# 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)

# ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 30 JUNE 2013

The board (the "Board") of directors (the "Directors") of Heng Tai Consumables Group Limited (the "Company") is pleased to announce the audited consolidated final results of the Company and its subsidiaries (collectively the "Group") for the year ended 30 June 2013 together with the comparative figures for the previous year as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

*For the year ended 30 June 2013*

| | *Note* | **2013** ***HK$'000*** | 2012 *HK$'000* |
|---|---|---|---|
| **Turnover** | 2 | **1,902,075** | 2,027,857 |
| Cost of sales | | **(1,692,897)** | (1,679,775) |
| **Gross profit** | | **209,178** | 348,082 |
| Changes in fair value of biological assets less costs to sell | | **(17,685)** | (17,015) |
| Other income | | **17,457** | 12,504 |
| Selling and distribution expenses | | **(172,244)** | (175,819) |
| Administrative expenses | | **(213,328)** | (170,914) |
| Other operating expenses | | **(40,427)** | (48,551) |
| **Loss from operations** | | **(217,049)** | (51,713) |
| Finance costs | 4 | **(950)** | (2,313) |
| **Loss before tax** | | **(217,999)** | (54,026) |
| Income tax expense | 5 | **(700)** | (3,253) |
| **Loss for the year** | 6 | **(218,699)** | (57,279) |
| **Attributable to:** | | | |
| Owners of the Company | | **(179,185)** | (30,012) |
| Non-controlling interests | | **(39,514)** | (27,267) |
| | | **(218,699)** | (57,279) |
| **Loss per share** | 8 | | |
| Basic | | **HK(3.3 cents)** | HK(0.6 cent) |
| Diluted | | **N/A** | N/A |

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 30 June 2013*

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss for the year** | **(218,699)** | (57,279) |
| **Other comprehensive income:** | | |
| *Items that may be reclassified to profit or loss:* | | |
| Exchange differences on translating foreign operations | **7,486** | 28,785 |
| Fair value change on available-for-sale financial assets | **76,701** | (7,253) |
| Impairment loss on available-for-sale financial assets reclassified to profit or loss | **–** | 7,253 |
| **Other comprehensive income for the year, net of tax** | **84,187** | 28,785 |
| **Total comprehensive income for the year** | **(134,512)** | (28,494) |
| **Attributable to:** | | |
| Owners of the Company | **(94,998)** | (1,227) |
| Non-controlling interests | **(39,514)** | (27,267) |
| | **(134,512)** | (28,494) |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*As at 30 June 2013*

| | Note | **2013** **HK$'000** | 2012 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | **911,652** | 897,123 |
| Prepaid land lease payments | | **409,143** | 469,179 |
| Construction in progress | | **164,215** | 134,709 |
| Goodwill | | **277,735** | 282,525 |
| Biological assets | | **52,602** | 52,469 |
| Other intangible assets | | **63,450** | 100,732 |
| Other assets | | **123,191** | 141,092 |
| Investment in a club membership | | **108** | 108 |
| Investments | | **127,616** | 1,891 |
| | | **2,129,712** | 2,079,828 |
| **Current assets** | | | |
| Biological assets | | **210** | – |
| Inventories | | **200,607** | 219,443 |
| Trade receivables | 9 | **422,194** | 435,896 |
| Prepayments, deposits and other receivables | | **331,353** | 303,842 |
| Investments | | **25,258** | 243 |
| Bank and cash balances | | **545,156** | 725,642 |
| | | **1,524,778** | 1,685,066 |
| **TOTAL ASSETS** | | **3,654,490** | 3,764,894 |
| **Capital and reserves** | | | |
| Share capital | | **54,554** | 54,554 |
| Reserves | | **3,375,860** | 3,535,877 |
| **Equity attributable to owners of the Company** | | **3,430,414** | 3,590,431 |
| Non-controlling interests | | **697** | (42,883) |
| **Total equity** | | **3,431,111** | 3,547,548 |
| **Non-current liabilities** | | | |
| Finance lease payables | | **22** | 263 |
| Deferred tax liabilities | | **3,711** | 3,271 |
| | | **3,733** | 3,534 |
| **Current liabilities** | | | |
| Trade payables | 10 | **113,072** | 98,454 |
| Accruals and other payables | | **14,578** | 10,928 |
| Borrowings | | **87,844** | 82,679 |
| Finance lease payables | | **241** | 552 |
| Current tax liabilities | | **3,911** | 21,199 |
| | | **219,646** | 213,812 |
| **Total liabilities** | | **223,379** | 217,346 |
| **TOTAL EQUITY AND LIABILITIES** | | **3,654,490** | 3,764,894 |
| **Net current assets** | | **1,305,132** | 1,471,254 |
| **Total assets less current liabilities** | | **3,434,844** | 3,551,082 |

