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)

INTERIM REPORT

2006/07

The board of directors (the "Board" or "Directors") of Heng Tai Consumables Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim financial statements of the Company and its subsidiaries (collectively the "Group") for the six months ended 31 December 2006 (the "Period") together with the comparative figures for the corresponding period.

CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Note	Six months ended 31 December 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
TURNOVER	3,4	**752,492**	526,819
Cost of sales		**(606,222)**	(436,844)
Gross profit		**146,270**	89,975
Other income		**3,389**	3,150
Selling and distribution expenses		**(42,726)**	(26,918)
Administrative expenses		**(19,212)**	(12,395)
Other operating expenses		**–**	(67)
PROFIT FROM OPERATIONS	4, 5	**87,721**	53,745
Finance costs	6	**(4,435)**	(4,573)
Share of results of associated companies		**(5,528)**	3,742
PROFIT BEFORE TAXATION		**77,758**	52,914
Taxation	7	**(3,064)**	(683)
PROFIT FOR THE PERIOD		**74,694**	52,231
Attributable to:			
Equity holders of the Company		**73,581**	52,231
Minority interests		**1,113**	–
		74,694	52,231
EARNINGS PER SHARE	9		
– Basic		**HK5.2 cents**	HK5.4 cents
– Diluted		**HK5.2 cents**	HK5.4 cents

CONDENSED CONSOLIDATED BALANCE SHEET

AT 31 DECEMBER 2006

	Note	31 December 2006 (Unaudited) HK$'000	30 June 2006 (Audited) HK$'000
ASSETS			
Non-current assets			
Fixed assets		165,949	155,304
Prepaid land lease payments		10,656	10,763
Goodwill		95,219	65,437
Other intangible assets		62,325	69,225
Investment in a club membership		108	108
Investments in associates		366,169	321,702
		700,426	622,539
Current assets			
Inventories		138,438	113,129
Trade receivables	*10*	173,976	143,777
Prepayments, deposits and other receivables		73,133	69,490
Bank and cash balances		364,264	414,570
		749,811	740,966
TOTAL ASSETS		1,450,237	1,363,505
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital	*12*	14,251	14,251
Reserves		1,206,127	1,114,852
		1,220,378	1,129,103
Minority interests		908	10,013
Total equity		1,221,286	1,139,116
LIABILITIES			
Non-current liabilities			
Bank loans		55,194	77,726
Finance lease payables		92	112
Deferred tax liabilities		8,486	8,564
		63,772	86,402
Current liabilities			
Trade payables	*11*	39,608	37,178
Accruals and other payables		18,254	22,082
Bank loans		97,256	71,626
Finance lease payables		101	171
Current tax liabilities		9,960	6,930
		165,179	137,987
Total liabilities		228,951	224,389
TOTAL EQUITY AND LIABILITIES		1,450,237	1,363,505
Net current assets		584,632	602,979
Total assets less current liabilities		1,285,058	1,225,518

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Unaudited									
	Attributable to equity holders of the Company									
	Share capital HK$'000	Share premium account HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Revaluation surplus HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Sub-total HK$'000	Minority interest HK$'000	Total HK$'000
Balance at 1 July 2005, as previously reported as equity	8,250	180,361	80	–	35,527	258,614	9,890	492,722	–	492,722
Balance at 1 July 2005, as previously separately reported as minority interest	–	–	–	–	–	–	–	–	28	28
Balance at 1 July 2005, as restated	8,250	180,361	80	–	35,527	258,614	9,890	492,722	28	492,750
Issue of shares	1,640	203,360	–	–	–	–	–	205,000	–	205,000
Share issue expenses	–	(2,627)	–	–	–	–	–	(2,627)	–	(2,627)
Currency translation differences	–	–	3,550	–	–	–	–	3,550	–	3,550
Purchase of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(28)	(28)
Decrease in revaluation reserve	–	–	–	–	(14,510)	–	–	(14,510)	–	(14,510)
Net profit for the Period	–	–	–	–	–	52,231	–	52,231	–	52,231
Final dividend paid in respect of the previous year approved	–	–	–	–	–	–	(9,890)	(9,890)	–	(9,890)
Balance at 31 December 2005	9,890	381,094	3,630	–	21,017	310,845	–	726,476	–	726,476
Balance at 1 July 2006	14,251	712,641	7,437	2,099	14,614	378,061	–	1,129,103	10,013	1,139,116
Translation difference	–	–	13,539	–	–	–	–	13,539	–	13,539
Share of reserves of associates	–	–	4,155	–	–	–	–	4,155	–	4,155
Acquisition of additional interest in a subsidiary	–	–	–	–	–	–	–	–	(10,218)	(10,218)
Profit for the Period	–	–	–	–	–	73,581	–	73,581	1,113	74,694
Balance at 31 December 2006	14,251	712,641	25,131	2,099	14,614	451,642	–	1,220,378	908	1,221,286

