151
Decrease in EPS – basic (HK cents)	**0.022**	0.019
Decrease in EPS – diluted (HK cents)	**0.022**	0.019

(d) Share-based payment

The adoption of HKFRS 2 "Share-based Payment" has resulted in change in the accounting policy for employee share options. Prior to this, the grant of share options to employees did not result in a charge to the income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods and expensed to the income statement. This change in accounting policy has been applied retrospectively.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(d) Share-based payment *(Continued)*

The adoption of HKFRS 2 did not result in changes to the Group's share-based payment reserve and retained profits at 1 July 2004 and resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Increase in share-based payment reserve	**1,388**	–
Increase in share premium account	**3,341**	–
Decrease in retained profits	**4,729**	–
Increase in other operating expenses	**4,729**	–
Decrease in EPS – basic (HK cents)	**0.443**	–
Decrease in EPS – diluted (HK cents)	**0.443**	–

(e) Business combinations

The adoption of HKFRS 3 "Business Combinations" resulted in a change in the accounting policy for goodwill. Until 30 June 2005, goodwill was:

– Amortised on a straight line basis over 10 years; and

– Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3:

– The Group ceased amortisation of goodwill from 1 July 2005;

– Accumulated amortisation as at 30 June 2005 has been eliminated with a corresponding decrease in the cost of goodwill; and

– From the year ended 30 June 2006 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

HKFRS 3 has been applied prospectively from 1 July 2005.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

(e) Business combinations *(Continued)*

The adoption of HKFRS 3 resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in administrative expenses	**4,117**	–
Increase in EPS – basic (HK cents)	**0.39**	–
Increase in EPS – diluted (HK cents)	**0.39**	–

(f) The effect in the investments in associates in the consolidated balance sheet

HKAS 17 "Leases" is applicable to the associates, namely Daqing Petroleum & Chemical Group Limited ("Daqing") and Senox Co., Ltd.

The adoption of HKAS 17 resulted in decrease in retained profits at 1 July 2004 by approximately HK$1,424,000 and resulted in changes in the amounts reported in the financial statements as follows:

	2006	2005
	HK$'000	*HK$'000*
Decrease in share of net assets of associates during the year	**4,451**	920
Decrease in share of reserves of associates	**40,887**	24,516
Decrease in retained profits	**944**	1,424
Total effect in the investments in associates in the consolidated balance sheet	**46,282**	26,860

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The application of these new HKFRSs will not have material impact on the financial statements of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings which are carried at their fair values.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires management to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 4 to the financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

(a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 30 June. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the subsidiary which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Consolidation *(Continued)*

Inter-company transactions, balances and unrealised profits on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests represent the interests of minority shareholders in the operating results and net assets of subsidiaries. Minority interests are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity. Minority interests are presented in the consolidated income statement as an allocation of profit or loss for the year between minority and shareholders of the Company. Losses applicable to the minority in excess of the minority's interests in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interests of the Group until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet the investments in subsidiaries are stated at cost less allowance for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(b) Business combination and goodwill

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets, liabilities and contingent liabilities of the subsidiary in an acquisition are measured at their fair values at the acquisition date.

The excess of the cost of acquisition over the Group's share of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination and goodwill *(Continued)*

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses of goodwill are recognised in the consolidated income statement and are not subsequently reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The interests of minority shareholders in the subsidiary is initially measured at the minority's proportion of the net fair value of the subsidiary's identifiable assets, liabilities and contingent liabilities at the acquisition date.

(c) Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method of accounting and is initially recognised at cost. Identifiable assets, liabilities and contingent liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is recorded as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition is recognised in the consolidated income statement.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Associates *(Continued)*

The Group's share of an associate's post-acquisition profits or losses is recognised in the consolidated income statement, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate represents the difference between the proceeds of the sale and the Group's share of its net assets together with any goodwill relating to the associate which was not previously charged or recognised in the consolidated income statement and also any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in associates are stated at cost less allowance for impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(ii) Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the rates ruling on the balance sheet date. Profits and losses resulting from this translation policy are included in the income statement.

Translation differences on non-monetary items, such as equity instruments classified as financial assets at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equity instruments classified as available-for-sale financial assets, are included in the investment revaluation reserve in equity.

(iii) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

– Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

– All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the consolidated income statement as part of the profit or loss on disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Foreign currency translation *(Continued)*

(iii) Translation on consolidation *(Continued)*

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Fixed assets

Buildings comprise mainly factories and offices. Buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other fixed assets are stated at cost less accumulated depreciation and impairment losses.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the period in which they are incurred.

Revaluation increases of buildings are recognised in the income statement to the extent that the increases reverse previous revaluation decreases of the same asset. All other revaluation increases are credited to the revaluation reserve in shareholders' equity. Revaluation decreases that offset previous revaluation increases of the same asset are charged against the revaluation reserve directly in equity. All other decreases are recognised in the income statement. On the subsequent sale or retirement of a revalued building, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained profits.

Depreciation of fixed assets is calculated at rates sufficient to write off their cost or revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Buildings	The shorter of the lease terms and to 50 years
Leasehold improvements	5 years
Plant and machinery	10 years
Furniture, office equipment and motor vehicles	5 years

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Fixed assets *(Continued)*

The residual values, useful lives and depreciated method are reviewed and adjusted, if appropriate, at each balance sheet date.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less impairment losses. Depreciation begins when the relevant assets are available for use.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement.

(f) Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the lease term.

(ii) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the balance sheet as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease terms and their estimated useful lives.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Trademarks and distribution rights

Trademarks and distribution rights are measured initially at purchase cost and are amortised on a straight-line basis over their estimated useful lives of 5 to 10 years.

(h) Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis. The cost of finished goods comprises raw materials and an appropriate proportion of all production overhead expenditure. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(j) Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in the income statement.

Impairment losses are reversed in subsequent periods and recognised in the income statement when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(m) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(o) Revenue recognition

Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

Interest income is recognised on a time-proportion basis using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) Pension obligations

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to the income statement represents contributions payable by the Group to the funds.