## NOTES TO THE FINANCIAL STATEMENTS

*For the year ended 30 June 2013*

### 1. BASIS OF PREPARATION AND ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of buildings and investments which are carried at their fair values and the biological assets which are carried at their fair value less costs to sell.

In the current year, the Group has adopted all the new and revised HKFRSs that are relevant to its operations and effective for its accounting year beginning on 1 July 2012. 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 and amounts reported for the current year and prior years except as stated below.

**Amendments to HKAS 1 "Presentation of Financial Statements"**

Amendments to HKAS 1 titled "Presentation of Items of Other Comprehensive Income" introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

The Group has not applied other new HKFRSs that have been issued but are not yet effective. The Group has already 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.

## 2. TURNOVER

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sales of consumer goods | **748,112** | 815,456 |
| Sales of agri-products | **1,028,417** | 1,029,681 |
| Logistics services income | **125,546** | 182,720 |
| | **1,902,075** | 2,027,857 |

## 3. SEGMENT INFORMATION

The Group has three reporting segments as follows:

(i) The sale and trading of fast moving consumer goods 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").

The Group's reportable segments are strategic business units that offer different products and services. They are managed separately because each business unit requires different technology and marketing strategies.

The chief operating decision makers have been identified as the Board. The Board reviews the Group's internal reporting in order to assess performance and allocate resources and determine the reporting segments.

Segment profits do not include gain or loss from investments, certain finance costs and unallocated corporate expenses. Segment assets do not include investments, certain prepayments, deposits and other receivables and certain bank and cash balances. Segment non-current assets do not include investments, investment in a club membership and certain fixed assets. Segment liabilities do not include borrowings, certain finance lease payables and certain accruals and other payables.

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties, i.e. at current market prices.

Information about reportable segment (loss)/profit, assets and liabilities:

| | FMCG Trading Business *HK$'000* | Agri-Products Business *HK$'000* | Logistics Services Business *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Year ended 30 June 2013** | | | | |
| Revenue from external customers | **748,112** | **1,028,417** | **125,546** | **1,902,075** |
| Segment loss | **(20,886)** | **(106,290)** | **(7,039)** | **(134,215)** |
| Depreciation and amortisation | **23,988** | **82,438** | **25,393** | **131,819** |
| Other material non-cash items: | | | | |
| Fair value loss on biological assets less costs to sell | **–** | **17,685** | **–** | **17,685** |
| Additions to segment non-current assets | **21,430** | **143,261** | **22,858** | **187,549** |
| **As at 30 June 2013** | | | | |
| Segment assets | **1,168,488** | **1,722,867** | **605,141** | **3,496,496** |
| Segment liabilities | **95,175** | **77,782** | **12,553** | **185,510** |

| | FMCG Trading Business *HK$'000* | Agri-Products Business *HK$'000* | Logistics Services Business *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| **Year ended 30 June 2012** | | | | |
| Revenue from external customers | 815,456 | 1,029,681 | 182,720 | 2,027,857 |
| Segment profit | 5,037 | 3,719 | 33,581 | 42,337 |
| Depreciation and amortisation | 30,502 | 55,302 | 35,852 | 121,656 |
| Other material non-cash items: | | | | |
| Fair value loss on biological assets less costs to sell | – | 17,015 | – | 17,015 |
| Additions to segment non-current assets | 16,464 | 247,316 | 70,273 | 334,053 |
| **As at 30 June 2012** | | | | |
| Segment assets | 1,061,614 | 1,769,350 | 659,712 | 3,490,676 |
| Segment liabilities | 112,555 | 63,564 | 5,607 | 181,726 |