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**29,674**	28,188
NET CASH USED IN INVESTING ACTIVITIES	**(92,299)**	(143,567)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**3,008**	131,743
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(59,617)**	16,364
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**414,570**	160,296
	354,953	176,660
EFFECTS OF EXCHANGE RATE CHANGES	**9,311**	3,550
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**364,264**	180,210
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**364,264**	180,210

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2006

1. **BASIS OF PRESENTATION**

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The interim financial statements should be read in conjunction with the Group's audited financial statements and notes thereto for the year ended 30 June 2006.

2. **PRINCIPAL ACCOUNTING POLICIES**

The accounting policies and basis of presentation used in the preparation of the condensed consolidated interim financial statements are consistent with those adopted in the audited financial statements for the year ended 30 June 2006, except that the Group has changed certain of its accounting policies following the adoption of new and revised Hong Kong Financial Reporting Standards ("new HFRSs", which also include the relevant new HKASs and Interpretations) issued by the HKICPA effective for accounting periods commencing on or after 1 January 2006. The adoption of the new HKFRSs has no material effect on the Group's results and financial position for the current or prior accounting periods.

The Group has not early applied (i) HKAS 1 (Amendment) Capital Disclosures, (ii) HKFRS 7 Financial Instruments: Disclosure, (iii) HK(IFRIC) - INT 10 Interim Financial Reporting and Impairment and (iv) HK(IFRIC) - INT 11 HKFRS 2 - Group and Treasury Share Transactions that have been issued but yet to be effective for accounting periods beginning on or after 1 November 2006, 1 January 2007 and 1 March 2007. The Group is in the process of making assessment of the impacts of these standards that are expected to be in the period of initial application.

3. **TURNOVER**

Turnover represents the net invoiced values of goods sold, after allowances for returns and trade discount when applicable. All significant intra-group transactions have been eliminated on consolidation.

4. **SEGMENT INFORMATION**

The principal activity of the Group is the distribution of packaged food, beverages, household consumable products, cosmetics and cold chain products, 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*

During the Period and the corresponding period last year, 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*

During the Period and the corresponding period last year, over 90% of the Group's revenue, results, assets and liabilities were attributed to the distribution of packaged food, beverages, household consumable products, cosmetics and cold chain products.

5. **OPERATING PROFIT**

Operating profit is arrived at after charging:

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Cost of inventories sold	**602,189**	434,894
Amortisation and depreciation	**9,991**	2,775

6. **FINANCE COSTS**

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on bank loans and overdrafts	**4,420**	4,561
Finance leases charges	**15**	12
	4,435	4,573

7. TAXATION

	Six months ended 31 December 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Current period tax:		
Hong Kong	**85**	67
Overseas	**2,979**	616
	3,064	683

Hong Kong Profits Tax is provided at the rate of 17.5% (2005: 17.5%) on the assessable profit for the Period.

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.

No provision for deferred taxation in respect of temporary differences had been made in the interim financial statements as the tax effect of temporary differences is immaterial. No deferred tax asset has been recognised due to the unpredictability of future taxable profit stream.

8. DIVIDEND

(a) The Board do not recommend the payment of an interim dividend for the six months ended 31 December 2006 (2005: Nil).

(b) Dividend attributable to the previous financial year, approved and paid during the Period:

	Six months ended 31 December 2006 (Unaudited) HK$'000	2005 (Unaudited) HK$'000
Final dividend in respect of the previous financial year approved during the Period, of HK$Nil (2005: HK$0.01) per ordinary share	**–**	9,890

9. 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 Period attributable to equity holders of the Company of approximately HK$73,581,000 (2005: HK$52,231,000) and the weighted average number of ordinary shares of 1,425,130,000 (2005: 966,546,000) in issue during the Period.

