

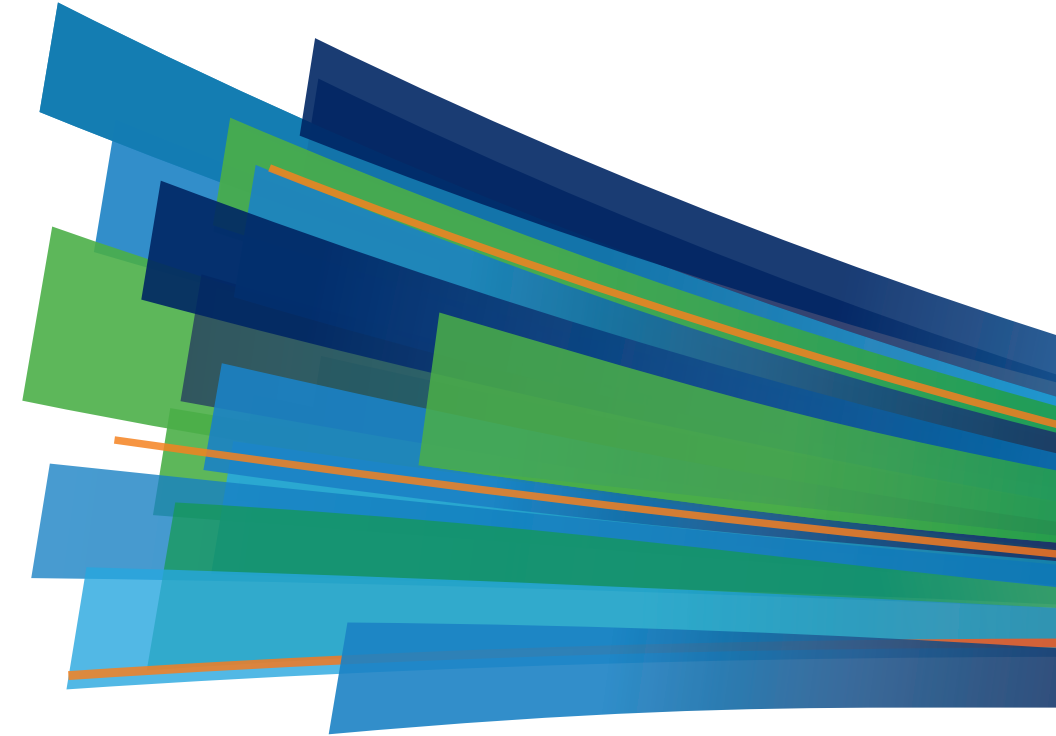


HENG TAI CONSUMABLES GROUP LIMITED
亨泰消費品集團有限公司

INCORPORATED IN THE CAYMAN ISLANDS WITH LIMITED LIABILITY
STOCK CODE: 197

Interim Report
2011/2012

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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 2011 (the "Period") together with the comparative figures for the corresponding period as follows:–

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2011

	Note	Six months ended 31 December	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
TURNOVER	3,4	1,057,354	1,291,173
Cost of sales		<u>(843,771)</u>	<u>(1,001,648)</u>
Gross profit		213,583	289,525
Changes in fair value of biological assets			
less costs to sell		(6,653)	(5,618)
Other income		1,976	1,591
Selling and distribution expenses		(77,692)	(92,971)
Administrative expenses		(86,188)	(76,343)
Other operating expenses		<u>(4,384)</u>	<u>(3,736)</u>
PROFIT FROM OPERATIONS		40,642	112,448
Finance costs	5	<u>(1,047)</u>	<u>(2,132)</u>
PROFIT BEFORE TAX		39,595	110,316
Income tax expense	6	<u>(2,933)</u>	<u>(6,756)</u>
PROFIT FOR THE PERIOD	7	<u>36,662</u>	<u>103,560</u>
Attributable to:			
Owners of the Company		46,538	108,497
Non-controlling interests		<u>(9,876)</u>	<u>(4,937)</u>
		<u>36,662</u>	<u>103,560</u>
EARNINGS PER SHARE	9		(Restated)
– Basic		<u>HK1.3 cents</u>	<u>HK3.4 cents</u>
– Diluted		<u>HK1.3 cents</u>	<u>HK3.3 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 December 2011

