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: 00197)

Interim Report
2014 / 2015

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 2014 (the "Period") together with the comparative figures for the corresponding period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 31 December 2014

	Note	Six months ended 31 December 2014 (Unaudited) HK$'000	2013 (Unaudited) HK$'000
TURNOVER	3	**818,047**	885,225
Cost of sales		**(746,456)**	(812,676)
Gross profit		**71,591**	72,549
Changes in fair value of biological assets less costs to sell		**(12,015)**	(4,566)
Other income		**3,978**	5,763
Selling and distribution expenses		**(46,130)**	(60,087)
Administrative expenses		**(54,572)**	(91,896)
LOSS FROM OPERATIONS		**(37,148)**	(78,237)
Finance costs	5	**(338)**	(354)
LOSS BEFORE TAX		**(37,486)**	(78,591)
Income tax expense	6	**(228)**	(184)
LOSS FOR THE PERIOD	7	**(37,714)**	(78,775)
Attributable to:			
Owners of the Company		**(37,754)**	(78,924)
Non-controlling interests		**40**	149
		(37,714)	(78,775)
LOSS PER SHARE	9		(Restated)
– Basic		**HK(0.6 cent)**	HK(1.3 cents)
– Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 31 December 2014

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the Period	**(37,714)**	(78,775)
Other comprehensive income:		
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**–**	9,089
Fair value change on available-for-sale financial assets	**3,396**	(29,073)
Revaluation reserve of available-for-sale financial assets reclassified to profit or loss upon disposal	**(241)**	–
Other comprehensive income for the Period, net of tax	**3,155**	(19,984)
Total comprehensive income for the Period	**(34,559)**	(98,759)
Attributable to:		
Owners of the Company	**(34,599)**	(98,908)
Non-controlling interests	**40**	149
	(34,559)	(98,759)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Note	31 December 2014 (Unaudited) HK$'000	30 June 2014 (Audited) HK$'000
Non-current assets			
Fixed assets		**674,352**	712,419
Prepaid land lease payments		**278,918**	315,465
Construction in progress		**114,893**	114,834
Goodwill		**230,627**	230,627
Biological assets		**79,680**	75,762
Other intangible assets		**68,569**	58,833
Other assets		**95,013**	106,397
Investments in a club membership		**108**	108
Investments		**111,301**	97,302
		1,653,461	1,711,747
Current assets			
Biological assets		**–**	380
Inventories		**200,725**	193,593
Trade receivables	10	**440,321**	443,762
Prepayments, deposits and other receivables		**257,516**	246,721
Investments		**6,594**	32,805
Bank and cash balances		**391,880**	301,041
		1,297,036	1,218,302
TOTAL ASSETS		**2,950,497**	2,930,049
Capital and reserves			
Share capital	12	**65,465**	54,554
Reserves		**2,698,432**	2,668,385
Equity attributable to owners of the Company		**2,763,897**	2,722,939
Non-controlling interests		**656**	616
Total equity		**2,764,553**	2,723,555

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2014

	Note	31 December 2014 (Unaudited) HK$'000	30 June 2014 (Audited) HK$'000
Non-current liabilities			
Finance lease payables		**56**	71
Deferred tax liabilities		**6,260**	6,260
		6,316	6,331
Current liabilities			
Trade payables	11	**107,504**	116,366
Accruals and other payables		**15,453**	13,542
Borrowings		**51,872**	65,599
Finance lease payables		**29**	28
Current tax liabilities		**4,770**	4,628
		179,628	200,163
Total liabilities		**185,944**	206,494
TOTAL EQUITY AND LIABILITIES		**2,950,497**	2,930,049
Net current assets		**1,117,408**	1,018,139
Total assets less current liabilities		**2,770,869**	2,729,886

