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 2020

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 2020 together with the comparative figures for the previous year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 30 June 2020

	Note	**2020** *HK$'000*	2019 *HK$'000*
Revenue	*3*	**541,915**	840,732
Cost of sales		**(509,831)**	(768,631)
Gross profit		**32,084**	72,101
Changes in fair value due to biological transformation		**(32,684)**	(19,420)
Other gains and income		**33,758**	17,840
Selling and distribution expenses		**(55,514)**	(68,704)
Administrative expenses		**(77,477)**	(95,038)
Impairment losses on trade receivables and deposits and other receivables		**(58,601)**	(20,587)
Other operating expenses		**(160,214)**	(173,204)
Loss from operations		**(318,648)**	(287,012)
Finance costs	*5*	**(541)**	(71)
Gain on disposal of subsidiaries		**–**	59
Loss before tax		**(319,189)**	(287,024)
Income tax credit	*6*	**839**	1,048
Loss for the year	*7*	**(318,350)**	(285,976)
Attributable to:			
Owners of the Company		**(318,339)**	(285,081)
Non-controlling interests		**(11)**	(895)
		(318,350)	(285,976)
Loss per share	*9*		
Basic		**HK(17 cents)**	HK(15 cents)
Diluted		**N/A**	N/A

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2020

	2020 *HK$'000*	2019 *HK$'000*
Loss for the year	**(318,350)**	(285,976)
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Fair value change on revaluation of buildings	**1,356**	2,608
Deferred tax liability on revaluation of buildings	**(339)**	(652)
	1,017	1,956
Items that may be reclassified to profit or loss:		
Exchange differences on translating foreign operations	**(13,700)**	(23,794)
Exchange differences reclassified to profit or loss upon disposal of subsidiaries	**–**	(50)
Fair value changes on financial assets at fair value through other comprehensive income ("FVTOCI")	**350**	(49)
Revaluation reserve of financial assets at FVTOCI reclassified to profit or loss upon disposal	**–**	494
	(13,350)	(23,399)
Other comprehensive income for the year, net of tax	**(12,333)**	(21,443)
Total comprehensive income for the year	**(330,683)**	(307,419)
Attributable to:		
Owners of the Company	**(330,672)**	(306,504)
Non-controlling interests	**(11)**	(915)
	(330,683)	(307,419)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 30 June 2020

	Note	**2020** **HK$'000**	2019 HK$'000
ASSETS			
Non-current assets			
Fixed assets		**251,861**	364,948
Prepaid land lease payments		**–**	90,345
Right-of-use-assets		**97,870**	–
Construction in progress		**60,592**	32,939
Bearer plants		**100,516**	101,984
Goodwill		**19,083**	19,083
Other intangible assets		**64,516**	66,259
Other assets		**1,029**	3,215
Investment in a joint venture		**–**	–
Investment in a club membership		**108**	108
Investments		**25,850**	191,486
Deferred tax assets		**5,025**	3,480
		626,450	873,847
Current assets			
Biological assets		**23,948**	27,443
Inventories		**123,204**	144,591
Trade receivables	*10*	**206,521**	317,238
Prepayments, deposits and other receivables		**112,124**	141,713
Investments		**181,324**	7,456
Pledged bank deposits		**424**	–
Client trust bank balances		**7,457**	6,306
Bank and cash balances		**349,334**	463,242
		1,004,336	1,107,989
TOTAL ASSETS		**1,630,786**	1,981,836

	Note	**2020**	2019
		HK$'000	*HK$'000*
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		**187,270**	187,270
Reserves		**1,334,050**	1,664,722
		1,521,320	1,851,992
Non-controlling interests		**(15,888)**	(15,877)
Total equity		**1,505,432**	1,836,115
Non-current liabilities			
Lease liabilities		**4,980**	–
Deferred tax liabilities		**10,152**	9,808
		15,132	9,808
Current liabilities			
Trade payables	*11*	**69,213**	83,855
Accruals and other payables		**16,844**	31,149
Borrowings		**20,424**	20,169
Lease liabilities		**3,087**	–
Current tax liabilities		**654**	740
		110,222	135,913
Total liabilities		**125,354**	145,721
TOTAL EQUITY AND LIABILITIES		**1,630,786**	1,981,836
Net current assets		**894,114**	972,076
Total assets less current liabilities		**1,520,564**	1,845,923

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with the applicable disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HKFRSs

(a) Application of new and revised HKFRSs

The HKICPA has issued a new HKFRS, HKFRS 16 Leases, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16 Leases

HKFRS 16 supersedes HKAS 17 Leases, and the related interpretations, HK(IFRIC) 4 Determining whether an Arrangement contains a Lease, HK(SIC) 15 Operating Leases-Incentives and HK(SIC) 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. HKFRS 16 introduced a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less and leases of low-value assets.

Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have an impact on leases where the Group is the lessor. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 July 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 July 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 July 2019. For contracts entered into before 1 July 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) *Lessee accounting and transitional impact*

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied the incremental borrowing rates of the relevant group entities at the date of initial application. The incremental borrowing rate applied by the relevant group entities range from 2.26% to 8.09%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

(i) elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 30 June 2020;

(ii) used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension options;

(iii) exclude initial direct costs from measuring the right-of-use assets at the date of initial application; and

(iv) relied on the assessment of whether leases are onerous by applying HKAS 37 as an alternative to impairment review.

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 Income Taxes requirements to right-of-use assets and lease liabilities separately. Temporary differences relating to right-of-use assets and lease liabilities are not recognised at initial recognition and over the lease terms due to application of the initial recognition exemption.

The following table reconciles the operating lease commitments as at 30 June 2019 to the opening balance for lease liabilities recognised as at 1 July 2019:

	HK$'000
Operating lease commitments disclosed as at 30 June 2019	24,806
Less: commitments relating to lease exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 30 June 2020	(19,081)
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will not exercise the termination options	3,746
	9,471
Less: total future interest expenses	(3,760)
Present value of remaining lease payments, discounted using the incremental borrowing rate as at 1 July 2019 and lease liabilities recognised as at 1 July 2019	5,711
Of which are:	
Current lease liabilities	1,106
Non-current lease liabilities	4,605
	5,711

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position as at 30 June 2019.

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets. The Group has assessed that the adjustments to fair value at initial recognition are insignificant and were not included in the cost of right-of-use assets.

The following table summaries the impacts of the adoption of HKFRS 16 on the Group's consolidated statement of financial position:

Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16	Note	Carrying amount as at 30 June 2019	Effects of adoption of HKFRS 16 Reclassification	Recognition of leases	Carrying amount as at 1 July 2019
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Right-of-use assets		–	90,345	5,711	96,056
Prepaid land lease payments	(i)	90,345	(90,345)	–	–
Liabilities					
Lease liabilities		–	–	5,711	5,711

Note:

(i) Upfront payments for leasehold lands in the People's Republic of China (the "PRC") own used properties were classified as prepaid land lease payments as at 30 June 2019. Upon application of HKFRS 16, prepaid land lease payments amounting to approximately HK$90,345,000 was reclassified to right-of-use assets.

(c) Impact of the financial performance and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 July 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss from operations in the Group's consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the consolidated statement of cash flows, the Group as a lessee is required to split rentals paid under capitalised leases into their principal element and interest element. These elements are classified as financing cash outflows and operating cash outflows respectively. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the consolidated statement of cash flows.

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group's financial performance and cash flows for the year ended 30 June 2020, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2020 instead of HKFRS 16, and by comparing these hypothetical amounts for 2020 with the actual 2019 corresponding amounts which were prepared under HKAS 17.

	2020				2019
	Amounts reported under HKFRS 16	**Add back: HKFRS 16 depreciation and interest expense**	**Deduct: Estimated amounts related to operating lease as if under HKAS 17** *(note)*	**Hypothetical amounts for 2020 as if under HKAS 17**	Compared to amounts reported for 2019 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*
Financial performance for year ended 30 June 2020 impacted by the adoption of HKFRS 16:					
Loss from operations	**(318,648)**	**10,792**	**(10,767)**	**(318,623)**	(287,012)
Finance costs	**(541)**	**256**	**–**	**(285)**	(71)
Loss before tax	**(319,189)**	**11,048**	**(10,767)**	**(318,908)**	(287,024)
Loss for the year	**(318,350)**	**11,048**	**(10,767)**	**(318,069)**	(285,976)