**Reconciliations of reportable segment revenue, (loss)/profit, assets and liabilities:**

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Total revenue of reportable segments | **1,902,075** | 2,027,857 |
| **(Loss)/Profit** | | |
| Total (loss)/profit of reportable segments | **(134,215)** | 42,337 |
| Unallocated amounts: | | |
| Impairment loss on available-for-sale financial assets | **–** | (7,253) |
| Revaluation loss on buildings | **–** | (26,826) |
| Other corporate expenses | **(84,484)** | (65,537) |
| Consolidated loss for the year | **(218,699)** | (57,279) |
| **Assets** | | |
| Total assets of reportable segments | **3,496,496** | 3,490,676 |
| Unallocated amounts: | | |
| Investments | **152,874** | 2,134 |
| Other corporate assets | **5,120** | 272,084 |
| Consolidated total assets | **3,654,490** | 3,764,894 |
| **Liabilities** | | |
| Total liabilities of reportable segments | **185,510** | 181,726 |
| Unallocated amounts: | | |
| Other corporate liabilities | **37,869** | 35,620 |
| Consolidated total liabilities | **223,379** | 217,346 |

**Geographical information:**

For the years ended 30 June 2012 and 2013, over 95% of the Group's revenue, results, assets and liabilities are derived from customers and operations based in the PRC and accordingly, no further analysis of the Group's geographical segments is disclosed.

**Revenue from major customer:**

For the years ended 30 June 2012 and 2013, the turnover from the Group's largest customer accounted for less than 10% of the Group's total turnover and accordingly, no major customer information is presented.

## 4. FINANCE COSTS

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Interest on borrowings | **925** | 2,268 |
| Finance lease charges | **25** | 45 |
| | **950** | 2,313 |

## 5. INCOME TAX EXPENSE

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| Provision for the year | **69** | 20 |
| Current tax – Overseas | | |
| Provision for the year | **237** | 2,843 |
| Deferred tax | **394** | 390 |
| | **700** | 3,253 |

Hong Kong Profits Tax has been provided at a rate of 16.5% on the estimated assessable profit for the year.

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% (2012: 9% to 12%) on the estimated assessable profits for the year with the first two hundred thousand patacas assessable profits being free from tax. However, two subsidiaries operating in Macau during the year 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 rates of 25% (2012: 25%), based on existing legislation, interpretation and practices in respect thereof.

The reconciliation of the income tax expenses and the product of profit/(loss) before tax multiplied by the statutory tax rate of the countries in which the Company and its subsidiaries are domiciled to the tax expenses at the effective tax rates are as follows:

| | **2013** | | | | 2012 | | | |
|---|---|---|---|---|---|---|---|---|
| | **Macau** | **Hong Kong** | **The PRC** | **Total** | Macau | Hong Kong | The PRC | Total |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Profit/(loss) before tax | **114,293** | **(34,678)** | **(297,614)** | **(217,999)** | 240,186 | (38,714) | (255,498) | (54,026) |
| Applicable income tax rate | **12.00%** | **16.50%** | **25.00%** | | 12.00% | 16.50% | 25.00% | |
| Tax at the applicable income tax rate | **13,715** | **(5,722)** | **(74,403)** | **(66,410)** | 28,822 | (6,388) | (63,875) | (41,441) |
| Tax effect of income not taxable | **–** | **(331)** | **(3,627)** | **(3,958)** | – | (132) | (2,944) | (3,076) |
| Tax effect of expenses not deductible | **–** | **5,925** | **74,068** | **79,993** | – | 6,127 | 57,978 | 64,105 |
| Profits exempted from the Macau Complementary Tax | **(13,715)** | **–** | **–** | **(13,715)** | (28,822) | – | – | (28,822) |
| Tax effect of unused tax losses not recognised | **–** | **192** | **4,951** | **5,143** | – | 429 | 5,018 | 5,447 |
| Tax effect of utilisation of tax losses not previously recognised | **–** | **(6)** | **–** | **(6)** | – | (19) | – | (19) |
| Tax effect of unrecognised temporary difference | **–** | **11** | **(358)** | **(347)** | – | 3 | 7,056 | 7,059 |
| Income tax expense | **–** | **69** | **631** | **700** | – | 20 | 3,233 | 3,253 |