	Six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for the Period	36,662	103,560
Other comprehensive income:		
Exchange differences on translating foreign operations	13,937	9,637
Fair value changes of available-for-sale financial assets	—	8,392
Other comprehensive income for the Period, net of tax	13,937	18,029
Total comprehensive income for the Period	50,599	121,589
Total comprehensive income attributable to:		
Owners of the Company	60,475	126,526
Non-controlling interests	(9,876)	(4,937)
	50,599	121,589

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

		31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
	Note		
Non-current assets			
Fixed assets		721,388	648,209
Prepaid land lease payments		496,229	455,658
Construction in progress		272,274	335,109
Goodwill		282,525	282,525
Biological assets		56,346	55,357
Other intangible assets		84,494	106,391
Other assets		53,885	70,846
Investments in a club membership		108	108
Investments		4,760	9,144
		<u>1,972,009</u>	<u>1,963,347</u>
Current assets			
Inventories		210,433	220,561
Trade receivables	10	455,974	390,922
Prepayments, deposits and other receivables		333,558	305,032
Investments		273	424
Bank and cash balances		588,454	603,582
		<u>1,588,692</u>	<u>1,520,521</u>
TOTAL ASSETS		<u><u>3,560,701</u></u>	<u><u>3,483,868</u></u>
Capital and reserves			
Share capital	12	36,369	34,637
Reserves		3,259,539	3,198,434
Equity attributable to owners of the Company		<u>3,295,908</u>	3,233,071
Non-controlling interests		<u>(25,492)</u>	<u>(16,378)</u>
Total equity		<u><u>3,270,416</u></u>	<u><u>3,216,693</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2011

	31 December 2011 (Unaudited) Note	30 June 2011 (Audited)
	HK\$'000	HK\$'000
Non-current liabilities		
Finance lease payables	542	846
Deferred tax liabilities	<u>2,824</u>	<u>2,774</u>
	<u>3,366</u>	<u>3,620</u>
Current liabilities		
Trade payables	11 97,631	98,755
Accruals and other payables	30,247	19,356
Borrowings	137,223	126,601
Finance lease payables	542	500
Current tax liabilities	<u>21,276</u>	<u>18,343</u>
	<u>286,919</u>	<u>263,555</u>
Total liabilities	<u>290,285</u>	<u>267,175</u>
TOTAL EQUITY AND LIABILITIES	<u>3,560,701</u>	<u>3,483,868</u>
Net current assets	<u>1,301,773</u>	<u>1,256,966</u>
Total assets less current liabilities	<u>3,273,782</u>	<u>3,220,313</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2011

	Unaudited											
	Attributable to owners 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	Proposed final dividend	Total	Non-controlling 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	HK\$'000	HK\$'000
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	<u>32,803</u>	<u>1,739,054</u>	<u>97</u>	<u>134,720</u>	<u>2,912</u>	<u>929</u>	<u>(11,712)</u>	<u>1,255,994</u>	<u>32,803</u>	<u>3,187,600</u>	<u>(7,690)</u>	<u>3,179,910</u>
At 1 July 2011	34,637	1,750,030	97	160,593	8,142	929	-	1,278,643	-	3,233,071	(16,378)	3,216,693
Total comprehensive income for the period	-	-	-	13,937	-	-	-	46,538	-	60,475	(9,876)	50,599
Business combinations	-	-	-	-	-	-	-	-	-	-	762	762
Bonus issue of shares	1,732	-	-	-	-	-	-	(1,732)	-	-	-	-
Recognition of share-based payment	-	-	-	-	2,362	-	-	-	-	2,362	-	2,362
At 31 December 2011	<u>36,369</u>	<u>1,750,030</u>	<u>97</u>	<u>174,530</u>	<u>10,504</u>	<u>929</u>	<u>-</u>	<u>1,323,449</u>	<u>-</u>	<u>3,295,908</u>	<u>(25,492)</u>	<u>3,270,416</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2011

	Six months ended	
	31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	50,134	22,727
NET CASH USED IN INVESTING ACTIVITIES	(82,282)	(246,215)
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>10,360</u>	<u>336,576</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(21,788)	113,088
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	6,660	4,271
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>603,582</u>	<u>519,251</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u><u>588,454</u></u>	<u><u>636,610</u></u>
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	<u><u>588,454</u></u>	<u><u>636,610</u></u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2011

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements have been 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 financial statements for the year ended 30 June 2011. 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 financial statements and segment information for the year ended 30 June 2011.

