2008/09

INTERIM REPORT

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)

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 2008 (the "Period") together with the comparative figures for the corresponding period.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2008

		Six months ended 31 December	
		2008	2007
		(Unaudited)	(Unaudited)
	Note	**HK$'000**	HK$'000
TURNOVER	3,4	**991,476**	1,033,574
Cost of sales		**(784,879)**	(807,236)
Gross profit		**206,597**	226,338
Other income		**5,564**	4,919
Selling and distribution expenses		**(63,470)**	(57,229)
Administrative expenses		**(54,120)**	(53,349)
Other operating expenses		**(30,071)**	(5,593)
PROFIT FROM OPERATIONS	4,5	**64,500**	115,086
Finance costs	6	**(4,521)**	(3,840)
Share of profits of associates		**–**	20,317
PROFIT BEFORE TAXATION		**59,979**	131,563
Taxation	7	**(3,876)**	(4,912)
PROFIT FOR THE PERIOD		**56,103**	126,651
Attributable to:			
Equity holders of the Company		**58,905**	127,899
Minority interests		**(2,802)**	(1,248)
		56,103	126,651
EARNINGS PER SHARE	9		
– Basic		**HK3.7 cents**	HK8.2 cents
– Diluted		**HK3.7 cents**	HK8.1 cents

CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Note	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
Non-current assets			
Fixed assets		**577,731**	558,855
Prepaid land lease payments		**235,547**	237,531
Construction in progress		**98,454**	2,223
Goodwill		**287,378**	287,378
Other intangible assets		**164,405**	90,943
Other assets		**85,544**	50,671
Deferred expenditure		**28,522**	–
Investments in a club membership		**108**	108
Investments		**13,501**	33,043
		1,491,190	1,260,752
Current assets			
Biological assets		**12,274**	1,314
Inventories		**220,781**	171,808
Trade receivables	10	**341,894**	298,025
Prepayments, deposits and other receivables		**114,148**	78,984
Investments		**148**	334
Bank and cash balances		**300,526**	589,082
		989,771	1,139,547
TOTAL ASSETS		**2,480,961**	2,400,299
Capital and reserves			
Share capital	12	**16,701**	15,901
Reserves		**2,048,565**	1,972,883
Equity attributable to equity holders of the Company		**2,065,266**	1,988,784
Minority interests		**2,224**	5,026
Total equity		**2,067,490**	1,993,810

	Note	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
Non-current liabilities			
Borrowings		**111,532**	144,204
Finance lease payables		**127**	93
Deferred tax liabilities		**7,514**	7,514
Deferred income		**8,945**	9,260
		128,118	161,071
Current liabilities			
Trade payables	11	**80,654**	77,699
Accruals and other payables		**42,315**	39,597
Borrowings		**135,372**	105,016
Finance lease payables		**104**	114
Current tax liabilities		**26,908**	22,992
		285,353	245,418
Total liabilities		**413,471**	406,489
TOTAL EQUITY AND LIABILITIES		**2,480,961**	2,400,299
Net current assets		**704,418**	894,129
Total assets less current liabilities		**2,195,608**	2,154,881

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2008

	Unaudited										
	Attributable to equity holders of the Company										
	Share capital	Share premium account	Legal reserve	Foreign currency translation reserve	Share-based payment reserve	Property revaluation reserve	Investment 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$'000	HK$'000	HK$'000
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 subscribed shares	1,425	242,935	–	–	–	–	–	–	244,360	–	244,360
Recognition of share-based payment	–	–	–	–	15,703	–	–	–	15,703	–	15,703
Profit for the Period	–	–	–	–	–	–	–	127,899	127,899	(1,248)	126,651
At 31 December 2007	15,676	955,576	–	41,000	17,054	15,708	–	696,087	1,741,101	(1,224)	1,739,877
At 1 July 2008	15,901	986,140	97	125,429	20,056	16,389	(4,647)	829,419	1,988,784	5,026	1,993,810
Translation difference	–	–	–	(66)	–	–	–	–	(66)	–	(66)
Issue of subscribed shares	800	32,091	–	–	(3,651)	–	–	–	29,240	–	29,240
Recognition of share-based payment	–	–	–	–	7,944	–	–	–	7,944	–	7,944
Share options cancelled/lapsed and transfer to retained profits	–	–	–	–	(16,099)	–	–	16,099	–	–	–
Change of fair value of available-for-sale financial assets	–	–	–	–	–	–	(19,541)	–	(19,541)	–	(19,541)
Profit for the Period	–	–	–	–	–	–	–	58,905	58,905	(2,802)	56,103
At 31 December 2008	**16,701**	**1,018,231**	**97**	**125,363**	**8,250**	**16,389**	**(24,188)**	**904,423**	**2,065,266**	**2,224**	**2,067,490**