## 6. LOSS FOR THE YEAR

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

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amortisation of other intangible assets, net of amount capitalised | **36,886** | 43,399 |
| Auditors' remuneration | | |
| Statutory audit | **1,500** | 1,392 |
| Non-audit services | **–** | 5 |
| | **1,500** | 1,397 |
| Cost of inventories sold | **1,594,283** | 1,592,679 |
| Depreciation, net of amount capitalised | **90,024** | 66,759 |
| Gain on disposal of available-for-sale financial assets | **(226)** | – |
| Fair value (gain)/loss on financial assets at fair value through profit or loss, net | **(46)** | 181 |
| (Gain)/loss on fixed assets disposals/written off, net | **(56)** | 99 |
| Trade receivables written off | **3,671** | 2,660 |
| Allowance for other receivables | **2,795** | 5,448 |
| Allowance for inventories | **29,030** | – |
| Impairment loss on available-for-sale financial assets | **–** | 7,253 |
| Impairment loss on other intangible assets | **–** | 6,364 |
| Impairment loss on goodwill | **4,790** | – |
| Operating lease charges in respect of land and buildings, net of amount capitalised | **109,354** | 100,831 |
| Other equity-settled share-based payments | **9,140** | 551 |
| Rental income# | **(4,286)** | (11,345) |
| Revaluation loss on buildings | **–** | 26,826 |
| Staff costs (excluding directors' emoluments) | | |
| Staff salaries, bonus and allowances | **31,404** | 23,903 |
| Equity-settled share-based payments | **4,774** | 2,757 |
| Retirement benefits scheme contributions | **624** | 608 |
| | **36,802** | 27,268 |

# Included in logistics services income in note 2

## 7. DIVIDENDS

The Board does not recommend the payment of final dividend (2012: Nil) in respect of the year ended 30 June 2013.

## 8. LOSS PER SHARE

### Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$179,185,000 (2012: HK$30,012,000) and the weighted average number of ordinary shares of 5,455,375,891 (2012: 4,738,853,370) in issue during the year.

### Diluted earnings per share

No diluted earnings per share are presented as the effect of all potential ordinary shares is anti-dilutive for the years ended 30 June 2013 and 2012.

## 9. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days (2012: 30 to 120 days).

The aging analysis of trade receivables, based on the date of recognition of the sale, is as follows:

| | **2013** | 2012 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 1 – 30 days | **146,577** | 124,119 |
| 31 – 60 days | **98,204** | 121,359 |
| 61 – 90 days | **107,310** | 130,593 |
| Over 90 days | **70,103** | 59,825 |
| | **422,194** | 435,896 |

At 30 June 2013, trade receivables of approximately HK$2,264,000 (2012: HK$38,699,000) were past due but not impaired. The Group does not hold any collateral over these balances. These relate to a number of independent customers for whom there is no recent history of default. The amounts had been substantially settled subsequent to the reporting period. The aging analysis of these trade receivables is as follows:

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Up to 90 days | **713** | 15,501 |
| Over 90 days | **1,551** | 23,198 |
| | **2,264** | 38,699 |

## 10. TRADE PAYABLES

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

| | 2013 | 2012 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 1 – 30 days | **96,678** | 96,999 |
| 31 – 60 days | **15,889** | 1,046 |
| 61 – 90 days | **54** | 132 |
| Over 90 days | **451** | 277 |
| | **113,072** | 98,454 |

## MANAGEMENT DISCUSSION AND ANALYSIS

### Overview

During the financial year 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.

Following a tough year in FY2012, the operating environment remained challenging during the financial year under review. The ongoing uncertainty over the global financial markets and the economic slowdown in China had unavoidably dampened consumer confidence. China's GDP growth continued to drop in the third quarter of 2012 to approximately 7.4% from a year earlier, the slowest pace in three years and the subsequent quarters remained uninspiring to fall within the range of 7.5% to 7.9%. Simultaneously, the rising cost inflation and the fierce competition from the local brands further impeded the Group's financial performance and squeezed the gross profit margin.

The above macroeconomic turbulence reduced customers' demand and revenue of the Group to certain extent. Furthermore, the Group had also implemented a more stringent credit control policy to customers in view of the overall difficult operating environment. The Group had reduced or even stopped taking orders from customers with gradually slow repayment pattern and weak credibility to ensure collectability. This measure inevitably affected the turnover but was necessary to lower risk during the period of great uncertainty. To counteract the above headwinds, the Group had adopted various strategies to maintain competitiveness such as strengthening sales promotion and expanding sales network.

