



CHAIRMAN'S STATEMENT

I am pleased to present the first report and the audited financial statements of Heng Tai Consumables Group Limited (the "Company") together with its subsidiaries (the "Group") for the year ended 30 June 2002 and the management discussion and analysis.

REVIEW OF OPERATIONS AND FINANCIAL PERFORMANCES

The Group is principally engaged in the distribution of packaged food, beverages and household consumable products to the market of the PRC. Products distributed by the Group are sourced from overseas and sold to wholesalers in the PRC. These products are then sold to retailers, hotels and food manufacturers. The Group also operates a factory for the production of non-carbonated beverages in Tianjin, the PRC. Last year was an exciting and challenging year for the Group, with our successful public listing on the Main Board of the Stock Exchange on 3 December 2001 and the continued growth of our core distribution business.

The Group's turnover had increased to approximately HK\$495 million for the year ended 30 June 2002 from approximately HK\$406 million for the year ended 30 June 2001, representing an increase of approximately HK\$89 million or 22%. The increase in turnover was mainly attributable to the growing economy of the PRC and the focused effort of the Group in its core distribution business.

Net profit from operating activities attributable to shareholders increased to approximately HK\$38.4 million for the year from approximately HK\$31.5 million for the year ended 30 June 2001, representing a growth of approximately 22%. The gross profit margin has increased slightly as a result of the introduction of products of higher gross profit margin.

The products distributed by the Group included packaged food, beverages and household consumable products, accounting for 72%, 12% and 15%, respectively of the total turnover of the Group for the year ended 30 June 2002. The categories of packaged food include mainly chocolate, candies, milk powder, biscuits and condiments. Beverages include mainly beer and soft drinks and the household consumable products are mainly batteries and zipper bags. These products were mainly sourced from the Southeast Asia, the United States of America, Europe, Australia and New Zealand.

During the year under review, the Group has been concentrating its effort on expanding its product range and obtaining more distribution rights. During the year, the Group has obtained an exclusive distribution right for the full range of Mitsubishi batteries to be distributed in the PRC. The Group had also expanded into the potentially lucrative fresh fruit market in the PRC. Recently, the Group has signed contracts with four New Zealand fruit

growers to act as their representative in the PRC for their fruit products. Shipments of the fruit produce of these growers had already started since July 2002 and the receptions from the customers were encouraging. Negotiations were also underway with suppliers of various packaged food suppliers from South Africa, Thailand and South Korea for exclusive distributorship of their products in the PRC. The Group also planned to enter the Hong Kong market again and the Group has engaged an experienced consultant to explore the potential of this market.

The Group has been seeking new business opportunities, in particular in New Zealand, by organising trade functions and exhibitions. Events that were held during the year included a New Zealand Consumer Products Expo in Shanghai, which was jointly held by the Group and the New Zealand Trade Commission, and several food festivals in Shanghai featuring Korean and Thailand packaged food. During the year, management of the Group travelled to New Zealand and South Africa to explore potential business opportunities.

SEGMENT INFORMATION

During the year, over 90% of the turnover of the Group was made to the customers in the PRC and over 90% of the turnover was attributable to the distribution of packaged food, beverages and household consumable products.

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations with internally generated resources and banking facilities granted by its principal bankers in Hong Kong.

At 30 June 2002, the Group had bank borrowings of approximately HK\$32.4 million (30 June 2001: HK\$10.4 million) of which over 95% of the bank borrowings were denominated in Hong Kong dollars with maturity within one year. At 30 June 2002, the banking facilities of the Group were secured by: (i) corporate guarantees given by the Company and certain subsidiaries of the Company; and (ii) fixed deposits owned by the Group.

As a significant portion of the sales of the Group and purchases are denominated in Hong Kong dollars and US dollars, the Directors consider that the Group has no significant exposure to foreign exchange fluctuations in view of the stability of the exchange rates between Hong Kong dollars and US dollars. During the year, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 June 2002.

At 30 June 2002, the Group had current assets of approximately HK\$165.2 million (30 June 2001: HK\$83.8 million) and current liabilities of HK\$80.5 million (30 June 2001: HK\$55.1 million). The current ratio of the Group had improved to approximately 2.1 as at 30 June 2002 from approximately 1.5 as at 30 June 2001. The Group had total assets of approximately HK\$183.8 million (30 June 2001: HK\$95.8 million) and total liabilities of approximately HK\$80.5 million (30 June 2001: HK\$55.1 million), representing a gearing ratio of approximately 43.8% as at 30 June 2002 as compared with approximately 57.5% as at 30 June 2001. The improvements in current ratio and gearing ratio were mainly attributable to net profit generated during the year and the funds raised from the public listing of the shares of the Company.

STRATEGIES AND PROSPECTS

With the entrance of the PRC into the World Trade Organisation, the Directors believe that this will greatly benefit the Group's business. As more and more overseas suppliers will seek to enter the lucrative PRC general consumer market, the Group is well-positioned by providing a platform for these overseas suppliers with our extensive experience, good connections and a wide distribution network in the general consumer products market in the PRC. To capitalise on this opportunity, the Group plans to implement the following strategies:

- further expansion of the product ranges: the Group will continue to aggressively acquire new products from the world for distribution in the PRC;
- expansion of distribution networks: the Group will continue to set up representative offices in the PRC and other countries in order to enhance our sales network. A representative office has already been set up in New Zealand to maintain closer contact with our fruit growers partners;
- development of the Hong Kong market: the Group will investigate the potential of distributing our products in Hong Kong.

With the growing affluence of the PRC customers, the Group envisages a steady and growing market for the Group in the foreseeable future.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2002, the Group had 90 staff and workers for its operations in Hong Kong and the PRC. The Group's employees are remunerated in accordance with their work performance and experience. The Group has operated a defined Mandatory Provident Fund Scheme for its staff in Hong Kong and a retirement benefit scheme for its staff in the PRC. The Group has adopted a share option scheme of which the Board may, at its discretion, grant options to participants of the share option scheme. During the year under review, the Company granted share options to certain non-executive Directors of the Company to acquire a total of 1,500,000 ordinary shares of the Company at an exercise price of HK\$0.335 per share. The share options are exercisable from 1 May 2002 to 30 April 2012. At the date of this report, a total of 1,000,000 share options remain unexercised.

DIVIDEND

The Board of Directors recommends the payment of a final dividend of HK1 cent per ordinary share for the year ended 30 June 2002. Subject to the approval of the Company's shareholders at the forthcoming annual general meeting, the final dividend will be payable on 4 December 2002.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 3 December 2001, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 25 October 2002 to 31 October 2002, both dates inclusive, during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by relevant share certificates must be lodged with the Company's branch share registrar by no later than 4:00 p.m. on 24 October 2002.

CODE OF BEST PRACTICE

In the opinion of the directors, the Company complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, since the listing of the Company's shares on the Stock Exchange on 3 December 2001.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the two independent non-executive directors of the Company.

APPRECIATION

I would like to take this opportunity to express my appreciation to the dedication of the management and staff and to all shareholders and business partners for their continuing support to the Group.

On behalf of the Board

Lam Kwok Hing

Chairman

Hong Kong, 20 September 2002