



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 2007/08

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 2007 (the "Period") together with the comparative figures for the corresponding period.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	Six months ended 31 December	
		2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
TURNOVER	3,4	1,033,574	752,492
Cost of sales		(807,236)	(606,222)
Gross profit		226,338	146,270
Other income		4,919	3,389
Selling and distribution expenses		(57,229)	(42,726)
Administrative expenses		(53,349)	(19,212)
Other expenses		(5,593)	–
PROFIT FROM OPERATIONS	4,5	115,086	87,721
Finance costs	6	(3,840)	(4,435)
Share of results of associated companies		20,317	(5,528)
PROFIT BEFORE TAX		131,563	77,758
Taxation	7	(4,912)	(3,064)
PROFIT FOR THE PERIOD		126,651	74,694
Attributable to:			
Equity holders of the Company		127,899	73,581
Minority interests		(1,248)	1,113
		126,651	74,694
EARNINGS PER SHARE	9		
– Basic		HK8.2 cents	HK5.2 cents
– Diluted		HK8.1 cents	HK5.2 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	At 31 December 2007 (Unaudited) HK\$'000	At 30 June 2007 (Audited) HK\$'000
	Note	
Non-current assets		
Fixed assets	448,715	423,079
Prepaid land lease payments	68,125	42,183
Construction in progress	27,003	23,845
Goodwill	238,166	168,090
Other intangible assets	68,525	77,925
Other assets	3,091	26,689
Investments in a club membership	108	108
Investments in associates	247,737	227,420
	<u>1,101,470</u>	<u>989,339</u>
Current assets		
Inventories	171,896	149,082
Trade receivables	247,635	207,165
Prepayments, deposits and other receivables	71,593	59,488
Investments	-	20,574
Bank and cash balances	543,861	245,438
	<u>1,034,985</u>	<u>681,747</u>
TOTAL ASSETS	<u>2,136,455</u>	<u>1,671,086</u>
Capital and reserves		
Share capital	12	15,676
Reserves	1,725,425	1,323,430
Equity attributable to equity holders of the Company	1,741,101	1,337,681
Minority interests	(1,224)	24
Total equity	<u>1,739,877</u>	<u>1,337,705</u>

CONDENSED CONSOLIDATED BALANCE SHEET

(Continue)

	At 31 December 2007 (Unaudited) HK\$'000	At 30 June 2007 (Audited) HK\$'000
	Note	
Non-current liabilities		
Bank loans	150,000	80,000
Finance lease payables	150	205
Deferred tax liabilities	8,693	8,693
	<u>158,843</u>	<u>88,898</u>
Current liabilities		
Trade payables	54,702	52,195
Accruals and other payables	78,767	62,626
Bank loans	83,813	114,895
Finance lease payables	114	121
Current tax liabilities	20,339	14,646
	<u>237,735</u>	<u>244,483</u>
Total liabilities	<u>396,578</u>	<u>333,381</u>
TOTAL EQUITY AND LIABILITIES	<u>2,136,455</u>	<u>1,671,086</u>
Net current assets	<u>797,250</u>	<u>437,264</u>
Total assets less current liabilities	<u>1,898,720</u>	<u>1,426,603</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2007

	Unaudited								
	Attributable to equity holders of the Company								
	Share capital	Share premium account	Foreign currency translation reserve	Share-based payment reserve	Share-based Revaluation reserve	Retained profits	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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
Balance at 1 July 2007	14,251	712,641	25,542	1,351	15,708	568,188	1,337,681	24	1,337,705
Translation difference	-	-	15,458	-	-	-	15,458	-	15,458
Issue of shares	1,425	252,225	-	-	-	-	253,650	-	253,650
Share issue expenses	-	(9,290)	-	-	-	-	(9,290)	-	(9,290)
Share of reserves of associates	-	-	-	15,703	-	-	15,703	-	15,703
Profit for the Period	-	-	-	-	-	127,899	127,899	(1,248)	126,651
Balance at 31 December 2007	15,676	955,576	41,000	17,054	15,708	696,087	1,741,101	(1,224)	1,739,877

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2007	2006
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	121,677	29,674
NET CASH USED IN INVESTING ACTIVITIES	(118,253)	(92,299)
NET CASH GENERATED FROM FINANCING ACTIVITIES	283,216	3,008
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	286,640	(59,617)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	245,438	414,570
	532,078	354,953
EFFECTS OF EXCHANGE RATE CHANGES	11,783	9,311
CASH AND CASH EQUIVALENTS AT END OF PERIOD	543,861	364,264
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	543,861	364,264

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

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 2007.

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 2007.