Notwithstanding the challenging operating environment, the Group continued to reinforce each existing business by scrutinising the market conditions and grasping every opportunity that was fruitful to the Group's long term development. The FMCG Trading Business contributed approximately 39% of total revenue (FY2012: 40%) and remained as the core business of the Group. The Group will focus on strengthening this business and uphold the principle of importing high quality products to China so as to maintain a leading position when the China's consumer market restores robust growth. The Agri-Products Business was the largest contributor during the year and accounted for approximately 54% of the Group's revenue (FY2012: 51%) thanks to the increased contribution from the upstream farming business. Although the market demand was weak, the agri-products trading business was the most important income stream during the year. The Logistics Services Business contributed approximately 7% of total revenue (FY2012: 9%) and strategically supports the other two businesses. The Group has been seeking expansion opportunities through acquisition and collaboration with local governments as well as enhancing operating efficiency of the existing logistics facilities in order to provide cutting-edge services to customers and strongest supports to the other two businesses.

**Financial Performance**

During the financial year under review, the Group generated total revenue of approximately HK$1,902.1 million as compared to HK$2,027.9 million for FY2012, representing a fall of approximately 6.2%. The decline in revenue was mainly attributable to the decline in revenue of the FMCG Trading Business by approximately 8.3% as a result of (i) decrease in customers' demand due to persistent economic uncertainties in global and domestic markets and severe competition from local brands; and (ii) a more stringent credit review assessment adopted by the Group to reduce or even stopped taking orders from customers with gradually slow repayment pattern and weak credibility to ensure collectability. The Agri-Products Business declined by approximately 0.1% which was a mixture of the decrease in the agri-products trading business being offset by the increase in the upstream farming business. On account of the decline in the business volume of the FMCG Trading Business and the agri-products trading business, the contribution from the Logistics Services Business dropped to approximately 7% of overall revenues for the year, compared to approximately 9% in last year.

Gross profit margin decreased from approximately 17.2% to 11.0% compared to FY2012. The decline in gross profit margin was mainly attributable to the declining gross profit margins of the FMCG Trading Business and the Agri-Products Business as well as an unfavourable product mix during the year. The Group had reduced the selling price of some products to attract more sales orders from good quality customers in view of the challenging operating environment. On the other hand, the rising labour and agricultural raw materials costs of the upstream farming business, coupled with unfavourable product mix such as decline in sales of frozen and cosmetics products and revenue from logistics services which are of higher gross profit margin, also adversely affected the gross profit margin.

Selling and distribution expenses decreased by approximately 2% from approximately HK$175.8 million to approximately HK$172.2 million, representing approximately 9.1% of total revenue (FY2012: 8.7%). The decrease was mainly attributable to the Group's cost saving initiatives to control operating expenses. Selling and distribution expenses included, among others, promotion campaigns for the development of sales and marketing channels, outlays on brand building, freight and transportation, incentivized share based payments as well as handling and distribution expenses all together spent in support of the Group's sales activities.

Administrative expenses increased by approximately 24.8% from approximately HK$170.9 million to approximately HK$213.3 million. The increase was mainly attributable to the rising rental and staff costs and more capitalised items for the upstream farming business being depreciated since this financial year. The increase was also attributable to the higher fixed administrative costs in staff headcounts, travel and utilities and other overheads associated with the larger scale of our upstream cultivation bases during the year. In addition, staff costs had also increased during the year due to the charging of fair value of the share based payments arising from the grant of share options under the existing share option scheme.

Other operating expenses decreased by approximately 16.7% from approximately HK$48.6 million to approximately HK$40.4 million. The expenses mainly represented provisions of approximately HK$6.5 million for trade and other receivables and approximately HK$29.0 million for inventories and an impairment loss on goodwill of approximately HK$4.8 million. Further, there had been a decrease of approximately HK$17.7 million in the fair value of biological assets as a result of the increase in their plantation costs.

Finance costs decreased by approximately 58.9% from approximately HK$2.3 million to approximately HK$1.0 million. The decrease in finance costs was mainly attributable to a decreased level of utilization of the Group's banking facilities compared with the preceding financial year.