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 2011. 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 the prior period.

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"), agri-products, and revenue from logistics services was as follows:

	Six months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Sales of consumer goods	426,465	592,380
Sales of agri-products	530,027	594,225
Logistics services income	100,862	104,568
	<u>1,057,354</u>	<u>1,291,173</u>

4. SEGMENT INFORMATION

The Group has three reporting segments as follows:

- (i) The sale and trading of FMCG including packaged food, 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 ("Agri-Products Business"); and
- (iii) Provision of logistics services ("Logistics Services Business").

There were no significant sales between the reportable operating segments.

The segment information of the Group were as follows:–

	FMCG Trading Business (Unaudited) HK\$'000	Agri- Products Business (Unaudited) HK\$'000	Logistics Services Business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
For the six months ended 31 December 2011				
Revenue from external customers	<u>426,465</u>	<u>530,027</u>	<u>100,862</u>	<u>1,057,354</u>
Segment profit	<u>15,764</u>	<u>12,034</u>	<u>29,743</u>	<u>57,541</u>
At 31 December 2011				
Segment assets	<u>1,167,025</u>	<u>1,673,332</u>	<u>636,826</u>	<u>3,477,183</u>

	FMCG Trading Business (Unaudited) HK\$'000	Agri- Products Business (Unaudited) HK\$'000	Logistics Services Business (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
For the six months ended 31 December 2010				
Revenue from external customers	<u>592,380</u>	<u>594,225</u>	<u>104,568</u>	<u>1,291,173</u>
Segment profit	<u>73,734</u>	<u>21,820</u>	<u>45,488</u>	<u>141,042</u>
At 30 June 2011				
Segment assets	<u>1,162,560</u>	<u>1,543,176</u>	<u>655,180</u>	<u>3,360,916</u>

	Six months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Reconciliations of segment profit:		
Total profit of reportable segments	57,541	141,042
Corporate and unallocated expenses	<u>(20,879)</u>	<u>(37,482)</u>
Consolidated profit for the Period	<u>36,662</u>	<u>103,560</u>

5. FINANCE COSTS

	Six months ended 31 December	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on borrowings	1,022	2,120
Finance lease charges	<u>25</u>	<u>12</u>
	<u>1,047</u>	<u>2,132</u>

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period tax:		
Overseas	<u>2,933</u>	<u>6,756</u>

No provision for Hong Kong Profits Tax has been made for the Period as the Group did not generate any assessable profits arising in Hong Kong during the Period.

Tax charge on profits assessable elsewhere in other jurisdictions have been calculated at the rates of tax prevailing in the relevant jurisdictions 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 a progressive rate from 9% to 12% (2010: 9% to 12%) on the estimated assessable profits for the Period with the first two hundred thousand patacas assessable profits being free from tax. 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 PRC have been calculated at the rate of 25% (2010: 25%), based on existing legislation, interpretation and practices in respect thereof.

7. PROFIT FOR THE PERIOD

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

	Six months ended 31 December	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Amortisation and depreciation, net of amount capitalised	68,129	55,807
Cost of inventories sold	815,746	979,727
Directors' emoluments	2,896	2,459
Equity-settled share-based payment	2,362	–
Impairment loss on available-for-sale financial assets	4,384	–
Operating lease charges in respect of land and buildings, net of amount capitalised	<u>46,051</u>	<u>29,765</u>

8. DIVIDEND

The Board resolved not to pay any interim dividend for the six months ended 31 December 2011 (2010: Nil).