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(q) Share-based payments

The Group issues equity-settled payment to certain employees and business associates. Equity-settled share-based payments are measured at fair values (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Taxation *(Continued)*

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(s) Related parties

A party is related to the Group if:

(i) directly or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate;

(iii) the party is a joint venture;

(iv) the party is a member of the key management personnel of the Company or its parent;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

(t) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products and services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting *(Continued)*

In accordance with the Group's internal financial reporting, the Group has determined that geographical segments be presented as the primary reporting format and business as the secondary reporting format.

Segment revenue, expenses, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to the segment. Unallocated costs mainly represent corporate expenses. Segment assets consist primarily fixed assets, goodwill, inventories and trade receivables. Segment liabilities comprise operating liabilities and exclude items such as tax liabilities and corporate borrowings.

Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between Group enterprises within a single segment. Inter-segment pricing is based on terms mutually agreed between the segments.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

(u) Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Impairment of assets *(Continued)*

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in the income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(v) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

(w) Events after the balance sheet date

Events after the balance sheet date that provide additional information about the Group's position at the balance sheet date or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the balance sheet date that are not adjusting events are disclosed in the notes to the financial statements when material.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES

4.1 Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(a) Fixed assets and depreciation

The Group determines the estimated useful lives and related depreciation charges for the Group's fixed assets. This estimate is based on the historical experience of the actual useful lives of fixed assets of similar nature and functions. Management will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant estimates are required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance date was approximately of HK$65,437,000.

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES *(Continued)*

4.2 Critical judgement in applying the entity's accounting policies

Share-based payment expenses

As mentioned in note 2(d) to the financial statements, the Group has applied HKFRS 2 "Share-based Payment" to account for its share options in the current year. In accordance with HKFRS 2, the fair value of the share options granted to the directors, employees and a business associate of the Group determined at the date of grant of the respective share options is expensed over the vesting period, with a corresponding adjustment to the Company's share option reserve. During the year, an amount of share option expense of approximately HK$4,729,000 (2005: HK$Nil) has been recognised in the consolidated income statement.

In assessing the fair value of the share options at their respective dates of grants, the Black-Scholes option pricing model (the "Black-Scholes Model") was used. The Black-Scholes Model is one of the generally accepted methodologies used to calculate the value of the share options and is one of the recommended option pricing models set out in Chapter 17 of the Listing Rules. The Black-Scholes Model requires the input of highly subjective assumptions, including the expected dividend yield and expected life of options. Because changes in subjective input assumptions can materially affect the fair value estimate, in the opinion of the directors, the existing model does not necessarily provide a reliable measure of the fair value of the share options. Any change in input assumptions can materially affect the fair value estimate.

5. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars, Renminbi and United State dollars. The Group currently does not have a foreign currency hedging policy in respect of foreign currency debt. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

5. FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales are made to customers with an appropriate credit history.

The carrying amount of the trade receivables included in the consolidated balance sheet represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

(c) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash to meet its liquidity requirements in the short and longer term.

(d) Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's exposure to interest rate risk from its long-term borrowings. These borrowings bear interests at variable rate varied with the then prevailing market condition.

(e) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated balance sheet approximate their respective fair values except for bank loans as stated in note 28 to the financial statements.

6. TURNOVER

The Group's turnover which represents sales of goods to customers are as follows:

	2006	2005
	HK$'000	*HK$'000*
Sales of goods	**1,217,041**	920,324

7. OTHER INCOME

	2006	2005
	HK$'000	*HK$'000*
Interest income	**5,774**	516
Exchange gain	**3,707**	–
Sundry income	**540**	212
	10,021	728

8. SEGMENT INFORMATION

The principal activity of the Group is the distribution of packaged food, beverages, household consumable products, cosmetics products, cold chain products and fresh fruit, which is managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments.

(a) Primary reporting format – geographical segments

For the years ended 30 June 2005 and 2006, over 90% of the Group's revenue, results, assets and liabilities were attributed to the geographical segment of customers based in the People's Republic of China (the "PRC").

(b) Secondary reporting format – business segments

For the years ended 30 June 2005 and 2006, all of the Group's revenue, results, assets and liabilities were attributed to the distribution of packaged food, beverages, household consumable products, cosmetics products, cold chain products and fresh fruit.

9. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank loans and overdrafts	**8,954**	2,376
Finance lease charges	**26**	24
	8,980	2,400

10. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Current tax – Hong Kong Profits Tax		
Provision for the year	**244**	86
Current tax – Overseas		
Provision for the year	**1,983**	–
Deferred tax *(Note 30)*	**78**	–
	2,305	86

Hong Kong Profits Tax is provided at the rate of 17.5% (2005: 17.5%) on the assessable profits for the year end 30 June 2006.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

According to the Income Tax Law of the Macau Special Administrative Region, Macau Complementary Tax is calculated at the rate of 15.75% (2005: 15.75%) on the estimated assessable profits for the year. However, a subsidiary operating in Macau during the year is in compliance with the Decree-Law No. 58/99M of Macau Special Administrative Region, and thus, the profits generated by the subsidiary is exempted from the Macau Complementary Tax for the year.

