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)

2010/2011
Interim Report

The board (the "Board") of directors (the "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 2010 (the "Period") together with the comparative figures for the corresponding period as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2010

	Note	Six months ended 31 December 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
TURNOVER	3,4	**1,291,173**	1,194,915
Cost of sales		**(1,001,648)**	(930,180)
Gross profit		**289,525**	264,735
Changes in fair value of biological assets less costs to sell		**(5,618)**	(4,686)
Other income		**1,591**	2,557
Selling and distribution expenses		**(92,971)**	(82,483)
Administrative expenses		**(76,343)**	(57,904)
Other operating expenses		**(3,736)**	(7,685)
PROFIT FROM OPERATIONS		**112,448**	114,534
Finance costs	5	**(2,132)**	(1,862)
PROFIT BEFORE TAX		**110,316**	112,672
Income tax expense	6	**(6,756)**	(7,741)
PROFIT FOR THE PERIOD	7	**103,560**	104,931
Attributable to:			
Owners of the Company		**108,497**	106,594
Non-controlling interests		**(4,937)**	(1,663)
		103,560	104,931
EARNINGS PER SHARE	9		(Restated)
– Basic		**HK3.5 cents**	HK3.7 cents
– Diluted		**HK3.5 cents**	HK3.7 cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2010

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Profit for the Period	**103,560**	104,931
Other comprehensive income:		
Exchange differences on translating foreign operations	**9,637**	–
Exchange differences reclassified to income statement on disposal of subsidiaries	**–**	(184)
Fair value changes of available-for-sale financial assets	**8,392**	9,553
Other comprehensive income for the Period, net of tax	**18,029**	9,369
Total comprehensive income for the Period	**121,589**	114,300
Total comprehensive income attributable to:		
Owners of the Company	**126,526**	115,900
Non-controlling interests	**(4,937)**	(1,600)
	121,589	114,300

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Note	**31 December 2010 (Unaudited) HK$'000**	30 June 2010 (Restated) HK$'000
Non-current assets			
Fixed assets		**684,168**	655,669
Prepaid land lease payments		**415,319**	325,660
Construction in progress		**201,611**	144,026
Goodwill		**282,525**	282,525
Biological assets		**42,841**	42,841
Other intangible assets		**109,289**	132,186
Other assets		**81,434**	53,132
Investments in a club membership		**108**	108
Investments		**31,940**	23,548
		1,849,235	1,659,695
Current assets			
Inventories		**249,359**	236,201
Trade receivables	10	**484,398**	405,556
Prepayments, deposits and other receivables		**303,084**	209,682
Investments		**505**	512
Bank and cash balances		**636,610**	519,251
		1,673,956	1,371,202
TOTAL ASSETS		**3,523,191**	3,030,897
Capital and reserves			
Share capital	12	**32,803**	28,285
Reserves		**3,154,797**	2,583,787
Equity attributable to owners of the Company		**3,187,600**	2,612,072
Non-controlling interests		**(7,690)**	(2,753)
Total equity		**3,179,910**	2,609,319

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2010

	Note	31 December 2010 (Unaudited) HK$'000	30 June 2010 (Restated) HK$'000
Non-current liabilities			
Finance lease payables		**240**	35
Deferred tax liabilities		**2,371**	2,285
		2,611	2,320
Current liabilities			
Trade payables	11	**111,133**	98,274
Accruals and other payables		**30,377**	16,104
Borrowings		**146,322**	259,060
Finance lease payables		**159**	52
Current tax liabilities		**52,679**	45,768
		340,670	419,258
Total liabilities		**343,281**	421,578
TOTAL EQUITY AND LIABILITIES		**3,523,191**	3,030,897
Net current assets		**1,333,286**	951,944
Total assets less current liabilities		**3,182,521**	2,611,639