9. EARNINGS PER SHARE

The calculation of basic 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\$46,538,000 (2010: approximately HK\$108,497,000) and the weighted average number of ordinary shares of the Company of 3,636,917,261 (2010 restated: 3,230,117,655) in issue during the Period after adjusting the effects of bonus issue in December 2011. The basic earnings per share for 2010 was adjusted for the effects of bonus issues in January 2011 and December 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\$46,538,000 (2010: approximately HK\$108,497,000) and the weighted average number of shares of 3,637,500,399 (2010 restated: 3,283,046,572), being the weighted average number of shares of 3,636,917,261 (2010 restated: 3,230,117,655) in issue during the Period used in the basic earnings per share calculation plus the weighted average number of shares of 583,138 (2010 restated: 52,928,917) 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 December 2011. The diluted earnings per share for 2010 was adjusted for the effects of bonus issues in January 2011 and December 2011 accordingly.

10. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 150 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 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
1 – 30 days	128,711	113,776
31 – 60 days	134,915	91,530
61 – 90 days	98,506	82,544
Over 90 days	93,842	103,072
	<u>455,974</u>	<u>390,922</u>

11. TRADE PAYABLES

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

	31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
1 – 30 days	97,150	98,634
31 – 60 days	154	–
61 – 90 days	2	2
Over 90 days	325	119
	<u>97,631</u>	<u>98,755</u>

12. SHARE CAPITAL

	31 December 2011		30 June 2011	
	Number of shares	Amount HK'000	Number of shares	Amount HK'000
Authorised:				
Shares of HK\$0.01 each	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
Shares of HK\$0.01 each	<u>3,636,917,261</u>	<u>36,369</u>	<u>3,463,730,725</u>	<u>34,637</u>

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

	Number of shares	Amount HK\$'000
At 1 July 2011	3,463,730,725	34,637
Bonus issue of shares	<u>173,186,536</u>	<u>1,732</u>
At 31 December 2011	<u>3,636,917,261</u>	<u>36,369</u>

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2011 (30 June 2011: Nil).

14. CAPITAL COMMITMENTS

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

	31 December 2011 (Unaudited) HK\$'000	30 June 2011 (Audited) HK\$'000
Contracted but not provided for		
– Construction in progress	<u>57,553</u>	<u>87,359</u>
– Seeding plantation	<u>6,061</u>	<u>5,952</u>
	<u>63,614</u>	<u>93,311</u>

INTERIM DIVIDEND

The Board resolved not to pay any interim dividend for the six months ended 31 December 2011 (2010: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2011, the Group's turnover was approximately HK\$1,057.4 million, representing a decrease of approximately 18.1%, compared to HK\$1,291.2 million in the same period last year. The decline in turnover was mainly attributable to (i) the tightening up of formalities of regulating edible foodstuff control in the domestic market of the People's Republic of China (the "PRC") which had affected the revenue performance of the Group's FMCG Trading Business and resulted in a decline in trading volume of this business unit; and (ii) the production uncertainties caused by variable and adverse weather conditions across the PRC in the first half of 2011, which had delayed the commencement of the Group's plantation plans and had affected the revenue contribution of the Group's upstream farming business.

Gross profit margin decreased from approximately 22.4% to 20.2% when compared with the same period last year. The severe flooding that occurred in the second half of 2011 in Thailand had caused extensive and prolonged inundation of farmland in Thailand and affected and reduced the amount of available import of agri-products from Thailand into the PRC. Also, this resulted in increased costs in sourcing the otherwise available supplies and due to the unstable market conditions, the Group had difficulties to fully transfer all the increased costs to the customers. The Group had also reduced the selling price of some of its FMCG products to attract more sales orders from customers in view of the adverse impact from tightening up of edible foodstuff formalities. Both factors had caused a drop in our gross profit margin for the Period.

Selling and distribution expenses fell approximately 16.4% from approximately HK\$93.0 million to approximately HK\$77.7 million. These expenses remained stable at approximately 7.3% of turnover when compared with the same period last year. Selling and distribution expenses included promotion campaigns for the development of sales and marketing channels, outlays on brand building, as well as distribution expenses all together spent in support of the Group's sales activities.