10. INCOME TAX EXPENSE *(Continued)*

The reconciliation of the tax expenses applicable to profit/(loss) before tax using the statutory rate of the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory tax rates) to the effective tax rates, are as follows:

	2006				2005 (restated)			
	Macau	**Hong Kong**	**PRC**	**Total**	Macau	Hong Kong	PRC	Total
	HK$000	***HK$000***	***HK$'000***	***HK$000***	*HK$000*	*HK$000*	*HK$'000*	*HK$000*
Profit/(loss) before tax	**144,469**	**(18,046)**	**(500)**	**125,923**	99,909	5,436	(124)	105,221
Applicable income tax rate	**15.75%**	**17.50%**	**33.00%**		15.75%	17.50%	33.00%	
Tax at the applicable income tax rate	**22,754**	**(3,158)**	**(165)**	**19,431**	15,736	951	(41)	16,646
Tax effect of income not taxable	**–**	**(724)**	**–**	**(724)**	–	–	–	–
Tax effect of expenses not deductible for tax purpose	**–**	**5,221**	**2,148**	**7,369**	–	1,318	41	1,359
Profits exempted from the Macau Complementary Tax	**(22,754)**	**–**	**–**	**(22,754)**	(15,736)	–	–	(15,736)
Tax effect of share of results of associates	**–**	**(1,070)**	**–**	**(1,070)**	–	(2,427)	–	(2,427)
Tax effect of unused tax losses not recognised	**–**	**6**	**–**	**6**	–	240	–	240
Tax effect on unrecognised temporary difference	**–**	**47**	**–**	**47**	–	4	–	4
Income tax expense	**–**	**322**	**1,983**	**2,305**	–	86	–	86

11. PROFIT FOR THE YEAR

The Group's profit for the year is stated after charging the following:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Auditors' remuneration	**889**	673
Amortisation of goodwill	**–**	2,508
Amortisation of other intangible assets#	**4,950**	2,100
Cost of inventories sold	**991,985**	766,360
Depreciation	**5,615**	1,847
Loss on deemed disposal of interest in an associate	**1,889**	–
Operating lease charges on land and buildings	**3,346**	2,442
Share-based payment expenses	**4,729**	–
Staff costs (excluding directors' emoluments – *Note 12*)		
– Wages and salaries	**10,558**	5,224
– Retirement benefits scheme contributions	**177**	90
	10,735	5,314

Part of the amortisation of other intangible asset of HK$1,950,000 (2005: HK$1,950,000), HK$3,000,000 (2005: HK$Nil) and HK$Nil (2005: HK$150,000) for the year are included in "Cost of Sales", "Selling and distribution expenses" and "Other operating expenses" respectively on the face of the consolidated income statement.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL'S EMOLUMENTS

The remuneration of directors of the Company for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2006	2005
	HK$'000	*HK$'000*
Fees	**150**	150
Other emoluments:		
Salaries, bonuses, allowances and benefits in kind	**3,464**	2,600
Retirement benefits scheme contributions	**48**	48
	3,662	2,798

The remuneration of individual director for the year is as follows:

(i) Independent non-executive directors

The fees paid/payable to independent non-executive directors were as follows:

	2006	2005
	HK$'000	*HK$'000*
Mr. John Handley	**50**	50
Mr. Poon Yiu Cheung, Newman	**50**	50
Ms. Mak Yun Chu	**50**	50
	150	150

There were no other emoluments payable to the independent non-executive directors during the year (2005: HK$Nil).

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL'S EMOLUMENTS *(Continued)*

(ii) Executive and non-executive directors

	Fees	Salaries, bonuses, allowances and benefits in kind	Retirement benefits scheme contributions	Total emoluments
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
2006				
Mr. Lam Kwok Hing	**–**	**1,265**	**12**	**1,277**
Mr. Chu Ki	**–**	**974**	**12**	**986**
Mr. Fong Yiu Ming, Anson	**–**	**770**	**12**	**782**
Ms. Lee Choi Lin, Joecy	**–**	**455**	**12**	**467**
Ms. Chan Yuk, Foebe#	**–**	**–**	**–**	**–**
Mr. Peng Zhanrong	**–**	**–**	**–**	**–**
Mr. Chiau Che Kong	**–**	**–**	**–**	**–**
	–	**3,464**	**48**	**3,512**
2005				
Mr. Lam Kwok Hing	–	845	12	857
Mr. Chu Ki	–	650	12	662
Mr. Fong Yiu Ming, Anson	–	650	12	662
Ms. Lee Choi Lin, Joecy	–	455	12	467
Ms. Chan Yuk, Foebe#	–	–	–	–
Mr. Peng Zhanrong	–	–	–	–
Mr. Chiau Che Kong	–	–	–	–
	–	2,600	48	2,648

Ms. Chan Yuk, Foebe has re-designated from executive director to non-executive director on 14 December 2005.

During the year, no emolument was paid by the Group to any of the directors as an inducement to join, or upon joining the Group or as compensation for loss of office.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL'S EMOLUMENTS *(Continued)*

(ii) Executive and non-executive directors *(Continued)*

There was no arrangement under which a director waived or agreed to waive any emolument during the year.

The five highest paid individuals in the Group during the year included three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining two (2005: two) individuals, are set out below:

	2006	2005
	HK$'000	*HK$'000*
Salaries, bonuses, allowances and benefits in kind	**1,381**	1,300
Retirement benefits scheme contributions	**24**	24
	1,405	1,324

The emoluments fell within the following band:

	Number of individuals	
	2006	2005
Nil to HK$1,000,000	**2**	2

During the year, no emoluments were paid by the Group to these highest paid individuals as an inducement to join, or upon joining the Group, or as compensation for loss of office.

13. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company included a profit of approximately HK$12,565,000 (2005: HK$27,179,000) which has been dealt with in the financial statements of the Company.

14. DIVIDENDS

	2006	2005
	HK$'000	*HK$'000*
Interim, paid of HK$Nil (2005: HK$0.005) per ordinary share	–	4,095
Final, proposed, of HK$Nil (2005: HK$0.01) per ordinary share	–	9,890
	–	13,985

15. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the Group's profit for the year attributable to equity holders of the Company of approximately HK$122,319,000 (2005 (restated): HK$105,142,000) and the weighted average number of ordinary shares of 1,067,911,040 (2005: 801,056,848) in issue during the year.

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the Group's profit for the year attributable to equity holders of the Company of approximately HK$122,319,000 (2005 (restated): HK$105,142,000) and the weighted average number of ordinary shares of 1,068,442,150 (2005: 802,817,563), being the weighted average number of ordinary shares of 1,067,911,040 (2005: 801,056,848) in issue during the year used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 531,110 (2005: 1,760,715) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet date.