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2010

	Unaudited											
	Attributable to owners of the Company											
	Share capital HK$'000	Share premium account HK$'000	Legal reserve HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Proposed final dividend HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 July 2009	25,277	1,167,128	97	125,363	7,557	16,389	(22,768)	963,141	–	2,282,184	–	2,282,184
Total comprehensive income for the Period	–	–	–	(247)	–	–	9,553	106,594	–	115,900	(1,600)	114,300
Shares issued on exercise of share options	676	31,157	–	–	(5,330)	–	–	–	–	26,503	–	26,503
Recognition of share-based payment	–	–	–	–	7,269	–	–	–	–	7,269	–	7,269
At 31 December 2009	25,953	1,198,285	97	125,116	9,496	16,389	(13,215)	1,069,735	–	2,431,856	(1,600)	2,430,256
At 1 July 2010	28,285	1,279,501	97	125,083	18,023	929	(20,104)	1,151,081	29,177	2,612,072	(2,753)	2,609,319
Total comprehensive income for the Period	–	–	–	9,637	–	–	8,392	108,497	–	126,526	(4,937)	121,589
Shares issued on placing	3,350	375,225	–	–	–	–	–	–	–	378,575	–	378,575
Shares issued on exercise of share options	1,168	84,328	–	–	(15,069)	–	–	–	–	70,427	–	70,427
Transfer of reserve upon cancellation of share options	–	–	–	–	(42)	–	–	42	–	–	–	–
Adjustment to 2010 proposed final dividend	–	–	–	–	–	–	–	(3,626)	3,626	–	–	–
At 31 December 2010	**32,803**	**1,739,054**	**97**	**134,720**	**2,912**	**929**	**(11,712)**	**1,255,994**	**32,803**	**3,187,600**	**(7,690)**	**3,179,910**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2010

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**22,727**	41,414
NET CASH USED IN INVESTING ACTIVITIES	**(246,215)**	(55,577)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**336,576**	6,994
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**113,088**	(7,169)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**4,271**	–
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**519,251**	427,943
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**636,610**	420,774
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**636,610**	420,774

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the"Stock Exchange").

These unaudited condensed consolidated interim financial statements should be read in conjunction with the audited annual financial statements for the year ended 30 June 2010. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements and segment information are consistent with those used in the audited annual financial statements and segment information for the year ended 30 June 2010.

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

In the current interim period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 July 2010. HKFRSs comprise Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current period and prior years except as stated below.

HK Interpretation 5 ("HK-Int 5") "Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause"

HK-Int 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* clarifies that term loans that include a clause that gives the lender the unconditional right to call the loans at any time ("repayment on demand clause") should be classified by the borrower as current liabilities. In the past, the Group determined the classification of such term loans based on the agreed scheduled repayment dates set out in the loan agreements.

The Group has applied HK-Int 5 for the first time in the current interim period and the prior year retrospectively. Accordingly the long-term portion of the Group's bank borrowings of approximately HK$8,067,000 was reclassified from non-current liabilities to current liabilities in the condensed consolidated statement of financial position as at 31 December 2010 (30 June 2010: HK$9,533,000).

The Group did not apply the new HKFRSs that have been issued but are not yet effective. The Group commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

3. TURNOVER

The Group's turnover which represents sales of fast moving consumer goods ("FMCG"), fresh and processed fruits and vegetables, and revenue from logistics services was as follows:–

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of consumer goods	**592,380**	555,791
Sales of fresh and processed fruits and vegetables	**594,225**	542,084
Logistics service income	**104,568**	97,040
	1,291,173	1,194,915

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

4. SEGMENT INFORMATION

Upon adoption of HKFRS 8 "Operating Segments" and in a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resources allocation and performance assessment, the Group has identified the following three reportable operating segments for the current interim period:–

(i) The sale and trading of FMCG including packaged foods, beverages, household consumable products, cosmetic products and cold chain products ("FMCG Trading Business");

(ii) The cultivation, sale, and trading of fresh and processed fruits and vegetables ("Agro Product Business"); and

(iii) Provision of logistics services ("Logistics Service Business").