	2020			2019
	Amounts reported under HKFRS 16	**Estimated amounts related to operating leases as if under HKAS 17** *(note)*	**Hypothetical amounts for 2020 as if under HKAS 17**	Compared to amounts reported for 2019 under HKAS 17
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*
Line items in the consolidated statement of cash flows for year ended 30 June 2020 impacted by the adoption of HKFRS 16:				
Cash generated from/(used in) operations	**6,406**	**(1,618)**	**4,788**	(154,771)
Interest element of lease rentals paid	**(256)**	**256**	**–**	(1)
Net cash generated from/(used in) operating activities	**5,358**	**(1,362)**	**3,996**	(155,654)
Capital element of lease rentals paid	**(1,362)**	**1,362**	**–**	(16)
Net cash (used in)/generated from financing activities	**(1,107)**	**1,362**	**255**	4,141

Note: The "estimated amounts related to operating leases" is an estimate of the amounts of the cash flows in 2020 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2020. This estimate assumes that there were no difference between rentals and cash flows and that all of the new leases entered into in 2020 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2020. Any potential net tax effect is ignored.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 July 2019. These new and revised HKFRSs include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKFRS 3 Definition of a Business	1 January 2020
Amendments to HKAS 1 and HKAS 8 Definition of Material	1 January 2020
Amendments to HKFRS 9, HKAS 39 and HKFRS 7 Interest Rate Benchmark Reform	1 January 2020

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

3. REVENUE

Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines for the year is as follows:

	2020	2019
	HK$'000	*HK$'000*
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by major products or service lines		
– Sales of consumer goods	**322,332**	494,973
– Sales of agri-products	**202,485**	324,759
– Logistics services income	**9,491**	15,340
– Sales of jewellery products in tourist retailing	**5,807**	2,913
– Commission and brokerage income on securities dealings	**1,800**	2,503
– Others	**–**	244
	541,915	840,732

The Group derives revenue from the transfer of products and services over time and at a point in time in the following major product lines and geographical regions:

	For the year ended 30 June 2020						
	Consumer goods *HK$'000*	**Agri-products** *HK$'000*	**Logistics services** *HK$'000*	**Tourist retailing** *HK$'000*	**Securities dealing services** *HK$'000*	**Others** *HK$'000*	**Total** *HK$'000*
Primary geographical markets							
Hong Kong	**–**	**48,634**	**–**	**5,807**	**1,800**	**–**	**56,241**
PRC except Hong Kong	**322,332**	**153,851**	**9,491**	**–**	**–**	**–**	**485,674**
Revenue from external customers	**322,332**	**202,485**	**9,491**	**5,807**	**1,800**	**–**	**541,915**
Timing of revenue recognition							
Products transferred at a point in time	**322,332**	**202,485**	**9,491**	**5,807**	**1,800**	**–**	**541,915**

	For the year ended 30 June 2019						
	Consumer goods *HK$'000*	Agri-products *HK$'000*	Logistics services *HK$'000*	Tourist retailing *HK$'000*	Securities dealing services *HK$'000*	Others *HK$'000*	Total *HK$'000*
Primary geographical markets							
Hong Kong	–	59,257	–	2,913	2,503	–	64,673
PRC except Hong Kong	494,973	265,502	15,340	–	–	244	776,059
Revenue from external customers	494,973	324,759	15,340	2,913	2,503	244	840,732
Timing of revenue recognition							
Products transferred at a point in time	494,973	324,759	15,340	2,913	2,503	–	840,488
Products and services transferred over time	–	–	–	–	–	244	244
Total	494,973	324,759	15,340	2,913	2,503	244	840,732

4. SEGMENT INFORMATION

The Group has three reportable segments as follows:

(i) The sale and trading of fast moving consumer goods including packaged foods, beverages and household consumable 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 requires different technology and marketing strategies.

The Group's other operating segments include the provision of securities dealing services and tourist retailing of jewellery products. None of these segments meets any of the quantitative thresholds for determining reportable segments. The information of these other operating segments is included in the "All other segments" column.

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 loss do not include gain or loss from investments, impairment loss on goodwill, certain other gains and income, certain finance costs, gain/loss on disposal of subsidiaries and unallocated corporate expenses. Segment assets do not include investments, certain prepayments, deposits and other receivables, pledged bank deposits and certain bank and cash balances. Segment non-current assets do not include investment in a joint venture, investments, investment in a club membership, certain fixed assets and certain right-of-use-assets. Segment liabilities do not include certain borrowings, certain accruals and other payables and certain lease liabilities. Segment non-current liabilities do not include certain lease liabilities.