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2008

	Six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**1,296**	121,677
NET CASH USED IN INVESTING ACTIVITIES	**(315,698)**	(118,253)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**26,948**	283,216
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(287,454)**	286,640
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**589,082**	245,438
	301,628	532,078
EFFECTS OF EXCHANGE RATE CHANGES	**(1,102)**	11,783
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**300,526**	543,861
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**300,526**	543,861

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2008

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") of 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 2008.

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 2008.

In the current interim 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 2008. The adoption of the new HKFRSs had no material effect on how the Group's results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period 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.

HKFRSs (Amendments)	Improvements to HKFRSs[1]
HKAS 1 (Revised)	Presentation of financial statements[2]
HKAS 23 (Revised)	Borrowing costs[2]
HKAS 27 (Revised)	Consolidated and separate financial statements[3]
HKAS 32 and HKAS 1 (Amendments)	Puttable financial instruments and obligations arising on liquidation[2]
HKAS 39 (Amendment)	Eligible hedged items[3]
HKFRS 1 & HKAS 27 (Amendments)	Cost of investment in subsidiary, jointly controlled entities or associates[2]
HKFRS 2 (Amendment)	Vesting conditions and cancellations[2]
HKFRS 3 (Revised)	Business combination[3]
HKFRS 7 (Amendment)	Improving disclosures about financial instruments[2]
HKFRS 8	Operating segments[2]

HK(IFRIC) – INT 15	Agreements for the construction of real estate[2]
HK(IFRIC) – INT 16	Hedges of a net investment in a foreign operation[4]
HK(IFRIC) – INT 17	Distribution of non-cash assets to owners[3]
HK(IFRIC) – INT 18	Transfer of assets from customers[5]

[1] Effective for accounting periods beginning on or after 1 January 2009 except for the amendment to HKFRS 5, effective for accounting periods beginning on or after 1 July 2009

[2] Effective for accounting periods beginning on or after 1 January 2009

[3] Effective for accounting periods beginning on or after 1 July 2009

[4] Effective for accounting periods beginning on or after 1 October 2008

[5] Effective for transfers on or after 1 July 2009

The Directors anticipate that the application of these new and revised standards, amendments or interpretations 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:

	Six months ended 31 December	
	2008	2007
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of goods	**471,790**	672,587
Sales of fresh produce products	**423,580**	284,373
Logistics services income	**93,828**	74,773
Rental income	**2,278**	1,841
	991,476	1,033,574

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 and cold chain products; (b) the cultivation and distribution of fresh produce products; and (c) 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 95% 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 re-organised its main business segments as the Group enhanced its business by strengthening its nation-wide network of distribution and logistics platform for the cold-chain and agro products.

For the six months ended 31 December 2008, the Group is organised into four main business segments:

(i) The distribution of packaged food, beverages, household consumable products, cosmetic products and cold chain products ("Distribution");

(ii) The cultivation and distribution of fresh produce products ("Cultivation and distribution");

(iii) Provision of logistics services ("Logistics services"); and

(iv) Leasing of logistics facilities ("Leasing").

Secondary reporting format – business segments

	Distribution HK$'000	Cultivation and distribution HK$'000	Logistics services HK$'000	Leasing HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
For the six months ended 31 December 2008						
Revenue	471,790	423,580	93,828	2,278	–	991,476
Segment results	19,048	15,580	35,608	1,956	–	72,192
Other income						5,564
Unallocated expenses						(13,256)
Finance costs	(763)	(30)	–	–	(3,728)	(4,521)
Profit before taxation						59,979
At 31 December 2008						
Segment assets	1,160,614	752,345	507,043	7,889	39,421	2,467,312
Investments						13,649
Total assets						2,480,961
Segment liabilities	130,156	76,965	8,895	–	197,455	413,471
Total liabilities						413,471
Other segment information:						
Capital expenditure	4,794	32,380	645	–	136	37,955
Depreciation and amortisation	17,042	10,133	22,005	138	327	49,645