There were no significant sales between the reportable operating segments.

In the current interim period, the management reviewed the Group's internal reporting and determined that the nature and financial effects including reported revenue, profit and loss and assets of leasing of logistics facilities ("Leasing") that was disclosed in the prior interim period were immaterial for the current interim period and did not meet the quantitative thresholds in accordance with HKFRS 8. As the economic characteristics of Leasing and Logistics Service Business were similar in the nature of their service scope and the type of customer for their products and services, the reported information of Leasing were aggregated with that of Logistics Service Business accordingly.

The segment information of the Group was as follows:–

	FMCG Trading Business (Unaudited) HK$'000	Agro Product Business (Unaudited) HK$'000	Logistics Service Business (Unaudited) HK$'000	Total (Unaudited) HK$'000
For the six months ended 31 December 2010				
Revenue from external customers	**592,380**	**594,225**	**104,568**	**1,291,173**
Segment profit	**73,734**	**21,820**	**45,488**	**141,042**
At 31 December 2010				
Segment assets	**951,275**	**1,531,562**	**623,957**	**3,106,794**

	FMCG Trading Business (Unaudited) HK$'000	Agro Product Business (Unaudited) HK$'000	Logistics Service Business (Unaudited) HK$'000	Total (Unaudited) HK$'000
For the six months ended 31 December 2009				
Revenue from external customers	555,791	542,084	97,040	1,194,915
Segment profit	73,077	13,503	39,756	126,336
At 30 June 2010				
Segment assets	1,121,230	1,206,018	647,628	2,974,876

	Six months ended 31 December 2010 (Unaudited) HK$'000	2009 (Unaudited) HK$'000
Reconciliations of segment profit:		
Total profit of reportable segments	**141,042**	126,336
Corporate and unallocated expenses	**(30,726)**	(13,664)
Profit before tax	**110,316**	112,672

5. FINANCE COSTS

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on borrowings	**2,120**	1,857
Finance lease charges	**12**	5
	2,132	1,862

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current period tax:		
Hong Kong	**–**	14
Overseas	**6,756**	7,727
	6,756	7,741

Hong Kong Profits Tax are provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profits for the Period.

Tax charge on profits assessable elsewhere were 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% (2009: 12%) on the estimated assessable profits for the Period. 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. Further, in the opinion of the directors, that portion of the Group's profit is not at present subject to taxation in any other jurisdictions in which the Group operates.

The provision for income tax of subsidiaries operating in the People's Republic of China (the "PRC") have been calculated at the rate of 25% (2009: 25%) for the Period, based on existing legislation, interpretation and practices in respect thereof.

7. PROFIT FOR THE PERIOD

The Group's profit for the Period was stated after charging as follows:–

	Six months ended 31 December	
	2010	2009
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Amortisation and depreciation, net of amount capitalised	**55,807**	40,788
Cost of inventories sold	**979,727**	930,180
Directors' emoluments	**2,459**	2,121
Equity-settled share-based payment	**–**	7,269
Loss on disposal of subsidiaries	**–**	7,685
Operating lease charges in respect of land and buildings, net of amount capitalised	**29,765**	16,657

8. DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 31 December 2010 (2009: Nil).

9. EARNINGS PER SHARE

The calculation of basic earnings per share attributable to owners of the Company was based on the profit for the Period attributable to owners of the Company of approximately HK$108,497,000 (2009: approximately HK$106,594,000) and the weighted average number of ordinary shares of the Company of 3,076,302,529 (2009: 2,847,241,000) in issue during the Period after adjusting the effects of bonus issue in January 2011. The basic earnings per share for 2009 was adjusted for the effects of bonus issues in January 2010 and January 2011 accordingly.