Net loss for the year ended 30 June 2013 was approximately HK$218.7 million (FY2012: Net loss of approximately HK$57.3 million). The increase in the net loss was mainly attributable to a combination of approximately 6.2% decrease in turnover, approximately 6.2% decrease in gross profit margin, approximately 24.8% increase in administrative expenses, partly offset by approximately 2% decrease in selling and distribution expenses, and the aggregation of approximately 11.4% decrease in the other operating expenses and the changes in fair value of biological assets.

At 30 June 2013, the Group held 14.64% interest in China Zenith 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$76.7 million was recognized in the Group's reserves directly in accordance with Hong Kong Financial Reporting Standards.

**Business Review**

*FMCG Trading Business*

The FMCG Trading Business sells finished FMCG, cold chain and cosmetics products into the domestic Chinese market. These products are largely sourced overseas through the Group's wide-reaching global procurement network and are imported primarily from Australasia, Europe, the Americas and South East Asia. The FMCG Business contributed approximately HK$748.1 million in revenues to the Group for FY2013, down approximately 8.3% from that contributed in FY2012. The decline in revenues was largely attributable to the reduced customers demand due to economic uncertainties and the fierce competition from local brands. Notwithstanding the unfavourable operating environment, the Group had adopted various policies to mitigate the negative impact. The Group has been expanding sales channels through participating in online business whereby some of the Group's products are available for sales on renowned online platforms in China. E-commerce industry in China has been experiencing an unprecedented uptrend and the Group would proactively develop the FMCG Trading Business with this platform and maintain close collaboration with e-commerce operators in order to keep abreast of the development and latest trends of the online retail market. Furthermore, the Group also strengthened sales promotion for good quality customers to maintain our competitiveness in view of the challenging business environment. The product portfolio is another important area where the Group put emphasis on sourcing different kinds of products that are suitable and competitive in the China's consumer market by expanding the procurement team and conducting in-depth market research. The Group will continue to uphold importing high quality products for the customers as the core value and strategy to compete with other local brands.

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 67%, 6%, 6%, 13% and 8%. 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, followed by cold chain products and cosmetics and skincare products. During the financial year under review, the Group has continuously strengthened the packaged foods procurement network and introduced new brands and products to the market, thus increasing the revenue of this category compared to the same period last year, whereas other categories recorded a fall because of the slowdown of the domestic market and keen competition.

*Agri-Products Business*

The Agri-Products Business contains trading fresh produce imported from countries like Australasia and South East Asia as well as upstream cultivations in China. This business unit was the largest revenue contributor among the three businesses and it generated approximately HK$1,028.4 million for the FY2013, down 0.1% as compared to the HK$1,029.7 million generated in FY2012. The decrease in revenue was attributable to the decrease in the contribution from the agri-products trading business by approximately 7.3% but partly offset by the increase in the contribution from the upstream farming business. The upstream farming business during FY2013 accounted for approximately 16% of the total revenue of this business unit (FY2012:10%).

*Agri-Products Trading*

The slowdown of China's economy and declining consumer confidence continuously affected the performance of the agri-products trading business. Worse still, the cost inflation has increased substantially but the selling price could not be lifted up accordingly due to the weak demand, thus further dampening the gross profit margin of this business unit. During the financial year under review, allowance for inventories was made due to slower inventory turnover as a result of the sluggish market demand and rising credit risks of certain customers. In order to ensure good quality and safety of our food products, the Group had conducted a thorough review to identify and provide allowance for aging and slow-moving products that would have otherwise been sold under normal economic condition and credit environment. Going forward, the Group will maintain high standard of quality control and periodically review our products to assure food safety and quality. In addition, the Group will also cautiously procure products and maintain a suitable inventory level to meet market demand.

*Upstream Farming Business*

During the financial year under review, the Group had reinforced its development in the upstream farming business carefully. The Huidong's farming base has been contributing revenue since the fourth quarter of 2011 with steady growth and the Jiangxi's farming base also started an initial contribution during this financial year. The products in Huidong were primarily leafy vegetables like Chinese cabbage, leaf mustard, broccoli, cauliflower and snap beans. The Jiangxi's farming base is an orchard for various fruits and a pilot plantation for Chinese herbs, mainly honeysuckle at present. The key products in Jiangxi's farming base included early crop oranges, ponkans, naval mandarins, grapefruits and pear. Although both farming bases started to contribute revenue, the rapidly rising labour costs and agricultural raw materials costs and persistent rainy weather affecting the crop volume in Huidong during the last quarter of the financial year have put great pressure on the gross profit margin of this business.