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2014

	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	Special reserve	Retained profits	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
At 1 July 2013	54,554	2,087,124	97	196,864	31,366	929	76,701	(86,094)	1,068,873	3,430,414	697	3,431,111
Total comprehensive income for the period	–	–	–	9,089	–	–	(29,073)	–	(78,924)	(98,908)	149	(98,759)
Disposal of a subsidiary	–	–	–	(255)	–	–	–	–	–	(255)	(565)	(820)
Capital injection	–	–	–	–	–	–	–	–	–	–	1,266	1,266
Change in equity for the period	–	–	–	8,834	–	–	(29,073)	–	(78,924)	(99,163)	850	(98,313)
At 31 December 2013	54,554	2,087,124	97	205,698	31,366	929	47,628	(86,094)	989,949	3,331,251	1,547	3,332,798
At 1 July 2014	54,554	2,087,124	97	195,493	31,366	7,464	45,697	(86,094)	387,238	2,722,939	616	2,723,555
Total comprehensive income for the Period	–	–	–	–	–	–	3,155	–	(37,754)	(34,599)	40	(34,559)
Transfer of reserve upon lapse of share options	–	–	–	–	(136)	–	–	–	136	–	–	–
Shares issued pursuant to open offer	10,911	64,646	–	–	–	–	–	–	–	75,557	–	75,557
Change in equity for the Period	10,911	64,646	–	–	(136)	–	3,155	–	(37,618)	40,958	40	40,998
At 31 December 2014	65,465	2,151,770	97	195,493	31,230	7,464	48,852	(86,094)	349,620	2,763,897	656	2,764,553

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 December 2014

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH GENERATED FROM OPERATING ACTIVITIES	**29,020**	9,091
NET CASH USED IN INVESTING ACTIVITIES	**(148)**	(85,579)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**61,967**	(22,423)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**90,839**	(98,911)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**–**	5,733
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**301,041**	545,156
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**391,880**	451,978
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**391,880**	451,978

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 December 2014

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 2014. 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 2014.

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 2014. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards ("HKAS") 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 years.

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	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of consumer goods	**376,720**	410,363
Sales of agri-products	**415,932**	447,494
Logistics services income	**25,395**	27,368
	818,047	885,225

4. SEGMENT INFORMATION

The Group has three reporting segments as follows:

(i) The sale and trading of FMCG including packaged foods, beverages, household consumable products, cold chain products and cosmetics and skincare 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 was 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 2014				
Revenue from external customers	**376,720**	**415,932**	**25,395**	**818,047**
Segment profit/(loss)	**9,381**	**(29,845)**	**(7,008)**	**(27,472)**
At 31 December 2014				
Segment assets	**809,653**	**1,287,104**	**553,760**	**2,650,517**

	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 2013				
Revenue from external customers	410,363	447,494	27,368	885,225
Segment profit/(loss)	2,180	(60,655)	(6,649)	(65,124)
At 30 June 2014				
Segment assets (Audited)	795,749	1,334,608	579,996	2,710,353

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Reconciliation of segment loss:		
Total loss of reportable segments	**(27,472)**	(65,124)
Unallocated amounts:		
Other corporate expenses	**(10,242)**	(13,651)
Consolidated loss for the Period	**(37,714)**	(78,775)

5. FINANCE COSTS

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on borrowings	**333**	349
Finance lease charges	**5**	5
	338	354

6. INCOME TAX EXPENSE

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Current period tax:		
Hong Kong	**15**	13
Overseas	**213**	171
	228	184

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the Period (2013: 16.5%).

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, 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. Furthermore, 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% (2013: 25%), based on existing legislation, interpretation and practices in respect thereof.

7. LOSS FOR THE PERIOD

The Group's loss for the Period is stated after charging/(crediting) the following:

	Six months ended 31 December	
	2014	2013
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Amortisation and depreciation, net of amount capitalised	**48,563**	76,057
Cost of inventories sold	**702,032**	792,223
Directors' emoluments	**2,853**	2,745
(Gain)/loss on disposal of available-for-sale financial assets	**(310)**	90
Operating lease charges in respect of land and buildings, net of amount capitalised	**32,905**	54,637
Staff costs (excluding directors' emoluments)		
Staff salaries, bonus and allowances	**16,573**	17,671
Retirement benefits scheme contributions	**386**	365
	16,959	18,036

8. DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 31 December 2014 (2013: Nil).

9. LOSS PER SHARE

The calculation of basic loss per share attributable to owners of the Company was based on the loss for the Period attributable to owners of the Company of approximately HK$37,754,000 (2013: approximately HK$78,924,000) and the weighted average number of ordinary shares of the Company of 6,073,256,507 (2013: restated 5,924,538,218) in issue during the Period after adjusting the effect of the open offer in December 2014. The basic loss per share for 2013 had been adjusted and restated accordingly.