The calculation of diluted earnings per share attributable to owners of the Company was based on the Group's profit for the Period attributable to owners of the Company of approximately HK$108,497,000 (2009: approximately HK$106,594,000) and the weighted average number of shares of 3,126,711,021 (2009: 2,865,806,000), being the weighted average number of shares of 3,076,302,529 (2009: 2,847,241,000) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of shares of 50,408,492 (2009: 18,565,000) assumed having been issued at no consideration on the deemed exercise of the share options outstanding during the Period after adjusting the effects of bonus issue in January 2011. The diluted earnings per share for 2009 was adjusted for the effects of bonus issues in January 2010 and January 2011 accordingly.

10. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days (2009: 30 to 120 days). Full provision is made for outstanding debts aged over 365 days or of which their collectability are in significant doubt.

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

	31 December 2010 (Unaudited) HK$'000	30 June 2010 (Audited) HK$'000
1 – 30 days	**273,407**	167,385
31 – 60 days	**147,677**	140,109
61 – 90 days	**53,837**	71,421
Over 90 days	**9,477**	26,641
	484,398	405,556

11. TRADE PAYABLES

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

	31 December 2010 (Unaudited) HK$'000	30 June 2010 (Audited) HK$'000
1 – 30 days	**106,396**	95,880
31 – 60 days	**2,186**	780
61 – 90 days	**517**	36
Over 90 days	**2,034**	1,578
	111,133	98,274

12. SHARE CAPITAL

	31 December 2010		30 June 2010	
	Number of Shares	Amount HK'000	Number of Shares	Amount HK'000
Authorised:				
Shares of HK$0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:				
Shares of HK$0.01 each	**3,280,324,500**	**32,803**	2,828,524,500	28,285

A summary of the movements in the issued share capital of the Company was as follows:–

	Number of shares issued (Unaudited)	Nominal value of shares issued (Unaudited) HK$'000
At 1 July 2010	2,828,524,500	28,285
Placing and subscription of shares	335,000,000	3,350
Exercise of share options (Note)	116,800,000	1,168
At 31 December 2010	3,280,324,500	32,803

Note: During the current interim period, the Company issued 64,400,000, 40,000,000 and 12,400,000 new shares at a subscription price of HK$0.447 per share, HK$0.740 per share and HK$0.971 per share respectively for a total cash consideration of approximately HK$70.4 million.

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2010 (30 June 2010: Nil).

14. CAPITAL COMMITMENTS

The Group's capital commitments as at the end of the Period were as follows:–

	31 December 2010 (Unaudited) HK$'000	30 June 2010 (Audited) HK$'000
Contracted but not provided for		
– Construction in progress	**73,287**	92,110
– Fixed assets	**5,747**	11,364
	79,034	103,474

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2010 (2009: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Robust economic growth leads to increased competition and these conditions are both evident within China's bustling domestic consumer market. Despite operating within these very positive, yet testing market conditions, the Group was able to record a 8.1% growth in its turnover, from HK$1,194.9 million to approximately HK$1,291.2 million, during the six months ended 31 December 2010 (the "Period"). The increase in turnover was mainly attributable to an approximately 6.6% increase in sales revenue from the fast moving consumables goods ("FMCG") Trading Business, an approximately 9.6% increase in revenues from the Agro Product Business, and approximately 7.8% increase in the service income from the Logistics Service Business. Notwithstanding the increased competition in our target markets, the Group was still able to achieve admirable organic growth for this interim period. This was due largely to the fact that the Group's core business has, over the years, been fine tuned to operate efficiently and effectively within the Chinese consumer market.

The gross profit margin was comparable to the previous period at 22.4% during the Period, as compared to 22.2% in the same period last year.

Selling and distribution expenses increased by approximately 12.7% and as a percentage of revenue, they increased from approximately 6.9% to 7.2% when compared with the same period last year. The increase was mainly attributable to the increased outlays in marketing and promotion campaigns, sales headcounts and business travel in an effort to reinforce our sales and marketing efforts in support of the Agro Product Business and also in corporate promotion exercises.