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 revenue, loss, assets and liabilities:

	FMCG Trading Business *HK$'000*	Agri-Products Business *HK$'000*	Logistics Services Business *HK$'000*	All other segments *HK$'000*	Total *HK$'000*
Year ended 30 June 2020					
Revenue from external customers	**322,332**	**202,485**	**9,491**	**7,607**	**541,915**
Segment loss	**(68,225)**	**(220,396)**	**(19,087)**	**(7,318)**	**(315,026)**
Depreciation and amortisation	**30,155**	**23,462**	**8,384**	**953**	**62,954**
Income tax (expense)/credit	**–**	**(29)**	**(143)**	**1,154**	**982**
Other material non-cash items:					
Changes in fair value due to biological transformation	**–**	**32,684**	**–**	**–**	**32,684**
Impairment losses on trade receivables, prepayments and other receivables	**33,982**	**46,933**	**3,587**	**1,105**	**85,607**
Impairment loss on fixed assets	**6,576**	**75,673**	**7,187**	**–**	**89,436**
Impairment loss on right-of-use assets	**–**	**2,774**	**–**	**–**	**2,774**
Impairment loss on other intangible assets	**3,900**	**–**	**–**	**–**	**3,900**
Impairment loss on inventories	**–**	**28,168**	**–**	**–**	**28,168**
Additions to segment non-current assets	**38,610**	**75,852**	**16**	**135**	**114,613**
At 30 June 2020					
Segment assets	**556,633**	**543,412**	**145,906**	**46,686**	**1,292,637**
Segment liabilities	**46,195**	**21,245**	**11,477**	**11,922**	**90,839**

	FMCG Trading Business *HK$'000*	Agri-Products Business *HK$'000*	Logistics Services Business *HK$'000*	All other segments *HK$'000*	Total *HK$'000*
Year ended 30 June 2019					
Revenue from external customers	494,973	324,759	15,340	5,660	840,732
Segment loss	(45,277)	(124,575)	(45,843)	(22,693)	(238,388)
Depreciation and amortisation	29,309	29,114	9,758	575	68,756
Income tax (expense)/credit	–	(440)	(158)	1,804	1,206
Other material non-cash items:					
Changes in fair value due to biological transformation	–	19,420	–	–	19,420
Impairment losses on trade receivables, prepayments and other receivables	–	28,932	–	3,151	32,083
Impairment loss on deposits	–	10,540	–	–	10,540
Impairment loss on fixed assets	38,717	8,043	42,451	–	89,211
Impairment loss on other intangible assets	–	20,475	–	8,300	28,775
Additions to segment non-current assets	73,575	95,670	34,155	88	203,488
At 30 June 2019					
Segment assets	727,481	732,011	170,730	52,586	1,682,808
Segment liabilities	56,456	30,484	9,218	11,482	107,640

Reconciliations of reportable segment loss, assets and liabilities:

	2020	2019
	HK$'000	*HK$'000*
Loss		
Total loss of reportable segments	**(315,026)**	(238,388)
Gain on disposal of subsidiaries	**–**	59
Fair value gain/(loss) on financial assets at FVTPL	**9,627**	(9,384)
Impairment loss on goodwill	**–**	(20,957)
Unallocated amounts:		
Other corporate expenses	**(12,951)**	(17,306)
Consolidated loss for the year	**(318,350)**	(285,976)
Assets		
Total assets of reportable segments	**1,292,637**	1,682,808
Unallocated amounts:		
Investments	**207,174**	198,942
Other corporate assets	**130,975**	100,086
Consolidated total assets	**1,630,786**	1,981,836
Liabilities		
Total liabilities of reportable segments	**90,839**	107,640
Unallocated amounts:		
Other corporate liabilities	**34,515**	38,081
Consolidated total liabilities	**125,354**	145,721

Geographical information:

The Group's revenue from external customers by location of operations and information about its non-current assets by location of assets are detailed below:

	Revenue		**Non-current assets**	
	2020	2019	**2020**	2019
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**56,241**	64,673	**24,019**	20,204
PRC except Hong Kong	**485,674**	776,059	**571,351**	658,447
Consolidated total	**541,915**	840,732	**595,370**	678,651

Revenue from major customer:

For the years ended 30 June 2020 and 2019, the revenue from the Group's largest customer accounted for less than 10% of the Group's total revenue and accordingly, no major customer information is presented.