	Distribution HK$'000	Cultivation and distribution HK$'000	Logistics services HK$'000	Leasing HK$'000	Corporate and unallocated HK$'000	Consolidated HK$'000
For the six months ended 31 December 2007						
Revenue	672,587	284,373	74,773	1,841	–	1,033,574
Segment results	89,638	14,476	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 taxation						131,563
At 31 December 2007						
Segment assets	1,004,898	248,754	325,200	8,908	300,958	1,888,718
Investments						247,737
Total assets						2,136,455
Segment liabilities	166,262	29,485	7,454	–	193,377	396,578
Total liabilities						396,578
Other segment information:						
Capital expenditure	16,520	7,872	7,388	200	26	32,006
Depreciation and amortisation	9,667	5,992	2,595	651	288	19,193

5. PROFIT FROM OPERATIONS

Profit from operations is arrived at after charging:

	Six months ended 31 December 2008 (Unaudited) HK$'000	2007 (Unaudited) HK$'000
Amortisation and depreciation	**49,645**	19,193
Cost of inventories sold	**729,175**	787,758
Loss on disposals of investments	**–**	5,588
Share-based payment expenses	**7,944**	15,703
Operating lease charges on land and buildings	**8,045**	4,429
Impairment of trade receivables	**18,094**	–
Impairment of intangible assets	**11,400**	–

6. FINANCE COSTS

	Six months ended 31 December 2008 (Unaudited) HK$'000	2007 (Unaudited) HK$'000
Interest on bank loans and overdrafts	**4,512**	3,830
Finance leases charges	**9**	10
	4,521	3,840

7. TAXATION

	Six months ended 31 December 2008 (Unaudited) HK$'000	2007 (Unaudited) HK$'000
Current period tax:		
Hong Kong	**–**	28
Overseas	**3,876**	4,884
	3,876	4,912

Hong Kong Profits Tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits 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.

According to the Income Tax Law of the Macau Special Administrative Region, Macau Complementary Tax is calculated at the rate of 12% (2007: 15.75%) on the estimated assessable profits for the Period. The maximum complementary tax rate was reduced to 12% during the period in accordance with the Decree-Law No. 21/78/M. However, two subsidiaries operating in Macau during the Period are in compliance with the Decree-Law No. 58/99M of Macau Special Administrative Region, and thus, the profits generated by the subsidiaries are exempted from the Macau Complementary Tax for the Period.

The provision for income tax of subsidiaries operating in the PRC have been calculated at the rates of 25% (2007: 33%) for the Period, based on existing legislation, interpretation and practices in respect thereof.

The Hong Kong Profits Tax rate and the PRC Enterprise Income Tax rate applicable to the current period have been changed to 16.5% and 25% respectively. The deferred tax for the year has been adjusted to reflect the change in tax rates accordingly.

8. DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 31 December 2008 (2007: 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$58,905,000 (2007: HK$127,899,000) and the weighted average number of ordinary shares of 1,607,152,000 (2007: 1,560,622,000) in issue during the Period.

The calculation of diluted 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$58,905,000 (2007: HK$127,899,000) and the weighted average number of ordinary shares of 1,608,441,000 (2007: 1,577,340,000), being the weighted average number of ordinary shares of 1,607,152,000 (2007: 1,560,622,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of ordinary shares of 1,289,000 (2007: 16,718,000) 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 or collectability is in significant doubt.

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

	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
1 – 30 days	**142,485**	212,045
31 – 60 days	**146,101**	81,000
61 – 90 days	**48,011**	4,980
91 – 120 days	**5,297**	–
	341,894	298,025

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 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
1 – 30 days	**79,045**	77,138
31 – 60 days	**49**	403
61 – 90 days	**1,560**	158
	80,654	77,699

12. SHARE CAPITAL

	31 December 2008 Number of shares '000	31 December 2008 Amount HK'000	30 June 2008 Number of shares '000	30 June 2008 Amount HK'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000**	**100,000**	10,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each	**1,670,130**	**16,701**	1,590,130	15,901

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (30 June 2008: Nil). At 31 December 2008, the Company had provided corporate guarantees to banks for banking facilities provided to the Company and certain subsidiaries of the Company. These banking facilities had been utilised to the extent of approximately HK$246,904,000 as at the balance sheet date (30 June 2008: HK$249,220,000).

