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 2006.

## FINANCIAL PERFORMANCE

During the year under review, the Group demonstrated another successful year with its turnover grew by approximately 32% to HK$1,217 million and net profit attributable to shareholders surged by approximately 16.3% to HK$122.3 million when compared with the preceding financial year. Operating profit increased to approximately HK$128.8 million from HK$93.8 million and operating margin improved to approximately 10.6% from 10.2% when compared with the preceding financial year.

Share of profits of a combined result of associated companies decreased to HK$6 million from HK$14 million when compared with the preceding financial year. The decrease was mainly attributable to the decrease in share of net profit by HK$2 million from the Group's investment in a listed company in Hong Kong, Daqing Petroleum & Chemical Group Limited ("Daqing") and increase in share of net loss by HK$6 million from Zhongshan logistic centre.

Though the Group managed an admirable growth in turnover and operating profit, such increase was somewhat levelled off by the increase in finance costs and decrease in share of results of associated companies during the year under review. Net profit attributable to shareholders reached to approximately HK$122.3 million, representing an increase of approximately 16.3% compared to HK$105.1 million in the preceding financial year.

Due to the enlarged share capital base from issue of new shares for top-up placement and open offer during the year under review, earnings per share were decreased to 11.5 HK cents, compared with 13.1 HK cents in the preceding financial year. However, with the commencement of operations of Shanghai logistics centre during the year under review and the commencement of operations of Zhongshan logistics centre in November 2006, net profit attributable to shareholders and thus earnings per share are expected to improve in the coming year.

## DIVIDEND

The Board does not recommend the payment of the final dividend in respect of the year ended 30 June 2006. Though the Group maintained a strong financial position throughout the year under review, the Board decided to maintain an adequate and safe level of cash reserves to prepare for the working capital requirements for our newly completed logistics projects in Shanghai and Zhongshan of the PRC and for the investment of the proposed logistics centre in Dalian of the PRC.

## BUSINESS MODEL REVIEW

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, cosmetics, cold chain products and fresh produce industry. The Group's business model and development plans have proven to be a great 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 consistently attained. Net assets have grown from HK$103 million as at 2002's year-end date to HK$1,139 million as at 2006's.

In addition to reinforcing its core distribution business, the Group has also successfully diversified from a distribution mentality to a service-oriented conglomerate to broaden its scope of services during the year under review.

## DEVELOPMENT STRATEGIES TO SUSTAIN GROWTH

During the year under review, the Group have achieved admirable increase in turnover and operating profit. Such growth has been achieved through our carefully planned business development strategies in the past years and is now gradually realised and reflected in our top-line growth and bottom-line improvement.

During the year under review, the Group had continually implemented its product enrichment and refinement process. A procurement office had been established in Australia to strengthen the sourcing network. Other procurement offices in Germany, Korea, Thailand and Holland would be established in the coming years. In addition, the Group has established a PRC entity to perform the marketing and product researches on the PRC consumer market. Such researches would provide timely and valuable information in our product enrichment and refinement process.

Shanghai logistics centre has commenced its operations in October 2005 and is now fully functional. Its cold-chain operations have progressively soared as planned and it contributed approximately 9% of the Group's turnover during the nine months ended 30 June 2006 since commencement of operations. With its ever-expanding operations and client base, Shanghai logistics centre would be able to further uplift its contribution to the Group's turnover and net profit in the coming year.

Zhongshan logistics centre is another growth-driver 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 will become the first mover to operate a nation-wide network of cold-chain distribution and logistics platform for fresh produce in the PRC. Zhongshan logistics centre would have its grand opening in early November 2006.

In August 2006, the Group completed the acquisition of 100% equity interest of Sunning State Group Limited and its subsidiaries ("Sunning Group"). Sunning Group is principally engaged in the wholesaling and distribution of overseas and domestic brand name cosmetics and skincare products in the PRC. Since the completion of the first acquisition of 70% equity interest of Sunning Group in April 2006, the Group had been able to carry out the integration of its existing distribution business in toiletry products to the cosmetics business of Sunning Group. The acquisition of Sunning Group would enable the Group to capture the ample potentials offered by the steadily growing cosmetics, skincare and toiletries markets in the PRC.

In addition to the continuous refinement to our business model to realise top-line growth, extra management efforts had also be spent to achieve margin improvement during the year under review. Investments in our Shanghai logistics centre for cold chain products had uplifted the Group's overall gross profit margin. Further, sales of nourishing and exclusively licensed branded products and cosmetics products had also enabled the Group to uplift the Group's overall gross profit margin. Further developments in these products would enable the Group to further improve its profit margin in the coming year.

## 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 through compounding our growth.

## 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, 20 October 2006