16. FIXED ASSETS

Group

	Buildings *HK$'000*	Leasehold improvements *HK$'000*	Plant and machinery *HK$'000*	Furniture, office equipment and motor vehicles *HK$'000*	Total *HK$'000*
Cost or valuation					
At 1 July 2004	–	6,456	–	2,641	9,097
Additions	–	60	–	1,267	1,327
At 30 June 2005	–	6,516	–	3,908	10,424
Additions	–	6,886	19,711	7,929	34,526
Acquisition of subsidiaries	–	1	209	957	1,167
Transfer from construction in progress *(Note 18)*	90,973	–	–	–	90,973
Disposals/written off	–	–	–	(102)	(102)
Revaluation	24,708	–	–	–	24,708
Exchange differences	2,659	51	–	–	2,710
At 30 June 2006	118,340	13,454	19,920	12,692	164,406
Accumulated depreciation and impairment					
At 1 July 2004	–	1,877	–	825	2,702
Charge for the year	–	1,293	–	554	1,847
At 30 June 2005	–	3,170	–	1,379	4,549
Charge for the year	1,008	2,044	986	1,577	5,615
Disposals/written off	–	–	–	(59)	(59)
Adjustment on revaluation	(1,008)	–	–	–	(1,008)
Exchange differences	–	5	–	–	5
At 30 June 2006	–	5,219	986	2,897	9,102
Carrying amount					
At 30 June 2006	118,340	8,235	18,934	9,795	155,304
At 30 June 2005	–	3,346	–	2,529	5,875

The analysis of the cost or valuation at 30 June 2006 of the above assets is as follows:

At cost	–	13,454	19,920	12,692	46,066
At valuation 2006	118,340	–	–	–	118,340
	118,340	13,454	19,920	12,692	164,406

16. FIXED ASSETS *(Continued)*

Group *(Continued)*

The analysis of the cost or valuation at 30 June 2005 of the above assets is as follows:

	Buildings	Leasehold improvements	Plant and machinery	Furniture, office equipment and motor vehicles	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At cost	–	6,516	–	3,908	10,424
At valuation 2005	–	–	–	–	–
	–	6,516	–	3,908	10,424

The Group's buildings included above are held under medium term leases in the PRC.

The Group's buildings were revalued at 30 June 2006 on the depreciated replacement cost basis by Castores Magi (Hong Kong) Limited, an independent professionally qualified valuers. The resulting revaluation surplus of approximately HK$25,716,000 (2005: HK$Nil) has been credited to revaluation reserve as set out in the consolidated statement of changes in equity.

The carrying amount of the Group's buildings would have been approximately HK$92,624,000 (2005: HK$Nil) had they been stated at cost less accumulated depreciation and impairment losses.

16. FIXED ASSETS *(Continued)*

Group *(Continued)*

At 30 June 2006 the carrying amount of furniture, office equipment and motor vehicles held by the Group under finance leases amounted to approximately HK$352,000 (2005: HK$378,000).

Company

	Furniture and office equipment *HK$'000*
Cost	
Additions	193
At 30 June 2006	193
Accumulated depreciation	
Charge for the year	21
At 30 June 2006	21
Carrying amount	
At 30 June 2006	172

17. PREPAID LAND LEASE PAYMENTS

The Groups prepaid land lease payments represent prepaid operating lease payments of the land element of leasehold properties located in the PRC which are held under medium term leases.

18. CONSTRUCTION IN PROGRESS

	Group
	HK$'000
	(Restated)
At 1 July 2004	38,441
Additions	40,917
At 1 July 2005	79,358
Additions	11,615
Transfer to fixed assets *(Note 16)*	(90,973)
At 30 June 2006	–

19. GOODWILL

	Group
	HK$'000
Cost	
At 1 July 2005	–
Arising on acquisition of subsidiaries *(Note 33(a))*	65,437
At 30 June 2006	65,437

19. GOODWILL *(Continued)*

Goodwill acquired in three business combinations are allocated, at acquisition, to the cash generating units ("CGUs") that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated as follows:

	2006	2005
	HK$'000	*HK$'000*
Distribution of cosmetics products business (a)	**59,415**	–
Distribution of packaged food, beverages, household consumable products, cold chain products and fresh fruit business	**4,304**	–
Logistics services business	**1,718**	–
	65,437	–

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

(a) The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a period of five years. The discount rate applied to cash flow projections is 15% and cash flows beyond five year period are extrapolated using a growth rate of 5% which is determined with reference to the long term business prospects and the general economic outlook of the PRC. Management estimated the budgeted gross margin based on past performance and their expectations for market development. The discount rate used is before tax and reflects specific risks relating to the cash-generating unit.

20. OTHER INTANGIBLE ASSETS

	Group		
	Distribution rights (a)	Trademark	Total
	HK$'000	*HK$'000*	*HK$'000*
Cost			
At 1 July 2004 and 30 June 2005	19,500	1,500	21,000
Additions	58,500	–	58,500
At 30 June 2006	78,000	1,500	79,500
Accumulated amortisation and impairment losses			
At 1 July 2004	2,925	300	3,225
Amortisation for the year	1,950	150	2,100
At 1 July 2005	4,875	450	5,325
Amortisation for the year	4,800	150	4,950
At 30 June 2006	9,675	600	10,275
Carrying amount			
At 30 June 2006	68,325	900	69,225
At 30 June 2005	14,625	1,050	15,675

The intangible assets included above have finite useful lives, over which the assets are amortised.

(a) The Group acquired rights for distribution of certain packaged food and fresh fruit products in Hong Kong and the PRC. The carrying amount of distribution rights at 30 June 2006 is HK$68,325,000 (2005: HK$14,625,000). The average remaining amortisation period for these distribution rights are 5 years (2005: 8 years).