14. CAPITAL COMMITMENTS

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

	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
Contracted but not provided for		
– Construction in progress	**33,586**	–

The Company did not have any significant capital commitments at 31 December 2008 (30 June 2008: Nil).

15. OPERATING LEASE COMMITMENTS

At 31 December 2008, the Group's total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2008 (Unaudited) HK$'000	30 June 2008 (Audited) HK$'000
Within one year	**3,168**	3,788
In the second to fifth years, inclusive	**21,777**	22,616
After five years	**24,808**	25,291
	49,753	51,695

The Company did not have any significant operating lease commitments at 31 December 2008 (30 June 2008: Nil).

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2008 (2007: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2008 (the "Period"), the Group recorded a turnover of approximately HK$991.5 million, representing a decrease of approximately HK$42.1 million or 4.1% in the same period last year. Although the Group recorded a growth rate of approximately 31%, 49% and 25% in turnover for distribution of cosmetic and fresh produce products and provision of cold chain logistics services respectively when compared with the same period last year, these increases in turnover had been offset by the decrease in sales volume of consumable goods. Such decrease in consumable goods was mainly attributable to our implementation of a more stringent credit control to limit or stop taking orders from those customers with gradually slow repayment pattern on top of the overall business downturn due to gloomy economy outlook and uncertainty during the Period.

Gross profit margin decreased from 21.9% to 20.8% when compared with the same period last year. The decrease was mainly attributable to the increase in the sales of cosmetic and fresh produce products sourcing from the PRC manufacturers with relatively lower gross margin.

Selling and distribution expenses recorded approximately 10.9% increase or increased from approximately 5.5% to 6.4% of the turnover when compared with the same period last year. The increase was mainly attributable to the increased outlays in marketing development and promotion campaigns, transportation and handling, amortisation and depreciation, headcounts for sales force and miscellaneous selling expenses mainly incurred for the cultivation and distribution business of fresh produce products.

Administrative expenses of approximately HK$54.1 million remained at a similar level when compared with the same period last year. Although the Group expanded its business development in the upstream farming with a relative higher portion of fixed administrative costs than its distribution business during the Period, the Group had carried out a review of corporate resources and services sharing and reallocation among different business sections as a means to keep tight cost control.

Other operating expenses mainly represented an impairment of trade receivables of approximately HK$18.1 million and an impairment of intangible assets of approximately HK$11.4 million. During the Period, the Group had made specific provisions on certain trade debts with doubtful collectability. Though the provisions only represented approximately 1.8% to the Group's overall turnover during the Period given the tumbling economic conditions, the Group had implemented a more stringent credit control to customers. The impairment of intangible assets represented a provision against certain distribution rights upon the termination of supply of some exclusively licensed branded products during the Period.

Finance costs increased slightly to approximately HK$4.5 million from HK$3.8 million in the same period last year with the Group's utilization for bank borrowings maintained at a similar level when compared with the same period last year.

Net profit attributable to shareholders decreased to approximately HK$58.9 million, representing a decrease of approximately 53.9% when compared with the same period last year. The decrease in the Group's net profit can be summarised as mainly attributable to an approximately 4.1% decrease in turnover, a 1.1% decrease in the Group's overall gross profit margin, a 10.9% increase in selling and distribution expenses, a net increase of approximately HK$24.5 million in other operating expenses due to certain out of the ordinary provisions and a decrease of approximately HK$20.3 million contribution from the share of the results of an associated company following the Group's disposal of its shareholding in China Zenith Chemical Group Limited during the same period last year.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the Period under review, the Group was principally engaged in (i) distribution of packaged food, beverages, household consumable products, cosmetics and skincare products and cold chain products; (ii) the provision of cold chain logistics services; and (iii) cultivation and distribution of agro products. The product groups distributed by the Group included packaged food, beverages, household consumable products, cosmetics and skincare products, frozen and chilled products with their respective contribution of approximately 23%, 2%, 2%, 9% and 12%. The provision of cold-chain logistics services represented approximately 10% to the Group's turnover for the Period. The cultivation and distribution of agro products represented approximately 42% 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 diary products. Agro products included various types of vegetables and 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. During the Period under review, the Group also started expanding its sourcing network for cosmetic and agro products in the PRC. Wholesalers were still the main customer category, which accounted for approximately 44% of the Group's turnover for the Period. The Group had been consistently expanding its customer base in retailing and on-premise sectors to approximately 25% and 21% and servicing sector to approximately 10% respectively. The progressive enlargement in retailing and servicing sectors was mainly attributable to sales of more cosmetic products and agro products with the availability of the cold chain facilities by our Shanghai, Zhongshan and Beijing cold chain infrastructure.