In the current period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA that are effective for the Group’s financial year beginning on 1 July 2007. The adoption of the new HKFRSs had no material effect on the Group’s results for the current or prior accounting periods, which have been prepared and presented. Accordingly, no prior year adjustment has been required.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing Costs ¹
HKFRS 8	Operating Segments ¹
HK (IFRIC)-Int 12	Service Concession Arrangements ²
HK (IFRIC)-Int 13	Customer Loyalty Programmes ³
HK (IFRIC)-Int 14	HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction ²

¹ Effective for accounting periods beginning on or after 1 January 2009

² Effective for accounting periods beginning on or after 1 January 2008

³ Effective for accounting periods beginning on or after 1 July 2008

The Directors anticipate that the application of these new and revised HKFRSs will have no material impact on the results and the financial position of the Group.

3. TURNOVER

The Group's turnover which represents sales of goods to customers, revenue from logistics services and rental is as follow:

	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Sales of goods	956,960	752,492
Logistics services income	74,773	–
Rental income	1,841	–
	1,033,574	752,492

All significant intra-group transactions have been eliminated on consolidation.

4. SEGMENT INFORMATION

The principal activities of the Group are (a) the distribution of packaged food, beverages, household consumable products, cosmetic products, cold chain products and fresh fruit; and (b) the provision of cold chain logistics services which are 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 are derived from customers and operations based in the People's Republic of China (the "PRC") and accordingly, no further analysis of the Group's geographical segments is disclosed.

(b) Secondary reporting format – business segments

During the Period, the Group is organised into three main business segments:

- (i) The distribution of packaged food, beverages, household consumable products, cosmetic products, cold chain products and fresh fruit ("Distribution");
- (ii) Provision of logistics services ("Logistics Services"); and
- (iii) Leasing of logistics facilities ("Leasing").

For 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, cosmetic products, cold chain products and fresh fruit and therefore, no further analysis of the Group's business segments is disclosed.

4. SEGMENT INFORMATION (Continue)

(b) Secondary reporting format – business segments

The segment information for the Period is presented below:

	Distribution	Logistics services	Leasing	Corporate and unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended					
31 December 2007					
Revenue	956,960	74,773	1,841	–	1,033,574
Segment results	104,114	31,537	1,565	–	137,216
Other income					4,919
Unallocated expenses					(27,049)
Share of profits of associates	–	–	–	20,317	20,317
Finance costs	(1,381)	–	–	(2,459)	(3,840)
Profit before tax					131,563
At 31 December 2007					
Segment assets	1,253,652	325,200	8,908	300,958	1,888,718
Investments in associates					247,737
Total assets					2,136,455
Segment liabilities	195,747	7,454	–	193,377	396,578
Total liabilities					396,578
Other segment information:					
Capital expenditure	24,392	7,388	200	26	32,006
Depreciation and amortisation	15,659	2,595	651	288	19,193

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Amortisation and depreciation	19,193	9,991
Cost of inventories sold	787,758	602,189
Loss on disposals of investments	5,588	–
Share-based payment expenses	15,703	–
	<u>19,193</u>	<u>9,991</u>

6. FINANCE COSTS

	Six months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Interest on bank loans and overdrafts	3,830	4,420
Finance leases charges	10	15
	<u>3,840</u>	<u>4,435</u>

7. TAXATION

	Six months ended 31 December	
	2007 (Unaudited) HK\$'000	2006 (Unaudited) HK\$'000
Current period tax:		
Hong Kong	28	85
Overseas	4,884	2,979
	<u>4,912</u>	<u>3,064</u>

7. TAXATION (Continue)

Hong Kong Profits Tax is provided at the rate of 17.5% (2006: 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

The Board do not recommend the payment of an interim dividend for the six months ended 31 December 2007 (2006: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profit for the Period attributable to equity holders of the Company of approximately HK\$127,899,000 (2006: HK\$73,581,000) and the weighted average number of ordinary shares of 1,560,622,000 (2006: 1,425,130,000) 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\$127,899,000 (2006: HK\$73,581,000) and the weighted average number of ordinary shares of 1,577,340,000 (2006: 1,425,588,000), being the weighted average number of ordinary shares of 1,560,622,000 (2006: 1,425,130,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 16,718,000 (2006: 458,000) 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.