The Group had spent a lot of resources in this business unit over years, but it was understandable that the cultivations had to take time to develop. The Group will continue to foster the development of this business, particularly the productivity enhancement of the existing farming bases and the establishment of downstream sales channels. As the upstream farming business requires substantial commitment, the Group will take a prudent view on new developments and expansions until the existing farming bases become mature and effective sales channels are formed.

*Logistics Services Business*

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 cross-border trucking fleets for nationwide and regional distribution. During the financial year under review, revenue from logistics services represented approximately 7% of the Group's total revenue amounted to approximately HK$125.5 million. The Group continued to shift focus in higher margin third party logistics business, whose revenue as a percentage of the total revenues of this business unit increased from approximately 10% in FY2012 to approximately 20% in FY2013. Nevertheless, the decline in the business volume of the FMCG Trading Business and the agri-products trading business negatively impacted the overall revenues of this business unit because of the high correlation amongst them.

Although the overall market has been deteriorating during FY2013, the Group continuously reinforced existing logistics facilities and expanded customer base. During the financial year under review, the Group had carried out negotiation with the local government and the relevant parties for the development of a new logistics center in Huidong.

**Capital Structure, Liquidity and Financial Resources**

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

At 30 June 2013, the Group had interest-bearing borrowings of approximately HK$87.8 million (30 June 2012: HK$82.7 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 bank borrowings were floating-interest bearing and secured by corporate guarantees provided 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 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 30 June 2013.

At 30 June 2013, the Group's current assets amounted to approximately HK$1,524.8 million (30 June 2012: HK$1,685.1 million) and the Group's current liabilities amounted to approximately HK$219.6 million (30 June 2012: HK$213.8 million). The Group's current ratio decreased to approximately 6.9 at 30 June 2013 (30 June 2012: 7.9). At 30 June 2013, the Group had total assets of approximately HK$3,654.5 million (30 June 2012: HK$3,764.9 million) and total liabilities of approximately HK$223.4 million (30 June 2012: HK$217.3 million) with a gearing ratio of approximately 2.4% (30 June 2012: 2.2%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets. The gearing ratio remained at a fairly stable level during the financial year under review.

**Number and Remuneration of Employees**

At 30 June 2013, the Group had approximately 810 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. As at the date of this announcement, a total of 457,046,000 share options remain unexercised.

**Development and Prospects**

The economic conditions remained difficult in China as well as other major countries for the preceding year. The rising costs for labour and raw materials, unpredictable weather conditions and food safety concerns also significantly increased risks to the Group's businesses.

Although there are many uncertainties ahead, some positive factors have been seen. China's recent statistics including retail sales growth and trade data have shown signs of stabilisation after a slowdown in the first half of 2013. More importantly, the government's stance and various favourable policies to emphasis consumption as the major driver for the future economic growth will continuously increase consumer confidence and thus stimulate spending. In addition, some fundamentals such as the rising disposable income and acceleration of urbanization remain intact to underpin the growth of China's consumer market in medium term.

Therefore, the Group is confident in the performance of China's consumer market and the FMCG Trading Business will be the focus in the years ahead. As aforesaid, the Group has been adopting various measures to reinforce distribution channels and product portfolio. The Group manages to maintain close collaborations with various wholesalers as well as e-commerce operators and we will capitalise this advantage to further expand both offline and online sales networks. Furthermore, the Group will also strengthen promotion for on-premise customers and conduct in-depth market research to know their needs and desires. On the other hand, the Group will continue to strengthen the procurement network in different areas and expand the procurement team to identify new products and brands.

The Group believes that the Agri-Products Business has passed through the trough and stepped into a stable stage. The agri-products trading business hinges on the macro-economic conditions and a stable supply of fresh produce. The Group will continue to expand the procurement network to source fresh produce from different corners of the globe, including domestic products in China, to ensure the stability of supply. Additionally, the Group will carefully develop self-grown products via our upstream farming business. Although the Group had spent a lot of resources to develop the upstream farming business over the past few years, the peak in investment is close to an end. Going forward, the Group will focus on the research and development for new products and productivity enhancement. While the Group will conservatively review the market demand and the internal resources for other new plantation developments in addition to the farming bases in Huidong and Jiangxi, the Group will proactively explore and develop downstream sales channels to cope with the development of the upstream farming business in order to form a vertically integrated business model to maximize its return. Furthermore, the Group will carefully develop plans in cultivation of Chinese herbs that require substantial expertise for cultivation, good weather condition and efficient distribution channels for the success. The Group has already teamed up with several experts and business partners to tap into China's medical product market when the herb plantations start to mature.