During the Period, the Group had consistently delivered itself as a one-stop service platform incorporating the functions of traders, marketing agent and supply chain solutions provider in the fast moving consumable goods, cosmetic and cold chain products in the PRC. Further, the Group had also been diversifying itself as a one-stop vertical integrated service platform provider conducting cultivation, value-added processing, perishable logistics and distribution for the agro-industry in the PRC.

During the Period under review, the Group had been further expanding its upstream farming business since its acquisition of a farming business in Jiangxi Province of the PRC. The acquired farming business was mainly engaged in the cultivation and sales of vegetables to wholesalers and retail markets in the PRC and also to wholesaler markets, established food servicing chains and its own retail shops in Hong Kong. To meet the expected significant demand of the agro-products in its future development, the Group had also secured approximately 20,000 mu of farmland for vegetable and fruit plantation through acquisition or contact farming arrangement to ensure a steady quality-assured supply at a competitive pricing. A modern cultivation base equipped with processing and storage facilities in conformity with various accreditation including GLOBALGAP, CHINA GAP, HACCP and ISO9001:22000 was also in construction in Jiangxi Province of the PRC. Such agro-based development would place strong emphasis in high quality green food by adopting an ecological and green cultivation methodology with high yield and quality as its core mission. The development would be in line with the existing government policies in the PRC to encourage scale development in the agricultural industry with increasing concerns placed on food safety control and monitoring. The Group would utilise the expertise of the existing management teams of the acquired farming business in Jiangxi Province and also set aside an appropriate budget to carry out research and development activities through the assistance and collaboration with academic and research institutions to secure new seeding and variety, and high yield and quality.

During the Period under review, the Group had also carried out its clientele extension plans in its agro-business through acquiring certain distribution businesses in fresh produce products in the PRC. The increased distribution volume in fresh produce products had also made contribution to the utilisation of the cold chain logistics services in Zhongshan logistics hub. Turnover for distribution of fresh produce products and provision of cold chain logistics services had recorded a growth rate of approximately 49% and 25% respectively when compared with the same period last year.

During the Period under review, Zhongshan logistics hub had obtained official endorsement from the Guangdong Entry-Exit Inspection and Quarantine Bureau as the specified cold-chain storage facilities for imported frozen products. The Group had redeveloped part of its storage and logistics facilities in Zhongshan logistics hub to meet various stringent quarantine, specification and quality requirements. Upon completion of the reconstruction work, the Group would be able to expand its distribution scale in frozen products currently mainly carried out in the eastern region by our Shanghai logistics hub to the southern region of the PRC by our Zhongshan logistics hub. To cope with the further expansion by Zhongshan logistics hub, the Group had acquired a distribution business in frozen products. Such acquisition would broaden the distribution network of frozen products in the southern region of the PRC.

During the Period under review, Zhongshan logistics hub had also finalised the extension plans in its second phase development. The extension would encompass the establishment of a central warehouse equipped with a hygiene and quarantine centre of internationally recognised standards and various repackaging facilities for agro-products. In view of the recent turbulence in global financial markets, the Group would first start the construction work of the central warehouse that would act as the storage and processing hub for China's agro products for domestic sales. The extension plan for the hygiene and quarantine centre together with other logistics facilities built for the export of China's agro products in Zhongshan logistics hub would be deferred and revisited until China's export industry restored.