The aging analysis of trade receivables, based on the date of recognition of the sales, is as follows:

	31 December 2007 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
1 – 30 days	206,703	113,040
31 – 60 days	27,688	90,942
61 – 90 days	13,244	3,183
	247,635	207,165

11. TRADE PAYABLES

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

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

	31 December 2007 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
1 – 30 days	45,453	45,136
31 – 60 days	6,869	6,689
61 – 90 days	2,380	370
	<u>54,702</u>	<u>52,195</u>

12. SHARE CAPITAL

	31 December 2007		30 June 2007	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.01 each	<u>10,000,000</u>	<u>100,000</u>	<u>2,000,000</u>	<u>20,000</u>
Issued and fully paid:				
Ordinary shares of HK\$0.01 each	<u>1,567,630</u>	<u>15,676</u>	<u>1,425,130</u>	<u>14,251</u>

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (30 June 2007: Nil). At 31 December 2007, 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\$233,813,000 as at the balance sheet date (30 June 2007: HK\$194,895,000).

14. CAPITAL COMMITMENTS

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

	31 December 2007 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
Contracted but not provided for		
– Construction in progress	2,927	6,505
– Fixed assets	<u>–</u>	<u>336</u>
	<u>2,927</u>	<u>6,841</u>

The Company did not have any significant capital commitments at 31 December 2007 (30 June 2007: Nil).

15. OPERATING LEASE COMMITMENTS

At 31 December 2007, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2007 (Unaudited) HK\$'000	30 June 2007 (Audited) HK\$'000
Within one year	30,468	2,488
In the second to fifth years, inclusive	37,497	20,879
After five years	<u>–</u>	<u>3,443</u>
	<u>67,965</u>	<u>26,810</u>

The Company did not have any significant operating lease commitments at 31 December 2007 (30 June 2007: Nil).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2007 (2006: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2007 (the "Period"), the Group had achieved continuous growth in turnover and net profit through continuous 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.

Turnover for the Period was approximately HK\$1,033.6 million, representing an increase of approximately 37.4% compared to HK\$752.5 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 and also the increased revenue from the provision of cold chain logistics services and Zhongshan fresh produce logistics hub.

Gross profit margin increased from 19.4% to 21.9% when compared with the same period last year. Such increase in the overall profit margin was mainly attributable to the Group's continuous refinement of client and product mix and increased revenue from the provision of cold chain logistics services with relative higher profit margins.

Selling and distribution expenses remained fairly stable at approximately 5.5% to the turnover when compared with 5.7% in the same period last year. Administrative expenses recorded approximately 177.7% increase when compared with the same period last year. Such increase was mainly attributable to share-based payment expenses for granting share options to employees and the increased expenses for continuously expanding operations and for headcounts, depreciation and miscellaneous operating costs following the activation of our Zhongshan logistics hub in November 2006.

Other expenses represented a loss of HK\$5.6 million incurred on disposal of the listed warrants issued by China Zenith Chemical Group Limited ("China Zenith"), which had reversed part of the unrealized fair value gain of HK\$12.6 million recorded as at 30 June 2007.

Profit from operations was approximately HK\$115.1 million, representing an increase of approximately 31.2% compared to HK\$87.7 million in the same period last year. The refinement of client and product mix and the provision of cold chain logistics services would be the main attributors to uplift the Group's operating profit margin to 13.2% if the effect of the non-current share-based payment and the loss from disposal of listed warrants had been excluded, compared with 11.7% in the same period last year.

Finance costs decreased to approximately HK\$3.8 million from HK\$4.4 million incurred in the same period last year as the Group's utilization for bank borrowings during the Period had been kept at a lower level.

During the Period under review, the Group recorded a share of results of an associated company of approximately HK\$20.3 million, which represented the share of the net profit of China Zenith with 12.96% equity interest owned by the Group as at 31 December 2007.

Net profit attributable to shareholders increased to approximately HK\$127.9 million, representing an increase of approximately 73.8% compared to HK\$73.6 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, cold chain products and fresh fruit and the provision of cold chain 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 40%, 3%, 3%, 7%, 12% and 28% and the provision of cold-chain logistics services represented approximately 7% 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 and skincare products included make-up, perfumes, fragrance and skin and sun care products. Cold chain products consisted of frozen meat, seafood and dairy products.

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 58% of the Group's turnover for the Period and the Group had been consistently expanding its customer base in on-premise and servicing sectors to approximately 23% and 7% respectively. The progressive enlargement in on-premise and servicing sectors was mainly attributable to sales of more cold chain and fresh produce products with the availability of the cold chain facilities by our Shanghai, Zhongshan and Beijing cold chain infrastructure.

During the Period under review, the Group has consistently performed as a fast growing one-stop services platform provider delivering distribution, brand-building, supply chain solutions and value-added functions for the fast moving consumable goods, cosmetics products, cold chain products and fresh produce industry in the PRC. The Group had been also realising its investments plans to reinforce its development in the cold chain products, fresh logistics products and logistics business.