No diluted loss per share for the Period is presented as the effect of all potential ordinary shares is anti-dilutive for the periods ended 31 December 2014 and 2013.

10. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days (2013: 30 to 120 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 2014 (Unaudited) HK$'000	30 June 2014 (Audited) HK$'000
1 – 30 days	**133,961**	131,446
31 – 60 days	**137,400**	123,726
61 – 90 days	**121,891**	109,696
Over 90 days	**47,069**	78,894
	440,321	443,762

11. TRADE PAYABLES

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

	31 December 2014 (Unaudited) HK$'000	30 June 2014 (Audited) HK$'000
1 – 30 days	**105,493**	107,325
31 – 60 days	**416**	8,559
61 – 90 days	**128**	2
Over 90 days	**1,467**	480
	107,504	116,366

12. SHARE CAPITAL

	31 December 2014		30 June 2014	
	Number of shares	**Amount HK'000**	Number of shares	Amount HK'000
Authorised:				
Ordinary shares of HK$0.01 each	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:				
Ordinary shares of HK$0.01 each	**6,546,451,069**	**65,465**	5,455,375,891	54,554

A movement in the issued shares of the Company was as follows:

	Number of shares	**Amount**
		HK$'000
At 1 July 2014	5,455,375,891	54,554
Issue of shares pursuant to open offer in December 2014	1,091,075,178	10,911
At 31 December 2014	6,546,451,069	65,465

13. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at 31 December 2014 (30 June 2014: Nil).

14. CAPITAL COMMITMENTS

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

	31 December 2014 (Unaudited) HK$'000	30 June 2014 (Audited) HK$'000
Contracted but not provided for		
– Fixed assets	**7,500**	7,500
– Construction in progress	**64,317**	64,628
– Seedling plantation	**4,578**	4,625
	76,395	76,753

INTERIM DIVIDEND

The Board does not declare the payment of an interim dividend for the six months ended 31 December 2014 (2013: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

During the six months ended 31 December 2014, the Group's turnover was approximately HK$818.0 million, representing a decrease of approximately 7.6%, compared to HK$885.2 million in the same period last year. The decline in turnover was mainly attributable to (i) the abandonment of the cultivation of leafy vegetables as well as the decrease in the scale of other unprofitable operations and (ii) the Group's effort to improve gross profit margin by reducing taking orders with low profit margins and avoiding engaging in price competition which would shrink the revenue to a certain extent. Notwithstanding the decrease in turnover, the Group implemented various initiatives to improve gross profit margin and reduce operating expenses to mitigate the adverse effect, which is reflected by the improving bottom line compared to the same period last year.

Gross profit margin increased from approximately 8.2% to approximately 8.8% compared with the same period last year. The increase was mainly attributable to the improvement of the gross profit margin of the FMCG Trading Business. The Group redirected most of resources to develop the FMCG Trading Business by way of introducing new products and broadening sales channels, but did not sacrifice profit margins to increase sales volume. The Group adopted pricing strategies with reasonable profit margins, and reduced sales promotions to save costs. As a result, the gross profit margin of the FMCG Trading Business improved from 8.7% to 9.8%. The gross profit margin of the Logistics Services Business also increased in line with the FMCG Trading Business while the Agri-Products Business remained stable compared to the same period last year.