During the Period under review, the Group had carried out its product extension plans in its cosmetic business. Turnover for distribution of cosmetic products during the Period recorded a growth rate of 31% when compared with the same period last year. The growth momentum was mainly attributable to the realisation of the Group's product extension plan in its cosmetic business development. Different from the previous model with its procurement from overseas countries, the Group had started sourcing the cosmetic products and toiletries of certain established brandnames from the PRC manufacturers and sold to the pharmacy, department and retail chain stores at a more affordable price in the PRC.

The recent unfavourable global economic environment undoubtedly had a negative impact on the PRC economy. The year-on-year GDP growth rate had decreased to a single-digit in 2008 due to the drop in the PRC's foreign trade and fixed-asset investments. Though the PRC government had explicitly indicated that it would rely on fiscal and administrative policies to stimulate domestic demand in order to maintain a continuous GDP growth and stable rural economy, in view of the uncertain market conditions, the Group had performed an in-depth review on its business development plans and capital expenditure budget.

On the business side, the Group had implemented a more stringent credit control policy to customers to withstand increasing credit risks inherent in the economic downturn. Though longer credit terms might be granted to certain customers with historical good repayment records in these hard times, self control to reduce or stop taking orders from customers with gradually slow repayment pattern had been in place in order to ensure collectability. The Group had further reviewed its future expenditure since the last quarter of 2008 following the deepening downturn of the global economy. Resources would only be committed on business projects pertinent to sales of necessity with sustainable growth and with strong support by the PRC government policies, both in term of fiscal and administrative, such as agro-industry. Development plans in other domains with intensive capital investment had been totally held up or protracted if committed previously.

Looking forward, the Group will adopt a more defensive approach to sustain its business operations and to realise its development plans while the turbulent financial market will still affect the global economic environment and the conservative sentiment among consumers is expected to make our operating environment more challenging. However, with the continuous reinforcement in the agro industry with strong government support and ample opportunities, coupled with our well established sales network and perishable logistics infrastructure in the PRC, our management is cautiously optimistic that the Group is well positioned to create growth momentum and emerge as a more sound and refined business.

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.

During the Period, the Company issued 80,000,000 new shares through exercise of share options by option holders with net proceeds of approximately HK$29.2 million.

At 31 December 2008, the Group had interest-bearing bank borrowings of approximately HK$246.9 million (30 June 2008: HK$249.2 million) of which over 90% of the bank borrowings were denominated in Hong Kong dollars and approximately 54.8% 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 2008.

At 31 December 2008, the Group's current assets amounted to approximately HK$989.8 million (30 June 2008: HK$1,139.5 million) and the Group's current liabilities amounted to approximately HK$285.4 million (30 June 2008: HK$245.4 million). The Group's current ratio decreased to approximately 3.5 as at 31 December 2008 (30 June 2008: 4.6). The decrease in the current ratio was mainly attributable to the increase in capital expenditure of various non-current assets for business development, which resulted in a decrease in cash and bank balances. At 31 December 2008, the Group had total assets of approximately HK$2,481.0 million (30 June 2008: HK$2,400.3 million) and total liabilities of approximately HK$413.5 million (30 June 2008: HK$406.5 million) with a gearing ratio of approximately 10.0% (30 June 2008: 10.4%). 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 2008, the Group had approximately 480 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 2008, a total of 148,252,000 share options remain unexercised.

DISCLOSURE OF ADDITIONAL INFORMATION

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2008, 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	241,600,000	14.47%
Ms. Lee Choi Lin, Joecy	2	85,680,000	5.13%
Mr. Chu Ki	3	14,000,000	0.84%