Administrative expenses were approximately HK$76.3 million, which represented approximately 31.8% increase when compared with the same period last year. The increase was mainly attributable to initial set-up costs for the Group's new farming bases and also the expansion of the scale of our upstream cultivation bases resulting in a relatively higher portion of fixed administrative costs in staff headcounts, depreciation, travel and utilities. Cultivation related expenses represented a larger portion of the Group's overall expenses as compared with other operating units such as FMCG Trading Business.

Other operating expenses mainly represented costs incurred by the Group's pilot cultivation programs in Huidong, Guangdong Province. The Group carried out several pilot cultivation programs as test cases before ramping up to full capacity.

Finance costs increased to approximately HK$2.1 million from HK$1.9 million in the same period last year. Higher interests rates were mostly to blame in this case as the Group on average recorded lower utilisation of the banking facilities as compared with the same period last year.

Notwithstanding the 8.1% growth in the Group's top line revenue, the Group's net profit was approximately HK$103.6 million, falling 1.3% as compared with the same period last year. An increase in selling and distribution expenses, as well as administrative expenses, was the main reason for this drop. Even though the net profit results were below the previous period, it is comforting to note that the increase in expenses was incurred in an effort to reinforce the Group's existing business and to support the evolution from a FMCG Trading Business to the Agro Product Business in a vertically integrated supply chain model.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the Period under review, the Group's income was derived from three business units, that being: (i) the FMCG Trading Business which includes the trading of packaged foods, beverages, household consumable products, cosmetic and skincare products, and cold chain products; (ii) the Logistics Service Business, being the provision of cold chain logistics services and value-added post-harvest food processing; and (iii) the Agro Product Business, which includes the cultivation and trading of agro products. These three businesses come together to form two vertically integrated supply chains allowing the Group to effectively deliver perishable and non-perishable consumer products to the PRC market. During the Period under review, the Group has consistently shown itself to be a "one-stop service platform" incorporating the roles to cover the up-stream portion of the supply chain, whether being global procurement, product registration, and brand development for the FMCG Trading Business or a grower/cultivator for the Agro Product Business; mid-stream operations such as providing cold chain logistics solutions or food handling and processing; and down-stream functions such as trading, marketing and sales for each respective supply chain. The Group now operates a broad multi-function platform that allows for greater control at each stage of the food market's supply chain.

The transition of the Group's focus to the Agro Product Business has been evolving over the past couple of years and 2011 will see the integrated supply chain take its intended form. The up-stream farms will come online stage by stage, contributing their streams of income since their initial set-up from this year onward. The vertical integration into up-stream farming business and down stream retailing is aimed at exerting greater control over the whole supply chain to reduce the Group's exposure to the forces of the open market whilst improving margins, cash generating abilities, and allowing the Group to capitalize the favourable long term policies and support by the PRC government to the agricultural industry.

The FMCG Trading Business trades packaged foods, beverages, household consumable products, cosmetics and skincare products, and cold chain products (frozen and chilled products). Their respective contributions to the Group's turnover were approximately 22%, 2%, 2%, 8% and 12%. During the Period under review, income from Logistics Service Business represented approximately 8% of the Group's turnover. Turnover from the cultivation and trading of agro products represented approximately 46% of the Group's turnover for the same period.

The main items within the five FMCG categories are; for packaged food category: biscuits, candies, chocolate, condiments, margarine, milk powder products, health foods, noodles, snacks, rice, and license/branded food products; for beverage category: beers, wines, and soft drink; for household consumable products category: mainly toiletries; for cosmetic and skincare product category: make-up, perfume, skincare, and sun care products; and for cold chain product category: frozen meats, seafood, and dairy products.

These products are mostly sourced through the Group's extensive overseas procurement networks operating out of countries located in Southeast Asia, USA, Europe, Australia, and New Zealand. These products, in turn, are traded back into the PRC domestic market through wholesalers, retailers, and on-premise customers, making up the Group's FMCG Trading Business.