5. FINANCE COSTS

	2020	2019
	HK$'000	*HK$'000*
Interest on borrowings	**285**	70
Interest expenses on lease liabilities	**256**	–
Finance lease charges	**–**	1
	541	71

6. INCOME TAX CREDIT

	2020	2019
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax		
Provision for the year	**441**	440
Over-provision in prior years	**(20)**	–
	421	440
Deferred tax	**(1,260)**	(1,488)
	(839)	(1,048)

Under the two-tiered profits tax regime, profits tax rate for the first HK$2 million of assessable profits of qualifying corporations established in Hong Kong will be lower to 8.25% and profits above that amount will be subject to the tax rate of 16.5%.

Tax charges 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 year are in compliance with the Decree-Law No. 58/99/M 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% (2019: 25%), based on existing legislation, interpretation and practices in respect thereof.

The reconciliation of the income tax expenses and the product of (loss)/profit 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:

	2020				2019			
	Macau	**Hong Kong**	**PRC**	**Total**	Macau	Hong Kong	PRC	Total
	HK$000	***HK$000***	***HK$'000***	***HK$000***	*HK$000*	*HK$000*	*HK$'000*	*HK$000*
(Loss)/profit before tax	**(70,350)**	**(51,683)**	**(197,156)**	**(319,189)**	15,132	(40,202)	(261,954)	(287,024)
Applicable income tax rate	**12.00%**	**16.50%**	**25.00%**		12.00%	16.50%	25.00%	
Tax at the applicable income tax rate	**(8,442)**	**(8,528)**	**(49,289)**	**(66,259)**	1,816	(6,634)	(65,488)	(70,306)
Tax effect of income not taxable	**–**	**(2,086)**	**(6,536)**	**(8,622)**	–	(435)	(1,524)	(1,959)
Tax effect of expenses not deductible	**–**	**10,885**	**53,973**	**64,858**	–	6,497	65,119	71,616
Loss/(profit) exempted from the Macau Complementary Tax	**8,442**	**–**	**–**	**8,442**	(1,816)	–	–	(1,816)
Tax effect of unused tax losses not recognised	**–**	**194**	**1,762**	**1,956**	–	213	2,038	2,251
Tax effect of utilisation of tax losses not previously recognised	**–**	**(1,512)**	**–**	**(1,512)**	–	(709)	–	(709)
Tax effect of unrecognised temporary difference	**–**	**11**	**376**	**387**	–	(38)	78	40
Tax concession	**–**	**(20)**	**–**	**(20)**	–	–	–	–
Over-provision in prior years	**–**	**(20)**	**–**	**(20)**	–	–	–	–
Tax effect of change of tax rate	**–**	**(49)**	**–**	**(49)**	–	(165)	–	(165)
Income tax (credit)/expense	**–**	**(1,125)**	**286**	**(839)**	–	(1,271)	223	(1,048)

7. LOSS FOR THE YEAR

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

	2020	2019
	HK$'000	*HK$'000*
Amortisation of prepaid land lease payments	**–**	10,802
Amortisation of other intangible assets	**26,137**	29,069
Auditors' remuneration	**2,624**	2,621
Cost of inventories sold	**474,842**	714,647
Depreciation on fixed assets, net of amount capitalised	**26,415**	33,432
Depreciation on right-of-use assets, net of amount capitalised	**10,714**	–
Exchange losses, net	**2,728**	2,823
Fair value (gain)/loss on financial assets at FVTPL, net	**(9,627)**	9,384
Gain on disposal of financial assets at FVTPL	**(2,033)**	–
Gain on redemption of financial assets at FVTPL	**(1,119)**	–
Loss on disposal of financial assets at FVTOCI	**–**	18
(Gain)/loss on disposal of fixed assets	**(105)**	20
Impairment loss on fixed assets	**89,436**	89,211
Impairment loss on right-of-use assets	**2,774**	–
Impairment loss on goodwill	**–**	20,957
Impairment loss on other intangible assets	**3,900**	28,775
Impairment loss on prepayments, deposits and other receivables	**37,006**	39,472
Impairment loss on inventories	**28,168**	–
Impairment loss on trade receivables	**57,424**	3,151
Reversal of impairment loss on trade receivables	**(3,823)**	–
Fixed assets written off	**68**	–
Operating lease charges in respect of land and buildings, net of amount capitalised	**–**	26,400
Rental income #	**(868)**	(836)
Staff costs (excluding directors' emoluments)		
Staff salaries, bonus and allowances	**24,324**	25,856
Retirement benefits scheme contributions	**692**	805
	25,016	26,661

Included in logistics services income in note 3.