Recognizing the procurement network as one of the key success factors to its core business, the Group had established two packhouses in Thailand. These packhouses served as the overseas procurement arms of our PRC logistics hubs and depots to ensure the quality and steady supply of fresh produce products to the PRC market. The supportive depot in Beijing of the PRC had also come into operations during the Period under review. Two more supportive depots in Kunming and Changsha of the PRC were expected to become fully functional by the end of year 2008 to complement the Group's sourcing and distribution network for fresh produce products in the eastern and western parts of the PRC. Further, the Group was still seeking appropriate locality at a reasonable cost to construct or acquire another logistics hub in Dalian of the PRC. The operations of such logistics hub in the north-eastern region of the PRC, in addition to the two strategically located logistics hubs already established in the eastern (Shanghai) and southern (Zhongshan) regions of the PRC together with the supportive depots, would enable the Group to address market needs and fill market voids and continuously capitalise on the first mover advantage to maintain a niche position by operating a nation-wide network comprising cold chain distribution and logistics services for cold-chain and fresh produce products in the PRC.

In October 2007, the Group had entered into the cooperative terms with a global logistics provider to form a venture business to carry out perishable logistics in the PRC. The formation of such venture business would require the Group to establish cold-chain infrastructure next to the port entry in the PRC with immediate handling and processing ability and subsequent logistics capability, including the carry-out of cargo consolidation, storage, temperature controlled inland transport and delivery to door for perishables upon their arrival on ports in the PRC. The venture business would set to expand the Group's scope and volume in logistics for cold chain and agro-based products from global reach of the shipping and logistics activities of such global logistics provider. Within an appropriate timeframe, the cooperation would be further extended for export of China's agro-based products with the availability of the outbound logistics facilities of the global logistics provider. The Group's Zhongshan and Dalian logistics hubs would come into play to a significant role by serving as the ultimate post-harvest processing hubs for export of agro-based products in the southern and north-eastern regions of the PRC leading to a significant increase in business volume and profitability.

In November 2007, the Group entered into the acquisition agreement to acquire 100% equity interest of Panna Fine Group Limited and its subsidiaries ("Panna Fine Group") at a consideration of HK\$80 million. Panna Fine Group is principally engaged in the wholesaling and distribution of imported cold chain products with established sales network in the southern and northern regions of the PRC. The acquisition of Panna Fine Group would enable the Group to enrich its product lines, further raise the utilization of its cold chain infrastructure network and expand its current cold chain distribution network to a broader coverage in the PRC.

To cope with the funding requirement for the forthcoming development in the interrelated logistics, cold-chain and agro-based business, on 8 October 2007, the Group entered into the sale and purchase agreement pursuant to which the Group would sell 400,000,000 shares in China Zenith at HK\$0.505 per share to an independent third party. The disposal would be complete by 31 March 2008 with net proceeds of approximately HK\$200 million.

In the years ahead, the Group will continue to enhance its business model and keep on strengthening its capability as a fast growing one-stop services platform provider 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. The Group will also strike a well balance in leveraging its distribution and logistics business streams to secure optimal returns.

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, equity funding and banking facilities.

On 28 June 2007, the Company entered into a top-up placing and subscription agreement for the placing of 142,500,000 existing shares of the Company to independent places at a placing price of HK\$1.78 per share. The placing and subscription were completed on 10 July 2007. The net proceeds of approximately HK\$245 million would provide strong shareholder funding for the Group's further development in logistics and agro-based business.

At 31 December 2007, the Group had interest-bearing bank borrowings of approximately HK\$233.8 million (30 June 2007: HK\$194.9 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and approximately 35.8% 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, purchases and services income of the Group were either denominated in Renminbi, 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 these currencies. The Group did not have any significant hedging instrument outstanding as at 31 December 2007.

At 31 December 2007, the Group's current assets amounted to approximately HK\$1,035.0 million (30 June 2007: HK\$681.7 million) and the Group's current liabilities amounted to approximately HK\$237.7 million (30 June 2007: HK\$244.5 million). The Group's current ratio increased to approximately 4.4 as at 31 December 2007 (30 June 2007: 2.8). At 31 December 2007, the Group had total assets of approximately HK\$2,136.5 million (30 June 2007: HK\$1,671.1 million) and total liabilities of approximately HK\$396.6 million (30 June 2007: HK\$333.4 million) with a gearing ratio of approximately 10.9% (30 June 2007: 11.7%). 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 2007, the Group had approximately 510 staff for its operations in the PRC, Hong Kong and Macau. The Group's employees are remunerated in accordance with their work performance and experience. The Group also participates in a retirement benefit scheme for its staff in the PRC and a defined Mandatory Provident Fund Scheme for its staff in Hong Kong. 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 2007, a total of 132,252,000 share options remain unexercised.

DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2007, 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	15.27%
Ms. Lee Choi Lin, Joecy	2	85,680,000	5.47%
Mr. Chu Ki	3	14,000,000	0.89%

Notes:

- 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.
- 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.
- 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 2007, 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 nonexecutive 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				Date of grant of share options	Exercise period of share options	Closing Price of Company's shares	
	At 1 July 2007	Granted during the period	Exercised during the period	At 31 Dec 2007			Exercise prices of share options HK\$	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
Employees of the Group (in aggregate)	-	120,000,000	-	120,000,000	21 August 2007	21 August 2007 to 20 August 2012	1.240	1.240
	-	1,500,000	-	1,500,000	13 November 2007	15 November 2007 to 12 November 2012	1.612	1.612
	<u>10,752,000</u>	<u>121,500,000</u>	<u>-</u>	<u>132,252,000</u>				

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

No options were cancelled or lapsed during the period ended 31 December 2007.

At 31 December 2007, the Company had 132,252,000 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 132,252,000 additional ordinary shares and additional share capital of HK\$1,322,520 and share premium of approximately HK\$162,118,000 (before share issue expenses).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2007, 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	15.27%
World Invest Holdings Limited	2	85,680,000	Corporate interests	5.47%
Value Partners Limited	3	179,343,800	Corporate interests	11.44%
Value Partners Group Limited	3	179,343,800	Corporate interests	11.44%
Cheah Capital Management Limited	3	179,343,800	Corporate interests	11.44%
Cheah Company Limited	3	179,343,800	Corporate interests	11.44%
Hang Seng Bank Trustee International Limited	3	179,343,800	Corporate interests	11.44%
Cheah Cheng Hye	3	179,343,800	Corporate interests	11.44%
To Hau Yin	3	179,343,800	Corporate interests	11.44%
Keywise Capital Management (HK) Limited	4	158,046,000	Corporate interests	10.08%
Keywise Greater China Opportunities Master Fund	4	108,003,000	Corporate interests	6.89%
JPMorgan Chase & Co.		156,870,000	Corporate interests	10.01%
Arisaig Greater China Fund Limited ("Arisaig")	5	153,903,600	Corporate interests	9.82%
Arisaig Partners (Mauritius) Limited ("Arisaig Mauritius")	5	153,903,600	Corporate interests	9.82%
Lindsay William Ernest Cooper	5	153,903,600	Corporate interests	9.82%
DnB NOR Asset Management (Asia) Limited		101,350,000	Corporate interests	6.46%
UBS AG	6	85,181,000	Corporate interests	5.43%

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. Hang Seng Bank Trustee International Limited has 100% control of Cheah Company Limited, which has 100% control of Cheah Capital Management Limited, which has 35.65% control of Value Partners Group Limited, which in turn has 100% control of Value Partners Limited. Mr. Cheah Cheng Hye also has 100% control of Cheah Capital Management Limited and is the founder of C H Cheah Family Trust. To Hau Yin is the spouse of Cheah Cheng Hye.
4. Keywise Capital Management (HK) Limited was deemed to be interested in 158,046,000 shares, out of which 108,003,000 shares was beneficially owned by Keywise Greater China Opportunities Master Fund and 50,043,000 shares beneficially owned by Keywise Greater China Master Fund, by virtue of Keywise Capital Management (HK) Limited acting as discretionary manager of these two funds.
5. Arisaig Partners (Mauritius) Limited was deemed to be interested in the 153,903,600 Shares held by Arisaig Greater China Fund by virtue of it acting as discretionary investment manager of Arisaig Greater China Fund. Lindsay William Ernest Cooper was deemed to be interested in the 153,903,600 Shares held by Arisaig Greater China Fund through his indirect 33.33% beneficial interests in Arisaig Partners (Mauritius) Limited.
6. 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 2007, 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, redeemed or sold any of the Company's listed securities during the Period.

CORPORATE GOVERNANCE

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 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 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 Period and they all confirmed that they had fully complied with the required standard set out in the Model Code.

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. The responsibilities and authorities of the Remuneration Committee are clearly stated in the terms of reference, including but not limited to recommendations to the Board on the Company's policy and structure for all remuneration of the Directors and the senior management and review and approval of the compensation package to Executive Directors and senior management. The Remuneration Committee has adopted terms of reference which are in line with the Code.

On behalf of the Board

Lam Kwok Hing

Chairman

Hong Kong, 28 March 2008