The Group has been focusing over previous years on shifting the business emphasis towards its new Agro Product Business. This business is split into three components being Up-Stream (cultivation), Mid-Stream (handling and processing, which is supported by the Group's Logistics Service Business), and Down-Stream components (which include Trading and Retail). The trading component, specifically the straight buying and selling of fruits and vegetables, has been a solid revenue generator for the Group over the past years. In the last 18 months, the Group added the food processing capability to our facility in Zhongshan, which now delivers processed and packed vegetables to clients in southern China, Hong Kong and, starting in 2011, also hotel clients in Macau. Cultivation requires a longer gestation period, but the Group is well on its way to achieving a good balance between the production and sales plans and self-owned and contracted farms for its cultivation bases. The 16,000 mu citrus plantation in Jiangxi, the 15,000 mu leafy vegetable farm in Huidong, and the 25,000 mu root and stem vegetable farm in Shandong will be the main supply sources that will expand our product volume and thus form the main growth drivers in the coming years.

The Group's Logistics Service Business provides three main services, cold chain and traditional logistics solutions for the FMCG Trading Business; processing, handling, and logistics services for the Agro Product Business; and third-party logistics solutions for outside clients. The Logistics Service Business posted an 7.8% gain in turnover as compared with the same period in last year. It is expected that the projected growth in Agro Product Business will increase the utilization rate of our cold-chain logistics facilities and form a major growth driver for the Logistics Service Business.

In November 2010, the Group made a formal application to withdraw from pursuing the proposed Taiwan Depository Receipts ("TDR") listing, which was subsequently accepted by the Taiwan Stock Exchange. Given that there had been a prolonged period between the Company's submission of its TDR application and the ultimate withdrawal, and not wishing to delay the Company's growth plans any further, the Board made the decision to withdraw from the TDR application and quickly switched over to an alternative method of fund raising, for the Company's several investment and development plans, which were originally slated for funding from the proceeds by the TDR issue, by way of a placing of new shares, which took place in November 2010.

On 1 December 2010, the Company issued 335,000,000 new shares to independent placees at a placing price of HK$1.15 per share pursuant to a top-up placing and subscription agreement dated 23 November 2010. The net proceeds of approximately HK$378 million were intended to be used in the following manners: (i) approximately HK$100 million for establishing a retail network for the sale of fresh produce in Hong Kong; (ii) approximately HK$145 million for acquiring or leasing about 25,000 Chinese mu of agricultural land in Shandong Province, the PRC; (iii) approximately HK$50 million for constructing and improving the Group's farmland infrastructure in the PRC; (iv) approximately HK$45 million for payment of the advance plantation fee in respect of the Group's agro development; and (v) the remaining balance would be applied as general working capital of the Group.

In December 2010, the Group acquired approximately 25,000 mu of farmland together with certain up-stream farming infrastructure in Shandong Province. Shandong Province has been traditionally a major crops production base in China and our farm will grow root and stem vegetables to complement our farming bases in Huidong and Jiangxi, which mainly grow leafy Chinese vegetables and citrus fruits respectively. The Group operates a strict land acquisition strategy clearly shown by how our three farming bases are spread geographically over the southern and north-eastern parts of China. The aim of which is to capitalise on the geography of China to grow different varieties of produce where the local growing conditions best suit each respective crop type. This is also a tactical strategy to minimise the risks through "Acts of God" such as natural disasters and adverse weather conditions. Recent meteorological effects have caused harsh weather conditions in China during the past winter season. The exceptionally cold winter has had severe negative effects on the cultivation and productivity of China's northern provinces (especially Inner Mongolia, Henan, Heilongjiang, and Shandong), traditionally, some of China's most productive agriculture bases. In order to combat this, and working in parallel to the Group's land acquisition strategy, the Group is planning for a bulk-procurement program. The Group is aiming to secure in physical or contract form multiple years' worth of stock in and not limited to the five major root crops (carrot, potato, ginger, garlic, and onion) through this bulk-procurement program. This will allow us pre-empting the market's potential supply issues, as well as remaining price competitive as a result of controlling a large volume of supply within a seller's market.