8. DIVIDENDS

The Board does not recommend the payment of final dividend in respect of the year ended 30 June 2020 (2019: HK$Nil).

9. 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$318,339,000 (2019: HK$285,081,000) and the weighted average number of ordinary shares of 1,872,696,182 (2019: 1,872,696,182) in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any potentially dilutive ordinary shares for both years ended 30 June 2020 and 30 June 2019.

10. TRADE RECEIVABLES

	2020	2019
	HK$'000	*HK$'000*
Trade receivables arising from		
Trading	**258,972**	324,298
Dealing in securities		
– Cash clients	**9,720**	10,493
	268,692	334,791
Impairment loss on trade receivables	**(62,171)**	(17,553)
	206,521	317,238

Reconciliation of impairment loss on trade receivables:

	2020	2019
	HK$'000	*HK$'000*
At 1 July	**17,553**	14,417
Impairment loss recognised for the year	**57,424**	3,151
Amounts written off during the year	**(8,974)**	–
Reversal for the year	**(3,823)**	–
Exchange difference	**(9)**	(15)
At 30 June	**62,171**	17,553

For trade receivables arising from trading, the Group normally allows credit terms to established customers ranging from 30 to 210 days (2019: 30 to 180 days).

The aging analysis of trade receivables arising from trading, net of impairment loss, based on the date of recognition of the sale, is as follows:

	2020 *HK$'000*	2019 *HK$'000*
1 – 30 days	**40,318**	55,390
31 – 60 days	**31,633**	43,790
61 – 90 days	**24,974**	47,475
Over 90 days	**105,257**	164,366
	202,182	311,021

Cash client receivables arising from dealing in securities which are neither past due nor impaired of approximately HK$1,088,000 (2019: HK$3,626,000) represent unsettled client trades on various securities exchanges transacted on the last two business days prior to the end of the reporting year. Such cash client receivable is considered as past due when the client fails to settle its securities trading balances on the settlement date. At 30 June 2020, cash client receivables of approximately HK$8,632,000 (2019: HK$6,867,000) were past due. These past due cash client receivables were substantially settled after the year end date, except for approximately HK$3,125,000 (2019: HK$3,151,000) for which impairment loss was recognised during the year. No aging analysis is disclosed as, in the opinion of the Directors, an aging analysis does not give additional value in view of the nature of these trade receivables arising from dealing in securities.

At 30 June 2020, trade receivables arising from trading of approximately HK$32,774,000 (2019: HK$2,463,000) 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 settled subsequent to the reporting period. The aging analysis of these trade receivables is as follows:

	2020 *HK$'000*	2019 *HK$'000*
Up to 90 days	**32,774**	3
Over 90 days	**–**	2,460
	32,774	2,463

As at 30 June 2020, cash client receivables from dealing in securities past due are unsecured and bear interest of 9.25% per annum (2019: 9.25% per annum). Other trade receivables are unsecured and interest-free.

11. TRADE PAYABLES

	2020 *HK$'000*	2019 *HK$'000*
Trade payables arising from		
Trading	**60,838**	76,805
Dealing in securities		
– Cash clients	**7,456**	6,857
– Clearing house	**919**	193
	69,213	83,855

The trade payables to cash clients arising from dealing in securities are repayable on demand. The Group has a practice to satisfy all the requests for payment within one business day. Trade payables to clearing house arising from dealing in securities represents unsettled trades on various securities exchanges transacted on the last two business days prior to the end of the reporting year. No aging analysis is disclosed as, in the opinion of the Directors, the aging analysis does not give additional value in view of the nature of these businesses.