Administrative expenses increased approximately 12.9% to approximately HK\$86.2 million, as compared to the same period last year. The increase was mainly attributable to 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. Agri-related expenses represented a larger portion of the Group's overall expenses as compared with other operating units such as traditional FMCG Trading Business.

Other operating expenses represented the impairment loss of the value in the investment of China Zenith Chemical Group Limited (Stock Code: 362) ("China Zenith") made in accordance with HKFRSs due to its declining share price as at 31 December 2011.

Finance costs decreased to approximately HK\$1.0 million from approximately HK\$2.1 million in the preceding corresponding period. The decrease in finance costs was mainly attributable to a decreased level of utilization of the Group's banking facilities as compared with the same period last year.

The decrease in the Group's net profit can be summarized as mainly attributable to an approximately 18.1% decrease in turnover, approximately 2.2% decrease in the Group's overall gross profit margin, approximately 16.4% decrease in selling and distribution expenses, approximately 12.9% increase in administrative expenses, approximately 18.4% increase in fair value of biological assets and approximately 17.3% increase in other operating expenses, while there was overall decrease of approximately 55.2% in finance costs and income tax expenses.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the Period under review, the Group's income was derived from three business units: (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 Services Business, being the provision of cold chain logistics services and agri-products servicing; and (iii) the Agri-Products Business, which includes the cultivation and trading of agri-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 Agri-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 FMCG Trading Business sells finished FMCG's into the domestic Chinese market. These products are largely sourced overseas through the Group's wide-reaching global procurement network and is imported from all four corners of the world including Europe, the Americas, Australasia, and South East Asia. This business unit classifies these products into five different product categories including: packaged foods, beverages, household consumable products, cosmetics and skincare products, and cold chain products with their respective contributions to the Group's turnover of being approximately 20%, 2%, 1%, 7% and 10% of the Group's turnover. The FMCG Trading Business contributed 40% of the Group's revenues for the Period.

This business unit formed the foundation of the Group's business success over the years. Although more internal resources have been committed to the Agri-Products Business and Logistics Services Business in recent years, the distribution channels, established by the trading business, are and will continue to represent a very important component within the Group's businesses as a whole. The Group has shown year after year that it runs a reliable business model which has been set up using a "bottom up" approach. Meaning that the Group's businesses are built on a foundation of down-stream sales channels and our vertical integration, be it for the FMCG Trading Business or now with the Agri-Products Business, working as a catalyst to improve the value proposition. The Group therefore has developed a business model that is very effective at monetizing the consumer products (i.e. commodities) that we sell.

With that said, the past 6 months have again proved to be testing times for the Group. The recent financial performance of the FMCG Trading Business has been disappointing. This was due to a number of factors that had come together over the past 12 months to reverse the fortunes of the business that only 18 months ago boasted CAGR's of over twenty percents, but had reported negative growth numbers for consecutive reporting periods. A number of factors had come together over the past 6 to 12 months that had had a negative combined effect on the performance of the business.

Notwithstanding the fact that the FMCG Trading Business has no longer been the primary focus of the Group's development, the domestic food market has changed dramatically over the past 5 years or so. Increasing competition, rising food prices, and an improvement in the competitiveness of China's locally made consumer products have combined to make the local market environment harder to compete in. These internal and market driven issues, coupled with domestic regulatory issues created by the tightening of food safety formalities (resulting in the increased amount of documentation and reporting related to this, and the resulting knock on effect), have affected not only the internal efficiency of a once well-oiled machine, but it has also affected the buyers' buying habits. If this was not enough, the world has experienced the worst financial crisis ever recorded. The Group's product portfolio relies on at least good consumer confidence to drive sales. With consumer confidence severely hit by poor global economic condition, our targeted consumers have been switching out of our higher end products to competing local brands.

The Group's Logistics Services Business contributes a steady approximately 10% of overall revenues for the Period. This side of the business is largely driven by the fortunes of the other two business units. Although the Group's logistics infrastructure has traditionally played a supporting role, built out of necessity for utilization, rather than as business extension, more attention has been spent over the past 6 to 12 months on growing third party services evidenced by approximately 150% annualized growth in 3rd party logistics services and rental income as compared with that of the previous year though the number was so small that they were insignificant in the grand scheme of things, save that this gave a good indication that the Group's rapid expansion plans (although still in full swing) have shown some maturity now, where by the assets are now being exploited for secondary and tertiary income types not only for their primary income.