The Group targets to complete the acquisition of a chain of retail outlets, set in the local Chinese wet markets in Hong Kong, by the end of the second quarter of 2011. The Group is now fine tuning the farming, sales and execution plans to ensure a smooth supply of quality agro products to its established sales network and its own retail sales network. Our management believes that our ability to provide a steady and constant supply of quality agro products to our sales channels, together with controllable production costs and favourable selling prices, will be one of the most critical factors that will ultimately determine how successful we will be in the realisation of Agro Product Business expansion plans.

In the second half of the financial year, the Group will continue to enhance its business model through the optimisation of its vertically integrated supply chain solutions and aim to apply our development plans through careful execution and implementation to continue to grow our Group into a much stronger, more robust, and more profitable business.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group maintained a strong financial position throughout the Period under review. During the Period, the Group financed its operations and business development with internally generated resources, equity funding and banking facilities.

On 1 December 2010, the Company issued 335,000,000 new shares for the top-up placing of 335,000,000 existing shares to independent placees at a placing price of HK$1.15 per share pursuant to a placing and subscription agreement dated 23 November 2010. The net proceeds of the placing and the subscription received by the Company was approximately HK$378 million.

During the Period, the Company issued 116,800,000 new shares through exercise of share options by option holders with net proceeds of approximately HK$70.4 million.

As at 31 December 2010, the Group had interest-bearing borrowings of approximately HK$146.3 million (30 June 2010: approximately HK$259.1 million) of which over 95% of the borrowings were denominated in Hong Kong dollars. All of the Group's banking borrowings were floating-interest bearing and secured by corporate guarantees given by the Company and its certain subsidiaries.

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 among these currencies. The Group did not have any significant hedging instrument outstanding as at 31 December 2010.

As at 31 December 2010, the Group's current assets amounted to approximately HK$1,674.0 million (30 June 2010: approximately HK$1,371.2 million) and the Group's current liabilities amounted to approximately HK$340.7 million (30 June 2010: approximately HK$419.3 million (restated)). The Group's current ratio increased to approximately 4.9 as at 31 December 2010 (30 June 2010: approximately 3.3). As at 31 December 2010, the Group had total assets of approximately HK$3,523.2 million (30 June 2010: approximately HK$3,030.9 million) and total liabilities of approximately HK$343.3 million (30 June 2010: approximately HK$421.6 million) with a gearing ratio of approximately 4.2% (30 June 2010: approximately 8.5%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets of the Group. The improvement in gearing ratio was mainly attributable to the continued growth in non-current and current assets through enlarged shareholders' equity from earnings and shares issued and the decrease in bank borrowing level for the Period.

NUMBER AND REMUNERATION OF EMPLOYEES

As at 31 December 2010, the Group had approximately 690 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 2010, a total of 19,302,418 share options remain unexercised.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2010, the interests and short positions of every Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and any associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) (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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") as set out in Appendix 10 to the Listing Rules, were as follows:–

Aggregate long positions in shares

Name of director	Notes	Capacity of interests	Number of shares in interest	Approximate percentage of interest in shares
Mr. Lam Kwok Hing ("Mr. Lam")	1	Interest in controlled corporation and family interest	515,466,000	15.71%
Ms. Lee Choi Lin, Joecy ("Ms. Lee")	1	Interest in controlled corporation and family interest	515,466,000	15.71%
Mr. Chu Ki ("Mr. Chu")	2	Interest in controlled corporation	22,050,000	0.67%

Notes:

1. 380,520,000 of these shares are held by Best Global Asia Limited ("Best Global"), a company incorporated in the British Virgin Islands (the "BVI") and wholly and beneficially owned by Mr. Lam, the spouse of Ms. Lee. Mr. Lam is deemed to be interested in, in duplicate, the 380,520,000 shares held by Best Global under Section 316(2) of the SFO. Ms. Lee is also deemed to be interested in, induplicate, the 380,520,000 shares of which Mr. Lam is deemed to be interested in under Section 316(1) of the SFO.