Selling and distribution expenses decreased by approximately 23.2% from approximately HK$60.1 million to approximately HK$46.1 million. These expenses represented approximately 5.6% of turnover compared to approximately 6.8% recorded during the same period last year. During the Period, the Group continuously implemented several cost saving initiatives to notably reduce marketing and promotion costs and staff costs. 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 decreased by approximately 40.6% from approximately HK$91.9 million to approximately HK$54.6 million. The decrease was mainly attributable to the cost savings from the retrenchment of certain upstream farming business and the implementation of various cost saving initiatives. Following the restructuring exercise to cut down cultivation of leafy products in the last financial year, a considerable amount of agri-related overheads such as rentals, day-to-day running costs and depreciation expenses were saved. The upstream farming business has a relative high portion of fixed administrative costs than other business units, hence the cut down of certain farming operations came to a particularly remarkable reduction in administrative expenses.

Finance costs maintained at a similar level of approximately HK$0.3 million compared with the same period last year.

The decrease in the Group's net loss can be summarized as mainly attributable to approximately 23.2% decrease in selling and distribution expenses, approximately 40.6% decrease in administrative expenses, and approximately 0.6% increase in the Group's overall gross profit margin, but partly offset by approximately 7.6% decrease in turnover and approximately HK$7.4 million decrease in the fair value of biological assets as a result of the increase in their plantation costs.

At 31 December 2014, the Group held 14.61% interest in China Zenith Chemical Group Limited, a company listed on the Stock Exchange, as a medium to long term investment subject to the market conditions, with which a gain on fair value change on this investment of approximately HK$3.2 million was recognized in the Group's reserves directly in accordance with Hong Kong Financial Reporting Standards.

BUSINESS REVIEW, DEVELOPMENT AND PROSPECT

During the Period under review, the Group are principally engaged in (i) the trading of packaged foods, beverages, household consumable products, cold chain products and cosmetics and skincare products (the "FMCG Trading Business"); (ii) the trading of agri-products and the upstream farming business (the "Agri-Products Business"); and (iii) the provision of cold chain logistics services and value-added post-harvest food processing (the "Logistics Services Business"). These three businesses come together to form two vertically integrated supply chains allowing the Group to effectively deliver perishable and non-perishable consumer products in China.

China's macro economy continued to grow at a slow pace during the Period. China's GDP growth lingered between 7.3% and 7.5%, the retail sales growth was sluggish and below 12% throughout the Period and the Consumer Price Index gradually reflected a deflationary pressure. Meanwhile, the China government launched loosening policies by way of cutting interest rates and required reserve ratios to boost the economy. All of these indicate that the China's economy has been encountering a big challenge. In the context of the above, the Group carefully developed various business units and adopted a tight control on capital expenditures and operating expenses, this strategy got some traction to substantially reduce various expenditures during the Period. Nevertheless, the Group had shifted focus and resources to the FMCG Trading Business and the Logistics Services Business and tactically invested in different projects to strengthen our competitiveness in these business units during the Period, such as the new logistics center in Huidong and the upgrade of existing logistics facilities in Shanghai.

The FMCG Trading Business sells finished consumer products into the domestic Chinese consumer market. These products are largely sourced overseas through the Group's wide-reaching global procurement network and are imported from different regions around the world including Europe, the Americas, Australasia and South East Asia. Recently, the product range has extended to high quality domestic products in China. This business unit can be classified into five categories including packaged foods, beverages, household consumable products, cold chain products and cosmetics and skincare products with their respective contribution of approximately 72%, 5%, 6%, 12% and 5%. Packaged foods, including biscuits, candies, chocolate, condiments, margarine, milk powder products, healthy food, noodles, snacks, rice and nourishing and exclusively licensed branded products, remained as the most important category.

Although the China's economy was weak during the Period, this business unit was fairly stable and showed signs of recovery. Particularly, the gross profit margin improved despite the much lower selling and marketing spending as well as the weakening Renminbi during the Period compared to the same period last year. This was very much thanks to the Group's continuous efforts to source niche products for target customers and to snatch a more favourable product-mix with effective pricing strategies. While the Group strived to expand clientele portfolio, the Group did not engage in price competition but rely on the product quality and niche to attract new customers. The Group adopted pricing strategies with reasonable profit margins and reduced sales promotions and discounts in order to improve gross profit margin. As a result, although the total revenue was affected by the above measures, the overall profitability of this business unit has improved compared to the same period last year. Additionally, the Group continued to expand procurement team and product portfolio and constantly chose the most suitable strategy to cope with the changing market conditions. For instance, in order to enrich the product portfolio, the Group continued to extend reach to domestic brands and other untapped regions such as South America. Meanwhile, the Group also tactically strengthened the procurement network in some specific countries such as Australia because of the recently signed Sino-Australian Free Trade Agreement as well as the depreciation of Australian Dollar. In terms of product categories, the Group has been gradually trimming cosmetics product business due to fierce competition. In contrast, the Group has been increasing the proportion of packaged foods to counterweigh the decline in the revenue of cosmetics products.