Food safety has become a top concern for consumers. The Group puts emphasis on food safety and exerts every effort to assure the quality of products up to the standard. The Group would periodically review our product portfolio to ensure good quality and safety in accordance with the respective food safety regulations and internal guidance, at which slow-moving and aging products would be disposed when identified. The Group also adopts green and ecological methodology for the upstream farming business and post-harvest processing, uses high quality raw materials and implements stringent control over quality from seeding through delivering the products to the customers.

For the Logistics Services Business, the Group will continue to strengthen the vertically integrated operations between the other two businesses and our logistics facilities. During the year, the Group had carried out negotiation with the local government and the relevant parties for the development of a new logistics center in Huidong following the signings of the memorandum of cooperation and the cooperation agreement in 2012. The negotiation has stepped into a mature phase where the Group and the counterparts endeavour to finalize the detailed transaction structure and the relevant legal agreements. The new logistics center is expected to be operated as more of a function of wholesaling platform for fresh produces along with other ancillary facilities for storage and processing functions. With an easily accessible location which is in close proximity to the Group's Huidong's farming base, the new logistics center will be an important trading and processing base for our upstream farming business.

The Group's vertically integrated business model has proven successful over years. The disappointment of the financial results primarily stems from the uncertainties of the macroeconomic conditions but the Group would identify the shortcomings by all means and be committed to address these issues with solutions over the coming years. The Group will put emphasis on the FMCG Trading Business and carefully operate other businesses over the coming years in order to leverage on the government's favourable policies towards consumption and an improvement in consumer confidence. On the other hand, the Group would adopt a pragmatic and conservative approach for future expansion plan and review the current operations to identify the unprofitable sectors that will be reduced in scale or abandoned. Our management is cautiously optimistic that the Group is well positioned in the China's consumer market through our well established sales network, in-depth industry experiences and strong and healthy financial position.

## DIVIDEND

The Board does not recommend the payment of a final dividend for the financial year ended 30 June 2013.

## CORPORATE GOVERNANCE

The Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("CG Code") throughout the financial year ended 30 June 2013, except with deviations from code provisions A.2.1 and A.6.7.

Under 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 the shareholders as a whole.

Under the Code Provision A.6.7, 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. Chan Yuk, Foebe, the Non-executive Director, attended the annual general meeting of the Company held on 21 December 2012 (the "AGM") to address to queries of shareholders. Ms. Chan Yuk, Foebe was unable to attend the AGM due to other business engagements. However, she was 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.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding directors' securities transactions (the "Code") on terms no less than the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules. The Code applies to Directors, relevant employees and officers who are likely to be in possession of unpublished price-sensitive information of the Company. Having made specific enquiry of all Directors, each of them confirmed his/her compliance with the required standard set out in the Code throughout the financial year ended 30 June 2013.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Throughout the financial year ended 30 June 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## REVIEW OF ANNUAL RESULTS

The figures in respect of the Group's consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position and the related notes thereto for the financial year ended 30 June 2013 as set out in the this announcement have been reviewed by the Audit Committee and agreed by the Group's external auditor, RSM Nelson Wheeler, whom are of the opinion that such annual results have complied with the applicable accounting standards and the requirements of the Listing Rules and applicable laws, and that adequate disclosures have been made.

By order of the Board
**Heng Tai Consumables Group Limited**
**Lam Kwok Hing**
*Chairman*

Hong Kong, 30 September 2013

*As at the date of this announcement, the Board comprises four executive directors, namely Mr. Lam Kwok Hing (Chairman), Ms. Lee Choi Lin, Joecy, Ms. Hung Sau Yung, Rebecca and Ms. Gao Qin Jian; one non-executive director, namely Ms. Chan Yuk, Foebe; and three independent non-executive directors, namely Mr. John Handley, Ms. Mak Yun Chu and Mr. Poon Yiu Cheung, Newman.*