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 2008, 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 and 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 Jul 2008	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	At 31 Dec 2008	Date of grant of share options	Exercise period of share options	Exercise prices of share options Note (i) HK$	Closing price of Company's shares immediately before the date the options were granted/ exercised HK$
Executive director Peng Zhanrong Note (ii)	–	15,000,000	–	15,000,000	–	19 Sep 2008	19 Sep 2008 to 18 Sep 2013	0.724	0.700/N/A
Executive director Chiau Che Kong Note (ii)	–	15,000,000	–	15,000,000	–	19 Sep 2008	19 Sep 2008 to 18 Sep 2013	0.724	0.700/N/A
Non-Executive director Chan Yuk, Foebe	–	15,000,000	–	–	15,000,000	19 Sep 2008	19 Sep 2008 to 18 Sep 2013	0.724	0.700/N/A
Independent non-executive director John Handley	1,500,000	–	–	1,500,000	–	13 Nov 2007	15 Nov 2007 to 14 Nov 2012	1.612	1.540/N/A
	2,000,000	–	–	2,000,000	–	6 Feb 2008	18 Mar 2008 to 17 Mar 2013	0.994	0.980/N/A
Employees (in aggregate)	97,500,000	–	–	97,500,000	–	21 Aug 2007	21 Aug 2007 to 20 Aug 2012	1.240	1.200/N/A
	55,000,000	–	–	30,000,000	25,000,000	6 Feb 2008	18 Mar 2008 to 17 Mar 2013	0.994	0.980/N/A
	–	30,000,000	30,000,000	–	–	26 Nov 2008	26 Nov 2008 to 25 Nov 2013	0.388	0.370/0.540
	–	30,000,000	–	–	30,000,000	23 Dec 2008	23 Dec 2008 to 22 Dec 2013	0.550	0.550/N/A
	–	67,500,000	–	–	67,500,000	23 Dec 2008	1 Jul 2010 to 30 Jun 2015	0.550	0.550/N/A
Other eligible participants (in aggregate)	672,000	–	–	–	672,000	30 Apr 2002	1 May 2002 to 30 Apr 2012	0.249*	0.279/N/A
	10,080,000	–	–	–	10,080,000	3 Feb 2006	3 Feb 2006 to 2 Feb 2011	1.196*	1.348/N/A
	–	50,000,000	50,000,000	–	–	29 Oct 2008	29 Oct 2008 to 28 Oct 2013	0.352	0.340/0.418
	166,752,000	222,500,000	80,000,000	161,000,000	148,252,000				

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

Notes:

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

(ii) Mr. Peng Zhanrong and Mr. Chiau Che Kong resigned as Executive Directors of the Company on 8 December 2008.

At 31 December 2008, the Company had 148,252,000 (2007: 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 148,252,000 (2007: 132,252,000) additional ordinary shares and additional share capital of HK$1,482,520 (2007: HK$1,322,520) and share premium of approximately HK$100,075,000 (2007: HK$162,118,000) (before share issue expenses).

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2008, 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:

Name of substantial shareholder	Notes	Number of issued ordinary shares held	Nature of interests	Approximate percentage of interest
Best Global Asia Limited	1	241,600,000	Corporate interests	14.47%
World Invest Holdings Limited	2	85,680,000	Corporate interests	5.13%
Keywise Capital Management (HK) Limited	3	220,671,000	Corporate interests	13.21%
Keywise Greater China Opportunities Master Fund	3	140,203,000	Corporate interests	8.39%
JPMorgan Chase & Co.		162,300,000	Corporate interests	9.72%
Arisaig Greater China Fund Limited	4	163,638,600	Corporate interests	9.80%
Arisaig Partners (Mauritius) Limited	4	163,638,600	Corporate interests	9.80%
Lindsay William Ernest Cooper	4	163,638,600	Corporate interests	9.80%
Pope Asset Management, LLC		96,963,775	Corporate interests	5.81%

Notes:

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

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

3. Keywise Capital Management (HK) Limited was deemed to be interested in 220,671,000 shares, out of which 140,203,000 shares was beneficially owned by Keywise Greater China Opportunities Master Fund and 78,963,000 shares owned by Keywise Greater China Master Fund, by virtue of Keywise Capital Management (HK) Limited acting as discretionary manager of these two funds.

4. Arisaig Partners (Mauritius) Limited was deemed to be interested in the 163,638,600 shares held by Arisaig Greater China Fund Limited by virtue of it acting as discretionary investment manager of Arisaig Greater China Fund Limited. Lindsay William Ernest Cooper was deemed to be interested in the 163,638,600 shares held by Arisaig Greater China Fund Limited through his indirect 33.33% beneficial interests in Arisaig Partners (Mauritius) Limited.

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

Save as disclosed above, as at 31 December 2008, 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 as the code of conduct regarding directors' securities transactions. The Company has made specific enquiry of all 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.

BOARD OF DIRECTORS

As at the date of this report, the Board comprised three executive Directors, namely Mr. Lam Kwok Hing (Chairman), Mr. Chu Ki, and Ms. Lee Choi Lin, Joecy; one 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, 27 March 2009