Furthermore, the development of e-commerce business was one of the most important tasks for the Group. The business volume between the Group and various e-commerce operators in China has shown an admirable growing trend with stable profit margins, which is still expected to be the key growth driver over coming years. The Group also explored other business opportunities with e-commerce operators in addition to normal trading business such as the collaboration in their logistics and storage operations and the establishment of online shops on their marketplace platforms. On the other hand, the Group also started to conduct feasibility study and negotiate cooperation with business partners with expertise in e-commerce field to create own online trading platform. The rapid growth of e-commerce in China is expected to continue over coming years, the progress of the Group's development in e-commerce business will be accelerated simultaneously. On the other hand, the Group will continually reinforce the traditional offline channels via wholesalers and direct sales to on-premise customers with the aim of setting up a widespread sales network across both offline and online markets.

The Agri-Products Business contains trading fresh produce such as fruits and vegetables imported from countries like Australasia and South East Asia as well as upstream cultivations in China. During the Period, the revenue of this business unit declined which was primarily due to the decline in the revenue of the upstream farming business, but partly offset by the increase in the revenue of the agri-product trading business. The economic downturn and the anti-extravagance sentiment in China continued to adversely affect the imported agri-products trading business. However, the Group managed to improve the revenue and the gross profit margin of the agri-products trading business compared to the same period last year, which could be attributable to (i) the Group's endeavour to provide our customers with a wide variety of agri-products and relevant cutting-edge food process services; (ii) enhanced operational efficiency by streamlining supply chain and administration process to reduce costs and ensure timely delivery; and (iii) favourable currency movement for certain imported fruits.

The Group has gradually ceased the cultivation of leafy agricultural products upon the expiration of the farmland leases in Huidong. The remaining farming base is in Jiangxi which is an orchard for various fruits such as early crop oranges and ponkans. The decision of discontinuing the cultivation of leafy vegetables resulted in a substantial reduction in various operating expenses, especially rentals, depreciation and day-to-day running costs. In contrast to the labour-intensive nature of leafy vegetables cultivation, the cultivation in Jiangxi's farming base is more of a capital-intensive operation, which requires high upfront capital expenditure but incurs much less recurring expenses every year after the operations. The Group is carefully developing Jiangxi's farming base with stringent control over capital investments and the pace of development would be entirely dependent on market demand and internal resources. After few years of development, the operations of the Jiangxi's farming base have been maturing and the revenue contribution has been also steadily growing. Apart from the cultivation business, the Group has also recently explored the feasibility of the collaboration with the local government to promote agri-tourism by opening certain area of the Jiangxi's farming base for public. This plan is at the preliminary stage of negotiation and greatly hinges on the development plan of the local government.

The Logistics Services Business provides a full range of services to customers including cold-chain facilities, warehousing, food processing production lines for fresh produces, as well as trucking fleets for nationwide and regional distribution. This business unit contributed approximately 3% of overall revenues for the Period, which was fairly stable compared to the same period in last year. The decline in the revenue of the Logistics Services Business was mainly attributable to the decline of the sales volume of the other two business units. As a strategic unit, the performance of the Logistics Services Business is highly correlated to the other two business units. Furthermore, to cope with the reposition of the Group's strategy to focus in the FMCG Trading Business, the Group has been modifying and upgrading existing logistics facilities in Zhongshan and Shanghai to cater for the new requirements and demands.