   The remaining 134,946,000 of these shares are held by World Invest Holdings Limited ("World Invest"), a company incorporated in the BVI and wholly and beneficially owned by Ms. Lee, the spouse of Mr. Lam. Ms. Lee is deemed to be interested in, in duplicate, the 134,946,000 shares held by World Invest under Section 316(2) of the SFO. Mr. Lam is also deemed to be interested in, induplicate, the 134,946,000 shares of which Ms. Lee is deemed to be interested in under Section 316(1) of the SFO.

2. These shares are held by Asia Startup Group Limited ("Asia Startup"), a company incorporated in the BVI and wholly and beneficially owned by Mr. Chu. Mr. Chu is deemed to be interested in, in duplicate, the 22,050,000 shares held by Asia Startup under Section 316(2) of the SFO.

Save as disclosed above, as at 31 December 2010, none of the Directors or chief executive of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' interests in securities" above, at no time during the Period was the Company or any of its subsidiaries a party to any arrangement to enable the 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.

SUBSTANTIAL SHAREHOLDER'S INTERESTS IN SECURITIES

As at 31 December 2010, the interests of every person, other than a Director or chief executive of the Company, in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO and to the best knowledge of the Directors were as follows:–

Aggregate long positions in shares

Name of substantial shareholder	Note	Capacity of interests	Number of shares in interest	Approximate percentage of interest in shares
Best Global	1	Corporate interests	380,520,000	11.60%

Note:

1. The interest of these shares held by Best Global is in duplicate the interest held by Mr. Lam.

Save as disclosed herein and under the heading "Directors' interests in securities" above, as at 31 December 2010, no other person had any interests and short positions in shares and underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The following share options were outstanding under the share option schemes of the Company during the Period:–

Name or category of participants	Number of share options At 1 Jul 2010	Granted during the period	Exercised during the period	Cancelled during the period	At 31 Dec 2010	Date of grant of share options	Exercise period of share options	Exercise prices of share options HK$
Employees (in aggregate)	83,136,375	–	(64,400,000)	(261,625)	18,474,750	23 Dec 2008	1 Jul 2010 to 30 Jun 2015	0.447
	10,000,000	–	(10,000,000)	–	–	11 Feb 2010	11 Feb 2010 to 10 Feb 2015	0.740
Other eligible participants (in aggregate)	827,668	–	–	–	827,668	30 Apr 2002	1 May 2002 to 30 Apr 2012	0.202
	12,415,032	–	(12,400,000)	(15,032)	–	3 Feb 2006	3 Feb 2006 to 2 Feb 2011	0.971
	30,000,000	–	(30,000,000)	–	–	11 Feb 2010	11 Feb 2010 to 10 Feb 2015	0.740
	136,379,075	–	(116,800,000)	(276,657)	19,302,418			

As at 31 December 2010, the Company had 19,302,418 (31 December 2009: 109,384,596) share options outstanding. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 19,302,418 (31 December 2009: 109,384,596) new shares and increase of share capital of approximately HK$193,024 (31 December 2009: approximately HK$1,093,846) and share premium of approximately HK$8,232,000 (31 December 2009: approximately HK$59,124,000) (before share issue expenses). There was no option granted or lapsed during the Period.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries, purchased, sold or redeemed any of the Company's 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 complied with all the applicable code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code 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 by each of them during the Period and they all confirmed that they had fully complied with the required standard set out in the Model Code.

REVIEW OF INTERIM REPORT

This interim report has been reviewed by the Audit Committee, but not audited by the Company's auditors.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong, 25 February 2011