The calculation of diluted earnings per share attributable to equity holders of the Company is based on the Group's profit for the Period attributable to equity holders of the Company of approximately HK$73,581,000 (2005: HK$52,231,000) and the weighted average number of ordinary shares of 1,425,588,000 (2005: 967,015,000), being the weighted average number of ordinary shares of 1,425,130,000 (2005: 966,546,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 458,000 (2005: 469,000) assumed to have been issued at no consideration on the deemed exercise of the share options outstanding at the balance sheet.

10. 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 sales, is as follows:

	31 December 2006 (Unaudited) HK$'000	30 June 2006 (Audited) HK$'000
1 - 30 days	**132,520**	115,077
31 - 60 days	**33,624**	22,580
61 - 90 days	**7,832**	6,120
	173,976	143,777

11. 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:

	31 December 2006 (Unaudited) HK$'000	30 June 2006 (Audited) HK$'000
1 - 30 days	**36,573**	34,861
31 - 60 days	**1,104**	245
61 - 90 days	**1,931**	2,072
	39,608	37,178

12. SHARE CAPITAL

	31 December 2006		30 June 2006	
	Number of shares	**Amount**	Number of shares	Amount
	'000	**HK'000**	'000	HK'000
Authorised:				
Ordinary shares of HK$0.01 each	**2,000,000**	**20,000**	2,000,000	20,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each	**1,425,130**	**14,251**	1,425,130	14,251

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (30 June 2006: Nil). At 31 December 2006, the Company had provided corporate guarantees to banks for banking facilities provided to certain subsidiaries of the Company. These banking facilities had been utilised to the extent of approximately HK$152,450,000 as at the balance sheet date (30 June 2006: HK$149,353,000).

14. CAPITAL COMMITMENTS

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

	31 December 2006 (Unaudited) HK$'000	30 June 2006 (Audited) HK$'000
Contracted but not provided for		
– Acquisition of remaining 30% equity interests in Sunning State	–	20,000
– Acquisition of remaining 50% equity interests in Senox	**180,000**	–
– Acquisition of open offer shares of Daqing	**44,106**	–
	224,106	20,000

The Company did not have any significant capital commitments at 31 December 2006 (30 June 2006: Nil).

15. OPERATING LEASE COMMITMENTS

At 31 December 2006, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2006 (Unaudited) HK$'000	30 June 2006 (Audited) HK$'000
Within one year	**3,331**	3,078
In the second to fifth years, inclusive	**1,264**	2,070
	4,595	5,148

The Company did not have any significant operating lease commitments at 31 December 2006 (30 June 2006: Nil).

16. POST BALANCE SHEET EVENTS

(a) On 4 November 2006, Hurdle Limited, a wholly-owned subsidiary of the Group, entered into the Sale and Purchase Agreement to acquire the remaining 50% equity interests in Senox for a consideration of HK$211 million. The acquisition was subsequently completed in January 2007 and Senox become a wholly-owned subsidiary of the Group. The remaining balance of the consideration of HK$180 million had been paid subsequent to the Period under review.

(b) On 23 November 2006, Master Oriental Limited, a wholly-owned subsidiary of the Group, interested in 294,040,000 ordinary shares of Daqing at that time, had irrevocably undertaken to subscribe 147,020,000 open offer shares, on the basis of one offer share for every two existing shares held, at a subscription price of HK$0.3 per share in the issued share capital of Daqing, at an aggregate subscription price of HK$44,106,000. The subscription of the open offer shares was subsequently completed in January 2007.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2006 (2005: Nil) per ordinary share.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2006 (the "Period"), the Group had achieved continuous growth in turnover and net profit through incessant refinement to its business model coupled with favourable market environment. The retail and consumer markets in the Mainland China continued to be the major market place where the Group secured its business growth. Year 2006 recorded another year of impressive economic growth for the Mainland China. The growth of its Gross Domestic Product reached 10.7%, which had marked Year 2006 the fourth consecutive year that Mainland China had achieved a double-digit increase. Retail sales of consumable goods also grew by 13.7%. Underlying demand conditions were supportive of continuous and rapid growth. Domestic demand was also driven by the continuous urbanisation process in the Mainland China together with strong growth of urban per capita disposable income at 10.4% for Year 2006.

Turnover for the Period was approximately HK$752.5 million, representing an increase of approximately 42.8% compared to HK$526.8 million in the same period last year. The increase in turnover was mainly attributable to the increased sales quantity achieved through clientele and sales network expansion and product enrichment and diversification.