During the Period under review, the premises of the new logistics center in Huidong were under modification and refurbishment works to fit the standards required by various bureaus and the operational needs. The new logistics center will support our agri-products trading business as well as the provision of third party supply chain solutions. The new logistics center is expected to come on stream during the year. In addition, the Group has been proactively seeking investment opportunities to strengthen logistics facilities and equipment to cater for the rising demands from the FMCG Trading Business. As mentioned earlier, the Group has been negotiating with e-commerce operators about the collaboration for logistics and storage operations. On 16 December 2014, the Company issued 1,091,075,178 ordinary shares to raise funds by way of an open offer of which the proceeds are planned to lease additional long-term and equipping and upgrade logistics and storage facilities in the North Eastern region of the PRC and upgrade existing logistics facilities in Shanghai.

Looking forward, the Group will continue to focus in the FMCG Trading Business and its associated logistics business. The Group owns well-established traditional networks with proven track record for trading consumer products, coupled with the development in online business in recent years, the Group's objective is to evolve itself from a traditional trading company to an integrated company to serve our customers via both offline and online platforms. As one of crucial factors for success, the Group will upgrade and enhance logistics facilities on a continuous basis to cope with the development in the FMCG Trading Business. For the Agri-Products Business, the Group will put more emphasis on the agri-products trading business which had been used to be profitable and showed signs of recovery during the Period after a disappointing performance in the last financial year. Last but not least, the Group will continue to exert every effort to improve financial performance by implementing various cost-saving exercises such as streamlining operations and downsizing unprofitable businesses. The Group believes that the current corporate strategies are effective and on the right track to improve financial performance in near term.

Capital Structure, Liquidity and Financial Resources

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

On 16 December 2014, the Company issued 1,091,075,178 ordinary shares, on the basis of one offer share for every five shares held, to the shareholders of the Company at a subscription price of HK$0.07 per share through an open offer. The net proceeds of approximately HK$75.6 million are intended to expand the FMCG Trading Business and the Logistics Services Business by leasing additional long-term logistics and storage facilities and upgrading existing logistics facilities in order to cater for additional storage and logistics business demand.

At 31 December 2014, the Group had interest-bearing borrowings of approximately HK$51.9 million (30 June 2014: HK$65.6 million) of which over 95% of the borrowings were denominated in Hong Kong dollars and all would mature within one year. All of the Group's bank borrowings were floating-interest bearing and secured by corporate guarantees provided by the Company and certain subsidiaries of the Company and a charge over the Group's held-to-maturity investments in carrying amount of approximately HK$11,115,000 (30 June 2014: HK$26,250,000).

A significant portion of sales, purchases and services income of the Group were either denominated in Renminbi, Hong Kong dollars or US dollars. The Directors consider that the operations of the Group are not exposed to 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 2014.

At 31 December 2014, the Group's current assets amounted to approximately HK$1,297.0 million (30 June 2014: HK$1,218.3 million) and the Group's current liabilities amounted to approximately HK$179.6 million (30 June 2014: HK$200.2 million). The Group's current ratio improved to a level of approximately 7.2 at 31 December 2014 (30 June 2014: 6.1). At 31 December 2014, the Group had total assets of approximately HK$2,950.5 million (30 June 2014: HK$2,930.0 million) and total liabilities of approximately HK$185.9 million (30 June 2014: HK$206.5 million) with a gearing ratio of approximately 1.8% (30 June 2014: 2.2%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets. The Group's gearing ratio remained fairly stable as at 31 December 2014.

NUMBER AND REMUNERATION OF EMPLOYEES

At 31 December 2014, the Group had approximately 720 employees for its operations in China, 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.

On 16 January 2015, the Board resolved to cancel existing 424,735,686 share options of certain existing grantees with their consent, and granted 473,000,000 share options to certain existing grantees and new grantees at the exercise price of HK$0.0914. As at the date of this report, a total of 542,444,270 share options remain unexercised.