The Group's long-term strategy, involving the shift of the Group's focus from a pure food trading business to an integrated food producer, distributor, and trading business is now in progress. The Agri-Products Business revenue contribution reached 50% of the Group's overall turnover. This is the clearest indicator that the Group's strategy is really getting some traction. Over the years, the Group has evolved from a pure trader of agri-products to a self-cultivated producers. Agriculture takes time to develop and even more time to reach optimum production efficiencies and performance. That is because there are so many biological influences. But it is clear that progress is being made.

The domestic sales of agri-products have grown approximately 118% since the last interim results for the 6 months ended on 31 December 2010. Our imported products trading business has experienced a downturn in recent months due to changing and adverse weather conditions in the respective markets of origination. Many of our imported fruits are from New Zealand and Australia. Over the years, both markets have gone through a boom phase resulting in higher exchange rates and production costs. Products from these two countries have lost their competitive edge against products from South America or South East Asia and the increases in cost of goods and the importers of goods from other regions' ability to beat us with price competition have affected this significant area of the business. The severe flooding that occurred in second half of 2011 in Thailand had also affected and reduced the amount of available import of agri-products. This resulted in increased costs in sourcing the decreased supplies of agri-products from Thailand.

The recent financial period saw the first stream of income from the Group's own cultivation bases. The Group is confident that, barring any "acts of God" that might have severe negative effects on the farming business, the cultivation income will now continue to grow steadily. The Group has worked very hard over the months to get its farms up to the required standards for operation. Progress has been made to bring the constant growth of the value of our asset base. The Group has maintained stable and ever strong cash flow numbers. The Group's fundamentals have always been stable as a result of careful planning and management by the Group's management team.

During the Period under review, the Group had reinforced its development in upstream farming business. The Group has carefully developed plans in cultivation of Chinese medicinal plants in its Jiangxi base. The initial product range would include some high value or huge consumed Chinese herbs, such as Honeysuckle, Sage, Balloon Flower and Catmint, which would provide a wider range of self-grown products with a distinctive market niche. Over the years, the Group has increased its farmland reserve in different geographical areas that would enable the Group to establish itself as a scale player in the upstream farming business to benefit from government policies and also spread out its cultivation activities to minimize possible disruption risks in production associated with natural calamities and adverse weather conditions. The Group's cultivation bases 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 PRC's government policies to encourage scale farming by large corporations to address the food safety issues and enhance efficient farming in the agri-industry.

The following table shows Heng Tai's segmented and product information matrix for the Period:

Category:	FY2011/12 Revenue Contribution %	FY2010/11 Revenue Contribution %	Product Type:
Packaged Foods	20%	22%	Biscuits, candies, chocolate, condiments, margarine, milk powder products, health foods, noodles, snacks, rice, nourishing supplements, and exclusively licensed branded products
Beverages	2%	2%	Beers, wines, soft drinks, teas and fruit juices
Household Consumables	1%	2%	Toiletries including tissue paper, toilet paper, personal hygiene products, shampoo, conditioner, shower gels, and soaps
Cosmetics & Skincare Products	7%	8%	Make-ups, perfumes, fragrances, skincare, and sun care products
Cold Chain Products	10%	12%	Frozen meat, seafood and dairy products
FMCG Trading Business Unit	40%	46%	Packaged Foods, Beverage, Household Consumables, Cosmetics, and Cold Chain Products

The FMCG products, listed above, are mostly sourced through the Group's extensive overseas procurement networks, operating in major global markets including South East Asia, USA, Europe, Australia, and New Zealand. These products, in turn, are traded back into the domestic PRC market through wholesalers, retailers, and on-premise customers.