21. INVESTMENT IN A CLUB MEMBERSHIP

The Group's club membership of HK$108,000 (2005: HK$108,000) at 30 June 2006 is assessed as having indefinite useful life because there is no time limit that the Group can enjoy the services provided by that club.

For the year ended 30 June 2006

22. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	HK$'000	*HK$'000*
Unlisted investments, at cost	**47,780**	47,780

The amount due from a subsidiary is unsecured, interest-free and has no fixed terms of repayment.

Particulars of the subsidiaries as at 30 June 2006 are as follows:

Name	**Place of incorporation/ registration/ and operations**	**Issued/ paid-up capital**	**Percentage of ownership interest/ voting power/ profit sharing**	**Principal activities**
Directly held				
Fiorfie Trading Limited#	British Virgin Islands ("BVI")	Ordinary US$1,000	100%	Investment holding
Indirectly held				
Alfe Trading Limited#	Hong Kong	Ordinary HK$2	100%	Debenture holding
Deal Time Holdings Limited	BVI	Ordinary US$1	100%	Investment holding
Golden Sector Limited#	Hong Kong	Ordinary HK$10,000	100%	Distribution of packaged food, beverages, household consumable products and nourishing products

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 30 June 2006 are as follows *(Continued)*:

Name	Place of incorporation/ registration/ and operations	Issued/ paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Indirectly held *(Continued)*				
Heng Tai Consumables Group (New Zealand) Limited#	New Zealand	Ordinary NZ$10,000	100%	Provision of procurement services
Heng Yui (Macao) Commercial Offshore Limited	Macau	MOP100,000	100%	Distribution of packaged food, beverages, household consumable products, cold chain products and fresh fruit
Hurdle Limited	BVI	Ordinary US$1	100%	Investment holding
Master Oriental Limited	Hong Kong	Ordinary HK$10,000	100%	Investment holding
Step First Ltd.#	BVI	Ordinary US$1	100%	Trademark holding
Sui Tai & Associates Limited#	Hong Kong	Ordinary HK$10,000	100%	Provision of administrative services
Si Wan Limited#	Hong Kong	Ordinary HK$2	100%	Investment holding
Shanghai Sypher Ltd. (formerly known as Shanghai Si Fung Food Co., Ltd.)#*	PRC	Registered capital US$5,100,000	100%	Logistics centre operations
Heng Tai Finance Limited	Hong Kong	Ordinary HK$10,000	100%	Provision of treasury services

22. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries as at 30 June 2006 are as follows *(Continued):*

Name	Place of incorporation/ registration/ and operations	Issued/ paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Indirectly held *(Continued)*				
Excel Prime Limited#	BVI	Ordinary US$10,000	100%	Investment holding
Amazing Victory Limited#	BVI	Ordinary US$1	100%	Distribution of packaged food, beverages, household consumable products, cold chain products and fresh fruit
Heng Tai Consumable Group (Australia) Pty Limited#	Australia	Ordinary AUD10,000	100%	Provision of procurement services
Sunning State Group Limited#	BVI	Ordinary US$2,000,000	70%	Investment holding
Triglory Enterprises Limited#	BVI	Ordinary US$10,000	70%	Distribution of cosmetics products
Triglory (H.K.) Limited#	Hong Kong	Ordinary HK$1	70%	Distribution of cosmetics products
Swift Force Logistics Limited#	BVI	Ordinary US$3,000,000	100%	Investment holding
Nexus Logistics (International) Limited#	Hong Kong	Ordinary HK$4,000,000	70%	Provision of logistics and transportation services
Sypher Consulting Ltd.#*	PRC	Registered capital US$500,000	100%	Provision of marketing and product research services

These subsidiaries are not audited by RSM Nelson Wheeler.

* *Foreign wholly-owned enterprise.*

23. INVESTMENTS IN ASSOCIATES

	Group	
	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Share of net assets	**287,619**	187,816
Goodwill	**33,341**	37,327
	320,960	225,143
Due from associates	**742**	119
	321,702	225,262
Listed investment in an associate	**151,939**	127,791
Unlisted investment in an associate	**169,763**	97,471
	321,702	225,262
Fair value of listed investment in Hong Kong	**145,257**	107,969

The amounts due from associates are unsecured, interest-free and have no fixed terms of repayment.

23. INVESTMENTS IN ASSOCIATES *(Continued)*

(a) Details of the Group's associates at 30 June 2006 are as follows:

Name	Place of incorporation/ registration	Issued/ paid-up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Daqing Petroleum & Chemical Group Limited ("Daqing")*	Cayman Islands	HK$21,015,400	13.29%	Investment holding in petroleum refined product, vinyl acetate and polyvinyl-chloride business
Senox Co., Ltd.	BVI	US$39,802,914	50%	Investment holding in logistics business

All of the above associates are indirectly held by the Company.

* *Although the Group holds less than 20% of the voting power of Daqing, the Group exercises significant influences over Daqing because the Group is entitled to appoint three directors out of the six directors of Daqing.*

23. INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information in respect of the Group's associates is set out below:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
At 30 June		
Total assets	**1,563,855**	926,679
Total liabilities	**(100,106)**	(96,428)
Net assets	**1,463,749**	830,251
Group's share of associates' net assets	**287,619**	187,816
Year ended 30 June		
Total revenue	**784,158**	701,724
Total profit for the year	**99,142**	96,325
Group's share of associates' profit for the year	**6,116**	13,869

24. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Packing materials	**593**	330
Finished goods	**112,536**	77,743
	113,129	78,073

25. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 15 to 90 days. Full provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables, based on the date of recognition of the sale, is as follows:

	2006	2005
	HK$'000	*HK$'000*
1 – 30 days	**115,077**	70,582
31 – 60 days	**22,580**	28,767
61 – 90 days	**6,120**	223
	143,777	99,572

26. BANK AND CASH BALANCES

At 30 June 2006, the bank and cash balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$206,574,000 (2005: HK$61,580,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

27. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables, based on the receipt of goods purchased, is as follows:

	2006	2005
	HK$'000	*HK$'000*
1 – 30 days	**34,861**	23,353
31 – 60 days	**245**	282
61 – 90 days	**2,072**	150
	37,178	23,785

27. TRADE PAYABLES *(Continued)*

Included in trade payables are the following amounts denominated in a currency other than the functional currency of the Group, to which they relate:

	Group	
	2006	2005
United States Dollars	**USD4,305,000**	USD2,986,000
Euros	**EUR166,000**	–

28. BANK LOANS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Bank loans, secured *(Note 34)*	**149,352**	188,401
The borrowings are repayable as follows:		
On demand or within one year	**71,626**	87,024
In the second year	**68,352**	21,775
In the third to fifth years, inclusive	**9,374**	79,602
	149,352	188,401
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(71,626)**	(87,024)
Amount due for settlement after 12 months	**77,726**	101,377

(a) The carrying amount of the Group's bank loans are denominated in Hong Kong dollar.

28. BANK LOANS *(Continued)*

(b) The effective interest rates of bank and other borrowings at each of the balance sheet dates were as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Bank loans	**5.74% – 6.44%**	3.87% – 5.38%

(c) The directors estimated the fair value of the Group's borrowings, by discounting their future cash flows at the market rates, to be as follows:

	Carrying amounts		Fair values	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank loans	**149,352**	188,401	**141,293**	176,801

29. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within one year	**199**	184	**171**	160
In the second to fifth years, inclusive	**40**	168	**35**	147
After five years	**84**	10	**77**	10
	323	362	**283**	317
Less: Future finance charges	**(40)**	(45)	**–**	–
Present value of lease obligations	**283**	317	**283**	317
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(171)**	(160)
Amount due for settlement after 12 months			**112**	157

It is the Group's policy to lease certain of its office equipment and motor vehicles under finance leases. The average lease term is 5 years. For the year ended 30 June 2006, the average effective borrowing rate was 6% (2005: 6%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of each lease term, the Group has the option to purchase the office equipment and motor vehicles at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

30. DEFERRED TAX LIABILITIES

The movement on deferred tax liabilities account is as follows:

	Group
	HK$'000
At 1 July 2005	–
Charge to equity	8,486
Charge to income statement *(Note 10)*	78
At 30 June 2006	8,564

The following are the major deferred tax liabilities recognised by the Group, and the movements thereon, during the current and prior reported periods.

	Accelerated tax depreciation	**Revaluation of buildings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 July 2005	–	–	–
Charge to equity	–	8,486	8,486
Charge to income statement	78	–	78
At 30 June 2006	78	8,486	8,564

The deferred tax liabilities in relation to revaluation of buildings have been charged to equity directly.

At the balance sheet date the Group had unused tax losses of approximately HK$11,309,000 (2005: HK$11,273,000) available for offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future taxable profit streams. The tax losses are subject to approval of tax bureau and may be carried forward indefinitely.

31. SHARE CAPITAL

	Authorised ordinary shares of HK$0.01 each	
	Number of shares	*HK$'000*
At 30 June 2006 and 2005	2,000,000,000	20,000

		Issued and fully paid ordinary shares of HK$0.01 each	
	Note	*Number of shares*	*HK$'000*
At 1 July 2004		776,350,000	7,764
Share issued on exercise of share options		48,600,000	486
At 30 June 2005		824,950,000	8,250
Issue of Subscribed Shares	*(a)*	164,000,000	1,640
Open offer	*(b)*	407,180,000	4,071
Share issued on exercise of share options	*(c)*	29,000,000	290
At 30 June 2006		1,425,130,000	14,251

Note:

(a) On 25 July 2005, 164,000,000 ordinary shares of HK$0.01 each in the Company were placed by Best Global Asia Limited ("Best Global"), a substantial shareholder of the Company, to independent third parties not connected with the directors, the chief executive or the substantial shareholders of the Company, or any of its subsidiaries, or any of their associates as defined in the Listing Rules, at a price of HK$1.25 per share. Best Global then subscribed for a total of 164,000,000 new shares of HK$0.01 each in the Company (the "Subscribed Shares") at HK$1.25 per share. The proceeds of approximately HK$205,000,000, are intended for the business development and as general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of approximately HK$200,734,000, net of expenses, was credited to the share premium account.

31. SHARE CAPITAL *(Continued)*

Note (Continued):

(b) On 20 April 2006, 407,180,000 ordinary shares ("Offer Shares") of HK$0.01 each in the Company were issued at HK$0.75 per share through an open offer ("Open Offer") to the then shareholders of the Company. The Offer Shares rank pari passu in all respects with the then existing shares of the Company. The proceeds of approximately HK$305,385,000, are intended for the business development and as general working capital of the Group. The excess of the consideration received over the nominal value of the shares issued, in the amount of approximately HK$294,786,000, net of expenses, was credited to the share premium account.

(c) During the year, 29,000,000 share options were exercised at the subscription price of HK$1.084 to HK$1.340 per share, resulting in the issue of 29,000,000 ordinary shares of HK$0.01 each for a total cash consideration, of approximately HK$33,956,000.

Share option scheme

The Company operates a share option scheme (the "SO Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the SO Scheme include the Company's directors, including non-executive and independent non-executive directors, other employees of the Group, suppliers of goods or services to the Group, customers of the Group, persons or entities providing research, development or other technological support to the Group, any minority shareholder in the Company's subsidiaries, and other groups or classes of participants as determined by the directors. The SO Scheme became effective on 3 December 2001 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the SO Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the SO Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

31. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the SO Scheme, if earlier.