OTHER INFORMATION
DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2014, the interests and short positions of each 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 (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"), were as follows:

Long positions

Director	Note	**Capacity of interests**	**Number of shares in interest**	**Approximate percentage of the issued shares**
Mr. Lam Kwok Hing ("Mr. Lam")	1	Interest in controlled corporation and family interest	1,160,926,103	17.73%
Ms. Lee Choi Lin Joecy ("Ms. Lee")	1	Interest in controlled corporation and family interest	1,160,926,103	17.73%
Ms. Hung Sau Yung Rebecca	2	Beneficial owner	32,580,000	0.50%
Ms. Gao Qin Jian	2	Beneficial owner	32,580,000	0.50%
Ms. Chan Yuk Foebe	2	Beneficial owner	20,833,281	0.32%
Mr. John Handley	2	Beneficial owner	23,234,427	0.35%
Ms. Mak Yun Chu	2	Beneficial owner	23,234,427	0.35%
Mr. Poon Yiu Cheung Newman	2	Beneficial owner	23,234,427	0.35%

Notes:

1. 875,337,171 shares are held by Best Global Asia Limited ("Best Global"), a company incorporated in the British Virgin Islands (the "BVI") wholly and beneficially owned by Mr. Lam; and 285,588,932 shares are held by World Invest Holdings Limited, a company incorporated in the BVI wholly and beneficially owned by Ms. Lee. Ms. Lee is the spouse of Mr. Lam. By virtue of the SFO, each of Mr. Lam and Ms. Lee is deemed to be interested in 1,160,926,103 shares.

2. These shares in interest are share options granted by the Company to the respective Directors. Further details of the share options are set out in section headed "Share Option Scheme" of this report.

Save as disclosed above, as at 31 December 2014, 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 corporation (within the meaning of Part XV of the SFO).

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section "Directors' Interests in Securities", at no time during the Period were there rights to acquire benefits by means of the acquisition of shares in, or debentures of the Company or any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or where there such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors, their respective spouses or children under 18 years of age to acquire such rights in the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SECURITIES

As at 31 December 2014, 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:

Long positions

Substantial shareholder	Note	Capacity of interests	Number of shares in interest	Approximate percentage of the issued shares
Best Global	1	Beneficial owner	875,337,171	13.37%
Wu Xiguang	2	Interest in controlled corporation	328,078,942	5.01%
Zhong Yue Holdings Limited	2	Beneficial owner and interest in controlled corporation	328,078,942	5.01%
Zhongyue Group Limited	2	Beneficial owner	246,564,000	3.77%

Notes:

1. These shares were in duplicate the interests held by Mr. Lam and Ms. Lee as stated in section "Directors' Interests in Securities".

2. Wu Xiguang has 100% control of Zhong Yue Holdings Limited, which has 100% control of Zhongyue Group Limited. Wu Xiguang was deemed to be interested in 328,078,942 shares, out of which 81,514,942 shares were beneficially owned by Zhong Yue Holdings Limited and 246,564,000 shares were beneficially owned by Zhongyue Group Limited.

Save as disclosed above, as at 31 December 2014, no person, other than a Director and chief executive of the Company whose interests are set out in the section "Directors' Interests in Securities" above, had any interest or short position in the shares or underlying shares of the Company that was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

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

	Number of share options						
Name or category of participants	At 1 July 2014	Granted during the period	Lapsed during the period	At 31 December 2014	Date of grant of share options	Exercise period of share options	Exercise prices of share options (Note) *HK$*
Executive directors							
Ms. Hung Sau Yung Rebecca	32,580,000*	–	–	32,580,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
Ms. Gao Qin Jian	32,580,000*	–	–	32,580,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
Non-executive director							
Ms. Chan Yuk Foebe	20,833,281*	–	–	20,833,281	15 June 2011	15 June 2011 to 14 June 2016	0.572*
Independent non-executive directors							
Mr. John Handley	6,944,427*	–	–	6,944,427	15 June 2011	15 June 2011 to 14 June 2016	0.572*
	16,290,000*	–	–	16,290,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
Ms. Mak Yun Chu	6,944,427*	–	–	6,944,427	15 June 2011	15 June 2011 to 14 June 2016	0.572*
	16,290,000*	–	–	16,290,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
Mr. Poon Yiu Cheung Newman	6,944,427*	–	–	6,944,427	15 June 2011	15 June 2011 to 14 June 2016	0.572*
	16,290,000*	–	–	16,290,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
Employees (in aggregate)	55,386,000*	–	–	55,386,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
	2,000,000	–	(2,000,000)	–	6 November 2012	6 November 2012 to 5 November 2017	0.205
Other eligible participants (in aggregate)	124,999,686*	–	–	124,999,686	15 June 2011	15 June 2011 to 14 June 2016	0.572*
	13,888,854*#	–	–	13,888,854#	15 June 2011	1 January 2012 to 31 December 2016	0.572*
	13,888,854*##	–	–	13,888,854##	15 June 2011	1 January 2013 to 31 December 2017	0.572*
	130,320,000*	–	–	130,320,000	6 November 2012	6 November 2012 to 5 November 2017	0.189*
	496,179,956	–	(2,000,000)	494,179,956			