Category:	FY2011/12 Revenue Contribution %	FY2010/11 Revenue Contribution %	Product Type:
Cold Chain and Agri-Products Servicing	10%	8%	Food processing, logistics solutions and cold chain logistics services
Logistics Services Business	10%	8%	Zhongshan Facilities: Cold Chain & Food Processing. Shanghai & Beijing Facilities: Cold Chain Logistics & FMCG Solutions
Imported Fruits & Vegetables	42%	43%	Apples, table grapes, tropical fruits including durian, longan, mangosteen and etc.
Domestic Fruits & Vegetables	8%	3%	Potatoes, carrots, onions, ginger, garlic, bok choy, mushrooms, choy sum, cabbage, broccoli, oranges, mandarins, tangerines and etc.
Agri-Products Business Unit	50%	46%	Agri-Trading and Farming

The Group had also completed part of its second phase extension plans in agri-product development. Zhongshan logistics hub had redeveloped part of its existing facilities to establish post-harvest and fresh cut processing lines for agri-products. The processed agri-products were mainly sold to wholesale and retail markets and chain restaurants in Hong Kong and the PRC. In the coming year, the Group would further expand its scale in post-harvest and fresh cut processing operations to cope with the forthcoming large scale processing operations in the second phase core development of Zhongshan logistics hub, which would encompass the establishment of a government licensed central warehouse equipped with a hygiene and quarantine centre of internationally recognised standards and with various processing, repackaging and storage facilities for agri-products for domestic and export sales.

Subsequent to the interim reporting date on 26 January 2012, the Company had entered into an memorandum of understanding (“MOU”) with the Government of Lianghua Town of the PRC. Pursuant to the MOU, it is currently the parties’ intention that a new logistics centre shall be constructed in Lianghua Town and managed by the Group thereafter, which is subject to the parties having entered into the necessary definitive agreements on or before 30 June 2012 or such other dates to be agreed by the parties, setting out the final terms and conditions. It is currently expected that the new logistics centre will include an agri-products wholesale market, a cold storage warehouse, a dry goods warehouse, a processing factory, a guesthouse, offices and a carpark. The Board considers that the opportunity to participate in the construction, operation and management of the new logistics centre will give the Group a competitive advantage to enable the Group to build up its brand, bring up the trading volume of its agri-products and further strengthen its business and market share in the southern PRC. As at the date of this report, no definitive terms or formal agreement have been agreed upon or entered into. The Group will make further announcement if there are any definitive terms agreed upon or finalised.

In the coming year, the Group would reinforce its diversification process in its entire supply chain through a well-executed balance between each of these dependent business segments in upstream, midstream and downstream in farming, logistics and trading businesses.

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 and banking facilities.

At 31 December 2011, the Group had interest-bearing borrowings of approximately HK\$137.2 million (30 June 2011: approximately HK\$126.6 million) of which over 95% of the borrowings were denominated in Hong Kong dollars and all would mature within one year or beyond a year but with a repayment on demand clause. 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 2011.

At 31 December 2011, the Group's current assets amounted to approximately HK\$1,588.7 million (30 June 2011: approximately HK\$1,520.5 million) and the Group's current liabilities amounted to approximately HK\$286.9 million (30 June 2011: approximately HK\$263.6 million). The Group's current ratio remained stable at approximately 5.5 as at 31 December 2011 (30 June 2011: approximately 5.8). At 31 December 2011, the Group had total assets of approximately HK\$3,560.7 million (30 June 2011: approximately HK\$3,483.9 million) and total liabilities of approximately HK\$290.3 million (30 June 2011: approximately HK\$267.2 million) with a gearing ratio of approximately 3.9% (30 June 2011: approximately 3.6%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets. At 31 December 2011, the Group maintained a fairly stable gearing ratio as compared with the last reporting date on 30 June 2011.

On 19 December 2011, the Company made a bonus issue of 173,186,536 new shares at par value HK\$0.01 each by way of a special dividend on the basis of one bonus share for every twenty existing shares to the shareholders whose names appeared on the register of members of the Company on 14 December 2011.

