

On behalf of the board of directors (the "Board" or "Directors") of Heng Tai Consumables Group Limited (the "Company"), I am pleased to present to the shareholders the annual report of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2005.

FINANCIAL PERFORMANCE

During the year under review, the Group demonstrated another successful year with its turnover grew by 29% to HK\$920 million and net profit attributable to shareholders surged by 44% to HK\$106 million when compared with the preceding financial year. Earnings per share were 13.3 HK cents, compared with 10.1 HK cents in 2004, representing an increase of 32%.

DIVIDEND

The Board has proposed a final dividend of 1 HK cent per share in respect of the year ended 30 June 2005. Together with the interim dividend of 0.5 HK cent per share, the total dividend amounted to 1.5 HK cents per share for the year ended 30 June 2005.

BUSINESS MODEL REVIEW

China is still the world's most exciting market. Continuous strong economic development has created a growing consumer class with strong spending power, which in turn fuelled the impressive growth in consumer market.

During the year under review, the Group has consistently performed as a fast growing one-stop services platform provider conducting distribution, brand-building and value-added functions for the fast moving consumable goods and fresh produce industry. The Group's business model and development plans have proven to be a success in capitalizing the economic growth in the People's Republic of China (the "PRC"). Consecutive annual double-digit growth in turnover and net profit attributable to shareholders since the Group's first public annual result announcement in 2002 has been achieved while margin improvement has also been attained. Net assets have grown from HK\$103 million as at 2002's year-end date to HK\$493 million as at 2005's.

In addition to strengthening its core distribution business, the Group has also been equipping itself by diversifying from a trading mentality to a service-oriented conglomerate through certain well-defined projects. Current investments in the infrastructures of logistics business will turn into growth drivers to enable the Group to realize top-line growth, margin and bottom-line improvement in the years ahead.

CHAIRMAN'S STATEMENT

DEVELOPMENT STRATEGIES TO SUSTAIN GROWTH

The coming year will evidence a redoubling of management effort to ensure sustainable growth:

Product enrichment and refinement will be furthered through allocating carefully budgeted resources to (i) establish procurement offices in Germany, Korea, Thailand and Australia to strengthen sourcing network; (ii) recruit high calibre procurement workforce who are critical in refining product selection process and ensuring reliable source of premium products featuring quality and uniqueness; (iii) carry out intensive market research to tap on market trend and consumer favour; and (iv) form strategic alliance with governmental bodies, such as New Zealand Government & Enterprise to uplift recognition by overseas suppliers.

Clientele expansion will be achieved through strengthening of geographical market presence, enrichment of product range and provision of value-added services, such as carrying out intensive market research, formulating market strategy and executing marketing plans and promotions. Geographical market presence will be strengthened through establishing liaison offices in certain second tier cities such as Changchun, Chengdu, Ningbo, Zhongshan and Zhuhai of the PRC.

Product diversification and extension of service scope will be realised through the cold-chain infrastructure and facilities in Shanghai and Zhongshan logistics centres. A wide variety of frozen meat and seafood and dairy products will be added to the Group's product supply list and distributed to the PRC's market through the Group's logistics centre in Shanghai. The frozen and chilled products processed by Shanghai logistics centres are all imported and premium-graded and under stringent hygiene and temperature-controlled HACCP cold-chain standard. Shanghai logistics centre will tap on middle and high-class consumers market. On-premise customers, hotels and restaurants in Shanghai will be the first customer groups to which the frozen and chilled products are targeted to supply. In its initial stage after commencement of operations, Shanghai logistics centre will also provide frozen and chilled products logistics services to third parties until internal utilization gradually increases to its full capacity. The provision of logistics services to third parties will enable the Group to recover certain fixed operating costs without wasting the idle capacity in its initial period of operations. Utilization of the cold storage facilities is expected to keep soaring to its peak within three years' timeframe in the run-up to the 2008 Beijing Olympics.

Zhongshan logistics centre is another project committed by the Group to widen its scope of service and implement product diversification. The centre provides a modern trade platform where fresh produce will be traded, processed and repacked by overseas and domestic growers before being distributed to ultimate customers. The centre is equipped with advance information technology, such as instant price quote computerised system and internationally recognized cold-chain standard facilities and strategically located with transportation network proximity to different parts of the PRC. The centre will complement exiting inadequate

and immature trade mode to accelerate market size expansion of fresh produce in the PRC. The centre will become the first mover to operate a nation-wide network of cold-chain distribution and logistics platform for fresh produce in the PRC.

In addition to the continuous refinement to our business model to realise top-line growth, extra management efforts will also be spent to achieve margin improvement. Investments in the above-mentioned logistics services in frozen and chilled products and fresh produce will uplift the Group's overall gross profit margin with their higher margin contribution relative to the Group's existing distribution business in the PRC market. Brand building will be another domain where margin improvement will be secured. Currently, "Golden Delight" is used in certain categories of the packaged food, beverages and fresh fruit distributed in the PRC consumer market and "House of Delicacy" in certain nourishing products distributed in Hong Kong consumer market. Appropriate resources will be continually invested in brand building to drive deeper profitability.

PROSPECT

In the years ahead, we will continue to enhance our business model and consistently pursue our mission to become a leading integrated provider of distribution, logistic services and brand building in the fast moving consumable goods and cold-chain products industry and continuously create shareholder value with acute customer compliance and professional management through delivering the value adds.

APPRECIATION

The development and success of the Group would not be possible without the commitment and vision of my fellow management team. I would like to take this opportunity to express my appreciation to them and our staff for their dedication to the Group's success during the year. I also wish to thank for the full support and trust from our shareholders and business partners in our business expansion strategy.

On behalf of the Board

Lam Kwok Hing

Chairman

Hong Kong, 18 October 2005