* The number of share options and exercise prices have been adjusted to reflect the open offer during the Period.

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.

Note: The closing price of the shares of the Company immediately before the date on which the options were granted on 15 June 2011 was HK$0.76 per share and that of 6 November 2012 was HK$0.18 per share.

At 31 December 2014, the Company had 494,179,956 (31 December 2013: 457,046,000) 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 494,179,956 (31 December 2013: 457,046,000) additional ordinary shares and additional share capital of approximately HK$4,942,000 (31 December 2013: 4,570,000) and share premium of approximately HK$162,930,000 (31 December 2013: HK$163,607,000) (before share issue expenses).

DISCLOSURE OF INFORMATION ON DIRECTORS

During the Period under review, there is no change in information of the Directors since the date of the 2014 annual report of the Company which is required to be disclosed pursuant to Rule13.51B(1) of the Listing Rules.

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 six months ended 31 December 2014.

CORPORATE GOVERNANCE

The Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules and complied with all the applicable code provisions of the CG Code throughout the six months ended 31 December 2014, except with deviations from code provisions A.2.1 and A.6.7.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Since March 2012, the Board has appointed Mr. Lam Kwok Hing ("Mr. Lam") as Chief Executive Officer in view of Mr. Lam's in-depth experience in the industry and the Group's overall operations. As a result of the appointment, the roles of Chairman and Chief Executive Officer are performed by Mr. Lam. Mr. Lam is the co-founder of the Group and has over 25 years' experience in the consumer products industry. In the context of the challenging business environment, the Board believes that a consistent leadership, effective and efficient planning and implementation of business decisions and strategies are of utmost importance. By virtue of Mr. Lam's in-depth experience and understanding of the Group, therefore, vesting the roles of Chairman and Chief Executive Officer on Mr. Lam can generate benefits for the Group and shareholders as a whole.

Under the code provision A.6.7 of the CG Code, non-executive directors, including independent non-executive directors, among other things, should attend general meetings and develop a balanced understanding of the views of shareholders. All Directors, except Ms. Hung Sau Yung Rebecca ("Ms. Hung"), the Executive Director, Ms. Chan Yuk Foebe ("Ms. Chan"), the Non-executive Director, and Ms. Mak Yun Chu ("Ms. Mak"), the Independent Non-executive Director, attended the annual general meeting of the Company held on 23 December 2014 (the "AGM") to address to queries of shareholders. Ms. Hung and Ms. Mak were unable to attend the AGM as both of them were not in Hong Kong at that time. Ms. Chan was unable to attend the AGM due to other business engagements. However, all of Ms. Hung, Ms. Chan and Ms. Mak were subsequently reported on the proceedings and views of shareholders in the AGM. As such, the Board considers that a balanced understanding of the views of shareholders among Directors was ensured.

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 six months ended 31 December 2014 and they all confirmed that they had fully complied with the required standard set out in the Model Code.

REVIEW OF INTERIM REPORT

The interim report for the six months ended 31 December 2014 has been reviewed by the Audit Committee of the Company, but not by the Company's external auditors.

On behalf of the Board
Lam Kwok Hing
Chairman

Hong Kong, 27 February 2015