Subsequent to the interim reporting date on 30 January 2012, the Company proposed to make an open offer of not less than 1,818,458,629 and not more than 1,871,414,880 offer shares of the Company on the basis of one offer share for every two existing shares of the Company at the subscription price of HK\$0.20 subject to the terms and conditions set out in the underwriting agreement dated 30 January 2012 entered into between the Company and VC Brokerage Limited. The net proceeds of the open offer are expected to amount to approximately not more than HK\$365 million and not less than HK\$355 million, which is intended to be used in the development of a new logistics centre in Lianghua Town as per the MOU entered into on 26 January 2012. Further details of the open offer have been set out in the Company's announcement on 30 January 2012.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2011, 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	568,301,264	15.63%
Ms. Lee Choi Lin, Joecy ("Ms. Lee")	1	Interest in controlled corporation and family interest	568,301,264	15.63%
Mr. Chu Ki ("Mr. Chu")	2	Interest in controlled corporation	24,310,125	0.67%
Ms. Chan Yuk, Foebe	3	Beneficial Owner	15,750,000	0.43%
Mr. John Handley	3	Beneficial Owner	5,250,000	0.14%
Ms. Mak Yun Chu	3	Beneficial Owner	5,250,000	0.14%
Mr. Poon Yiu Cheung, Newman	3	Beneficial Owner	5,250,000	0.14%

Notes:

1. 419,523,299 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 419,523,299 shares held by Best Global under Section 316(2) of the SFO. Ms. Lee is also deemed to be interested in, and duplicated the interest of, these shares of which Mr. Lam is deemed to be interested in under Section 316(1) of the SFO.

The remaining 148,777,965 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 148,777,965 shares held by World Invest under Section 316(2) of the SFO. Mr. Lam is also deemed to be interested in, and duplicated the interest of, these 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 24,310,125 shares held by Asia Startup under Section 316(2) of the SFO.
3. These shares in interest are share options granted by the Company to respective Directors on 15 June 2011 and the respective number of which has been adjusted to reflect the bonus issue in December 2011.

Save as disclosed above, as at 31 December 2011, 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 SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2011, 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	419,523,299	11.54%

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 2011, 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 31 December 2011	Date of grant of share options	Exercise period of share options	Exercise prices of share options HK\$
	At 1 July 2011	Granted during the period	Exercised during the period	Cancelled during the period				
Non-executive director Ms. Chan Yuk, Foebe	15,750,000*	–	–	–	15,750,000	15 June 2011	15 June 2011 to 14 June 2016	0.756*
Independent non-executive directors								
Mr. John Handley	5,250,000*	–	–	–	5,250,000	15 June 2011	15 June 2011 to 14 June 2016	0.756*
Ms. Mak Yun Chu	5,250,000*	–	–	–	5,250,000	15 June 2011	15 June 2011 to 14 June 2016	0.756*
Mr. Poon Yiu Cheung, Newman	5,250,000*	–	–	–	5,250,000	15 June 2011	15 June 2011 to 14 June 2016	0.756*
Employees (in aggregate)	10,500,000*	–	–	–	10,500,000*	15 June 2011	1 January 2012 to 31 December 2016	0.756*
	10,500,000*	–	–	–	10,500,000**	15 June 2011	1 January 2013 to 31 December 2017	0.756*
Other eligible participants (in aggregate)	912,503*	–	–	–	912,503	30 April 2002	1 May 2002 to 30 April 2012	0.183*
Suppliers of goods or services (in aggregate)	94,500,000*	–	–	–	94,500,000	15 June 2011	15 June 2011 to 14 June 2016	0.756*
	<u>147,912,503</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>147,912,503</u>			

* The number of share options and exercise prices have been adjusted to reflect the bonus issue in December 2011.

These shares options have a vesting period from 15 June 2011 to 31 December 2011.

These shares options have a vesting period from 15 June 2011 to 31 December 2012.

At 31 December 2011, the Company had 147,912,503 (31 December 2010: 19,302,418) 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 147,912,503 (31 December 2010: 19,302,418) additional ordinary shares and additional share capital of approximately HK\$1,479,000 (31 December 2010: HK\$193,024) and share premium of approximately HK\$109,820,000 (31 December 2010: HK\$8,232,000) (before share issue expenses). There was no option granted, cancelled or lapsed during the Period.

PURCHASE, SALE OR REDEMPTION OF THE SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries had 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 external auditors.

On behalf of the Board

Lam Kwok Hing

Chairman

Hong Kong, 28 February 2012