The following share options were outstanding under the SO Scheme during the year:

Name or category of participant	Number of share options: At 1 July 2005	Granted during the year	Exercised during the year	At 30 June 2006	Date of grant of share options *Note (i)*	Exercise period of share options	Exercise prices of share options *Note (ii)* *HK$*	Closing Price of Company's shares immediately before the date the options were granted/exercised *Note (iii)* *HK$*
Other eligible participants (in aggregate)	672,000*	–	–	672,000	30 April 2002	1 May 2002 to 30 April 2012	0.249*	0.279/N/A
	–	4,000,000	4,000,000	–	19 January 2006	19 January 2006 to 18 January 2011	1.138	1.138/1.41
	–	8,000,000	8,000,000	–	23 January 2006	23 January 2006 to 22 January 2011	1.084	1.084/1.41
	–	8,000,000	8,000,000	–	23 January 2006	23 January 2006 to 22 January 2011	1.084	1.084/1.41
	–	9,000,000	9,000,000	–	3 February 2006	3 February 2006 to 2 February 2011	1.340	1.348/1.50
	–	10,080,000*	–	10,080,000	3 February 2006	3 February 2006 to 2 February 2011	1.196*	1.348/N/A
	672,000	39,080,000	29,000,000	10,752,000				

* *The number of share options and exercise prices have been adjusted to reflect the open offer issue during the year.*

31. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

Name or category of participant	Number of share options: At 1 July 2004	Granted during the year	Exercised during the year	At 30 June 2005	Date of grant of share options *Note (i)*	Exercise period of share options	Exercise prices of share options *Note (ii)* HK$	Closing Price of Company's shares immediately before the date the options were granted/exercised *Note (iii)* HK$
Independent non-executive directors								
Mr. John Handley	600,000**	–	600,000	–	30 April 2002	1 May 2002 to 30 April 2012	0.279**	0.279/1.230
Employees (in aggregate)	–	6,000,000	6,000,000	–	13 January 2005	14 January 2005 to 13 January 2015	1.340	1.260/1.410
All other eligible participants (in aggregate)	600,000**	–	–	600,000	30 April 2002	1 May 2002 to 30 April 2012	0.279**	0.279/NA
	–	12,000,000	12,000,000	–	2 September 2004	3 September 2004 to 2 September 2014	0.830	0.760/0.950
	–	6,000,000	6,000,000	–	2 September 2004	3 September 2004 to 2 September 2014	0.830	0.760/1.240
	–	12,000,000	12,000,000	–	3 November 2004	4 November 2004 to 3 November 2014	1.100	1.120/1.300
	–	12,000,000	12,000,000	–	3 November 2004	4 November 2004 to 3 November 2014	1.100	1.120/1.450
	1,200,000	48,000,000	48,600,000	600,000				

** *The number of share options and exercise prices have been adjusted to reflect the bonus share issue in previous years.*

31. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

Note:

(i) There are no vesting period of the share options from the date of the grant.

(ii) The exercise price of the share options is subject to adjustment in the case of a rights or bonus issue, or other similar changes in the Company's share capital.

(iii) The price of the Company's shares disclosed as at the date of the grant of the share options is the average Stock Exchange closing price for the five business days immediately preceding the date of the grant of the share options.

The number and weighted average exercise price of the share options are as follows:

	2006		2005	
	Number of share options	**Weighted average exercise price *HK$***	Number of share options	Weighted average exercise price *HK$*
Outstanding at the beginning of the year	**672,000***	**0.249**	1,200,000	0.279
Granted during the year	**39,080,000**	**1.177**	48,000,000	1.029
Exercised during the year	**(29,000,000)**	**1.171**	(48,600,000)	1.019
Outstanding at the end of the year	**10,752,000**	**1.137**	600,000	0.279
Exercisable at the end of the year	**10,752,000**	**1.137**	600,000	0.279

* *The number of share options and exercise prices have been adjusted to reflect the open offer issue during the year.*

The weighted average share price at the dates of exercise for share options exercised during the year was HK$1.171 (2005: HK$1.019). The options outstanding at the end of the year have a weighted average remaining contractual life of 5 years (2005: 6 years) and the exercise prices range from HK$0.249 to HK$1.196 (2005: HK$0.279). In 2006, options were granted on 19 January, 23 January and 3 February. The estimated fair values of the options on those dates are approximately HK$566,000, HK$1,458,000 and HK$2,705,000 respectively.

31. SHARE CAPITAL *(Continued)*

Share option scheme *(Continued)*

The fair value of options granted during the years ended 30 June 2006 determined at the date of granted using the Black-Scholes valuation model was approximately HK$4,729,000. The significant input into the model were as follows:

Grant date	19-Jan-06	23-Jan-06	3-Feb-06	3-Feb-06
Option value – HK$	0.1414	0.0911	0.1463	0.1286
Share price at date of grant – HK$	1.050	1.000	1.290	1.290
Exercisable price – HK$	1.138	1.084	1.340	1.196**
Volatility	42.16%	42.46%	44.13%	44.13%
Risk-free interest rate	3.49%	3.53%	3.64%	3.64%
Life of options	5 years	5 years	5 years	5 years
Dividend yield	0.85%	0.89%	0.69%	0.78%

The expected volatility was determined by calculating the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

No options were cancelled or lapsed during the year ended 30 June 2006.

At 30 June 2006 the Company had 10,752,000 share options outstanding under the SO Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 10,752,000 additional ordinary shares and additional share capital of HK$107,520 and share premium of approximately HK$12,115,000 (before share issue expenses).

32. RESERVES

(a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of changes in equity.

Goodwill, arising from the acquisition of a subsidiary prior to 1 July 2001, of HK$353,000 was eliminated against retained profits as at 30 June 2006 and 2005.

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation on 3 December 2001 over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue of shares in prior year; and (iii) the premium arising from the issue of new shares.

Share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Group recognised in accordance with the accounting policy adopted for share-based payments in note 3(q) to the financial statements.