Gross profit margin increased from 17.1% to 19.4% when compared with the same period last year. Such increase in the overall profit margin was mainly attributable to the Group's incessant refinement of product mix. Sales of cosmetics, nourishing and branded products, frozen and chilled products and fresh fruit with relative higher profit margins had been able to achieve growth in a proportion outpaced the sales of the Group's packaged products.

Selling and distribution expenses recorded approximately 58.7% increase or increased from approximately 5.1% to 5.7% of the turnover when compared with the same period last 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 cosmetics, nourishing and frozen and chilled products and the geographical presence for PRC sales network during the Period under review.

Administrative expenses recorded approximately 55.0% increase when compared with the same period last year. Such increase was mainly attributable to expansion of the Group's existing distribution operations, particularly for the cosmetics products and the increased expenses for headcounts and depreciation following the full operations of our Shanghai logistics centre last year.

Profit from operations was approximately HK$87.7 million, representing an increase of approximately 63.2% compared to HK$53.7 million in the same period last year. The refinement of product mix was the main attributor to uplift the Group's operating profit margin to 11.7%, compared with 10.2% in the same period last year.

Finance costs remained fairly stable at approximately HK$4.4 million incurred during the Period as the Group's bank borrowings remained at a steady level when compared with the same period last year.

During the Period under review, the Group recorded share of net loss of associated companies of approximately HK$5.5 million, which consisted of the share of net profit of approximately HK$0.3 million from Daqing Petroleum & Chemical Group Limited ("Daqing"), a public company listed on The Stock Exchange of Hong Kong Limited with 13.99% equity interest owned by the Group and the share of net loss of approximately HK$5.8 million from Senox Co., Ltd. ("Senox") with 50% equity interest owned by the Group as at 31 December 2006. Since Senox's operating infrastructure, Zhongshan logistic centre, only commenced its operations in November 2006 and the acquisition of the remaining 50% equity interest by the Group in Senox completed in January 2007, the Group's share of the net loss of approximately HK$5.8 million from Senox mainly represented 50% share of the pre-startup operating expenses of Zhongshan logistic centre for the Period.

Net profit attributable to shareholders increased to HK$73.6 million, representing an increase of approximately 40.9% compared to HK$52.2 million in the same period last year.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

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

The Group's products were mainly sourced from the Southeast Asia, the United States of America, Europe, Australia and New Zealand and sold to wholesalers, retailers and on-premise customers in the PRC. Wholesalers were still the main customer category, which accounted for approximately 62% of the Group's turnover for the Period and the Group had been consistently expanding its customer base in retailer and on-premise sectors.

During the Period under review, the Group had consistently performed as a fast growing one-stop services platform provider conducting distribution, brand-building and value-added functions for the fast moving consumable goods, frozen and chilled products and fresh produce industry. In addition to strengthening its core distribution business, the Group had also been expanding its scale through diversification of its business scope and development of logistics business in the PRC.

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

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

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

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

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

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

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

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

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

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

At 31 December 2006, the Group had interest-bearing bank borrowings of approximately HK$152.5 million (30 June 2006: HK$149.4 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and approximately 64% 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 or US dollars. The Directors considered that the operations of the Group were not exposed to any significant foreign 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 31 December 2006.

At 31 December 2006, the Group's current assets amounted to approximately HK$749.8 million (30 June 2006: HK$741.0 million) and the Group's current liabilities amounted to approximately HK$165.2 million (30 June 2006: HK$138.0 million). The Group's current ratio remained at a healthy level at approximately 4.5 as at 31 December 2006 (30 June 2006: 5.4). At 31 December 2006, the Group had total assets of approximately HK$1,450.2 million (30 June 2006: HK$1,363.5 million) and total liabilities of approximately HK$229.0 million (30 June 2006: HK$224.4 million) with a gearing ratio of approximately 10.5% (30 June 2006: 11.0%). The gearing ratio was expressed as a ratio of bank borrowings to total assets and remained fairly stable during the Period under review.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2006, the Group had approximately 280 staff for its operations in Hong Kong, Macau and the PRC. The Group's employees were remunerated in accordance with their work performance and experience. The Group also participates in a defined Mandatory Provident Fund Scheme for its staff in Hong Kong and a retirement benefit scheme for its staff in the PRC. The Group has adopted a share option scheme of which the Board may, at its discretion, grant options to eligible participants of the share option scheme. As at 31 December 2006, a total of 10,752,000 share options remain unexercised.

DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 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 THE 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*	14,000,000	0.98%

Notes:

1. These shares are held 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 held 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 held 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.

Save as disclosed above, as at 31 December 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 OR DEBENTURES

Save as disclosed under the heading "Directors' interests and short positions in shares and underlying shares" above, at no time during the Period 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

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.

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

Name or category of participants	Number of share options At 1 July 2006	Granted during the year	Exercised during the year	At 31 Dec 2006	Date of grant of share options	Exercise period of share options	Exercise prices of share options HK$	Closing Price of Company's shares immediately before the date the options were granted HK$
Other eligible participants (in aggregate)	672,000*	–	–	672,000	30 April 2002	1 May 2002 to 30 April 2012	0.249*	0.279
	10,080,000*	–	–	10,080,000	3 February 2006	3 February 2006 to 2 February 2011	1.196*	1.348
	10,752,000	–	–	10,752,000				

* *The number of share options and exercise prices have been adjusted to reflect the effect from open offer issue after the grant of the share options.*

No options were cancelled or lapsed during the period ended 31 December 2006.

At 31 December 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).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 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 Asia Limited	*1*	239,400,000	Corporate interests	16.80%
World Invest Holdings Limited	*2*	85,680,000	Corporate interests	6.01%
Arisaig Greater China Fund ("Arisaig")	*3*	149,838,600	Corporate interests	10.51%
Arisaig Partners (Mauritius) Limited	*3*	149,838,600	Corporate interests	10.51%
Lindsay William Ernest Cooper	*3*	149,838,600	Corporate interests	10.51%
JPMorgan Chase & Co.		131,995,000	Corporate interests	9.26%
Pope Asset Management, LLC		114,100,214	Corporate interests	8.01%
Value Partners Limited	*4*	113,761,800	Corporate interests	7.98%
Mr. Cheah Cheng Hye	*4*	113,761,800	Corporate interests	7.98%
Neon Liberty Capital Management, LLC		85,781,000	Corporate interests	6.02%
UBS AG	*5*	85,781,000	Corporate interests	6.02%

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. Arisaig Partners (Mauritius) Limited was deemed to be interested in the 149,838,600 shares of the Company held by Arisaig by virtue of it acting as discretionary investment manager of Arisaig. Lindsay William Ernest Cooper was deemed to be interested in the 149,838,600 shares of the Company held by Arisaig through his indirect 33.33% beneficial interests in Arisaig Partners (Mauritius) Limited.

4. Mr. Cheah Cheng Hye was deemed to be interested in the 113,761,800 shares of the Company held by Value Partners Limited through his direct 35.65% interests in Value Partners Limited.

5. These shares were held by UBS AG as a person having a security interest in shares.

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

Save as disclosed above, as at 31 December 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company did not redeem any of its shares during the Period under review. Neither the Company, nor any of its subsidiaries, purchased or sold any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

The Board believe 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 Period, the Company had complied with all the applicable code provisions of the Code of 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").

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding director's securities transactions. Having made specific enquiry of all directors of the Company, all of them have complied with the required standard set out in the Mode Code for the Period.

AUDIT COMMITTEE

The Company has an Audit Committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The Audit Committee consists of one non-executive Director, namely Ms. Chan Yuk, Foebe and two independent non-executive Directors, namely Ms. Mak Yun Chu and Mr. Poon Yiu Cheung, Newman. The interim report has been reviewed and approved by the Audit Committee, but not audited by the Company's auditors.

REMUNERATION COMMITTEE

The Company has set up the remuneration committee with specific written terms of reference in accordance with the provisions set out in the Code in July 2005. The Remuneration Committee comprises one executive Director, namely Mr. Lam Kwok Hing and two independent non-executive Directors, namely Mr. Poon Yiu Cheng, Newman and Ms. Mak Yun Chu.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised six executive Directors, namely Mr. Lam Kwok Hing (Chairman), Mr. Chu Ki, Mr. Fong Yiu Ming, Anson, Ms. Lee Choi Lin, Joecy, Mr. Peng Zhanrong and Mr. Chiau Che Kong; an non-executive Director, namely Ms. Chan Yuk, Foebe; and three independent non-executive Directors, namely Mr. John Handley, Mr. Poon Yiu Cheung, Newman and Ms. Mak Yun Chu.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong, 23 March 2007