32. RESERVES *(Continued)*

(b) Company

	Share premium account HK$'000	Share-based payment reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000
At 1 July 2004	179,617	–	74,738	7,764	262,119
Share issue on exercise of share options	49,062	–	–	–	49,062
Profit for the year *(Note 13)*	–	–	27,179	–	27,179
Final dividend in respect of the previous year approved and paid *(Note 14)*	–	–	–	(7,764)	(7,764)
Interim dividend paid *(Note 14)*	–	–	(4,095)	–	(4,095)
Proposed final dividend *(Note 14)*	–	–	(9,890)	9,890	–
At 30 June 2005	228,679	–	87,932	9,890	326,501
Issue of Subscribed Shares *(Note 31 (a))*	200,734	–	–	–	200,734
Open Offer *(Note 31 (b))*	294,785	–	–	–	294,785
Final dividend in respect of the previous year approved and paid	–	–	–	(9,890)	(9,890)
Share-based payment	–	4,729	–	–	4,729
Share issue on exercise of share options *(Note 31(c))*	37,007	(3,341)	–	–	33,666
Profit for the year *(Note 13)*	–	–	12,565	–	12,565
At 30 June 2006	761,205	1,388	100,497	–	863,090

32. RESERVES *(Continued)*

(b) Company *(Continued)*

Share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to employees of the Company recognised in accordance with the accounting policy adopted for share-based payments in note 3(q) to the financial statements.

The share premium account of the Company includes: (i) the difference between the combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation on 3 December 2001 over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the capitalisation issue of shares in prior years; and (iii) the premium arising from the issue of new shares.

In accordance with the Companies Law (Revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

33. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT

(a) Acquisition of subsidiaries

(1) On 31 December 2005, the Group further acquired 45% of the issued share capital of Excel Prime Limited and its subsidiary (collectively referred as "Excel Prime") for a cash consideration of approximately HK$4,327,000. Excel Prime was engaged in provision of marketing and product research services.

(2) On 31 March 2006, the Group acquired 70% of the issued share capital of Sunning State Group Limited and its subsidiaries (collectively referred as "Sunning Group") for a cash consideration of HK$77,000,000. Sunning Group was engaged in distribution of cosmetics products during the year.

(3) On 30 June 2006, the Group acquired 100% of the issued share capital of Swift Force Logistics Limited and its subsidiary (collectively referred as "Swift Force") for a consideration of HK$25,000,000. Swift Force was engaged in the provision of logistics and transportation services.

33. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

The fair value of the identifiable assets and liabilities of these subsidiaries acquired as at its date of acquisition, which has no significant difference from its carrying amount, is as follows:

	Sunning Group	Excel Prime and Swift Force	Total
	HK$'000	*HK$'000*	*HK$'000*
Net assets acquired:			
Fixed assets	395	772	1,167
Inventories	4,208	–	4,208
Trade receivables	14,141	–	14,141
Prepayments, deposits and other receivables	19,015	26,803	45,818
Bank and cash balances	350	306	656
Trade payables	(5,721)	–	(5,721)
Accruals and other payables	(2,606)	(3,427)	(6,033)
Current tax liabilities	(4,660)	–	(4,660)
Minority interests	(7,537)	(1,149)	(8,686)
	17,585	23,305	40,890
Goodwill *(Note 19)*	59,415	6,022	65,437
Satisfied by:			
Cash	77,000	29,327	106,327
Net cash outflow arising on acquisition:			
Cash consideration paid	77,000	29,327	106,327
Cash and cash equivalents acquired	(350)	(306)	(656)
	76,650	29,021	105,671

The goodwill arising on the acquisition of these subsidiaries are attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

33. NOTES TO THE CONSOLIDATED CASH FLOWS STATEMENT *(Continued)*

(a) Acquisition of subsidiaries *(Continued)*

Sunning Group contributed approximately HK$21,003,000 to the Group's turnover and approximately HK$4,331,000 to the Group's profit before tax, for the period between the date of its acquisition and the balance sheet date.

Excel Prime and Swift Force contributed HK$Nil to the Group's turnover and approximately HK$1,747,000 to the Group's loss before tax, for the period between the date of their acquisition and the balance sheet date.

If the acquisition of these subsidiaries had been completed on 1 July 2005, total Group turnover for the year would have been approximately HK$1,259,540,000, and profit for the year would have been approximately HK$140,145,000. The proforma information is for illustrative purposes only and is not necessarily an indication of turnover and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 July 2005, nor is intended to be a projection of future results.

(b) Major non-cash transaction

During the year, the Group entered into finance lease arrangements in respect of its office equipment with a total capital value at the inception of the leases of approximately HK$131,000.

34. BANKING FACILITIES

At 30 June 2006, the Group's banking facilities in respect of overdrafts, term loans and other trade finance facilities were secured by corporate guarantees executed by the Company and certain subsidiaries of the Company.

35. CONTINGENT LIABILITIES

At 30 June 2006, the Group did not have any significant contingent liabilities.

At 30 June 2006, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries. These banking facilities had been utilised to the extent of approximately HK$149,353,000 (2005: HK$188,401,000) as at the balance sheet date.

36. CAPITAL COMMITMENTS

The Group's capital commitments at the balance sheet date are as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Contracted but not provided for		
– Construction in progress	**–**	13,858
– Acquisition of further interests in a subsidiary	**20,000**	–
	20,000	13,858

The Company did not have any significant capital commitments at 30 June 2006 (2005: HK$Nil).

37. OPERATING LEASE COMMITMENTS

At 30 June 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Within one year	**3,078**	5,580
In the second to fifth years, inclusive	**2,070**	1,450
	5,148	7,030

The Company did not have any significant operating lease commitments at 30 June 2006 (2005: HK$Nil).

38. EVENT AFTER THE BALANCE SHEET

Subsequent to the balance sheet date, the Group had acquired the remaining 30% equity interests in Sunning State Group Limited at a total consideration of HK$40,000,000 of which, amounting of HK$20,000,000 had been paid as deposit and included in prepayments, deposits and other receivables of the consolidated balance sheet as at 30 June 2006. After completion of this transaction, Sunning State Group Limited will become a wholly-owned subsidiary of the Company.

39. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 20 October 2006.