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

	2020	2019
	HK$'000	*HK$'000*
1 – 30 days	**46,458**	60,362
31 – 60 days	**14,293**	16,356
Over 90 days	**87**	87
	60,838	76,805

Trade payables to cash clients arising from dealing in securities also include those payables where the corresponding clients' monies are placed in trust and segregated accounts with authorised financial institutions of approximately HK$7,457,000 (2019: HK$6,306,000).

MANAGEMENT DISCUSSION & ANALYSIS

OVERVIEW

During the financial year ended 30 June 2020 ("FY2019/20"), the Group are principally engaged in (i) the trading of packaged foods, beverages, and household consumable products (the "FMCG Trading Business"); (ii) the trading of agri-products and the upstream farming business (the "Agri-Products Business"); (iii) the provision of cold chain logistics services and value-added post-harvest food processing (the "Logistics Services Business") and (iv) other businesses primarily arising from the securities brokerage business and the tourist retailing business (the "Other Business"). The first 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.

The outbreak of the novel coronavirus disease 2019 (COVID-19) (the "pandemic") posed an unprecedented challenge to the global economy. China's economy shrank by 6.8 per cent in the first quarter of 2020, the first contraction for more than 40 years caused by an extensive economic shutdown to battle with the pandemic. The retail sales growth also recorded a dramatic collapse over the first half of 2020 with contractions for sixth straight months, reflecting consumers continuing to cut back spending during the pandemic. The pandemic did not only affect China, but also most of countries in which the Group's suppliers are located. As a result, the Group faced difficulties in maintaining stable supply chain for the FMCG Trading Business and the Agri-Products Business during the financial year following the implementation of various containment measures such as large-scale lockdowns and suspension of economic activities across the globe. Worse still, there were other negative factors that persistently posed adverse impact on the Group's businesses. The tension between China and the United States continuously weakened consumer confidence and market demand, increased volatility in Renminbi which made the Group's imported goods more expensive and substantially undermined its competitiveness against domestic products, especially considering their overwhelming advertisements and promotions. As a result, the Group continuously trimmed down and ceased unprofitable operations such as cosmetics and cold chain products over past few years. Furthermore, the number of visitors for Hong Kong encountered a historic slump in the first half of 2020 in the aftermath of the social unrest followed by the pandemic, which affected the performance of the Group's tourist retailing business.

The pandemic suspended most of the economic activities in China during the first half of 2020 and as a result of the poor performing industry as a whole due to the continuous weakening demand in the PRC consumer market, fierce competition from domestic brands and the ongoing adverse global trading environment and taking into account that there is currently no concrete evidence that the coronavirus pandemic and the effects it has caused to the global community as a whole will be resolved in the short to medium term with many uncertainties ahead, the Group adopted more prudent forecasts for various businesses over the next financial year, which led to substantial impairment losses on the fixed assets, right-of-use assets, other intangible assets and prepayments across the Group's business segments. Further impairment losses were made for certain trade receivables, other receivables and inventories with expected credit loss and doubtful recoverability given these tumbling and uncertain economic conditions.

Against the backdrop of the pandemic and the difficult operating environment, the Group cautiously developed non-core businesses such as securities brokerage business and tourist retailing business. The pandemic widely disrupted and increased volatilities in the global and Hong Kong financial markets during the financial year. The Group considers it should continue taking its prudent approach so that the Group would not unnecessarily risk incurring loss. The use of the proceeds of the right issue held on 11 January 2017 was earmarked for the securities brokerage business, of which HK$60 million has been used as intended as at the date of this announcement. The remaining proceeds of approximately HK$147.3 million is expected to be utilized as originally intended for the development of the securities brokerage business based on continuous assessment on market conditions and demand before 10 March 2021. Furthermore, the occurrence of large-scale protests in Hong Kong severely affected the Group's tourist retailing business. As a result, a possible acquisition of a target company running retail of luxury goods and chocolates and provision of meal services in a retail store in Hong Kong was abandoned during the financial year. The Group will carefully review this business unit and implement austerity measures to cope with the toughest time.

The weak macro economy, the development of the pandemic and fierce competition from domestic brands were the biggest threats to the Group's operations. The Group adopted various measures to counteract the negative impact from the above factors, such as refining product-mix and increasing stickiness of customer by offering special discounts. Furthermore, in the light of the decline in revenues, the Group stringently implemented cost-saving initiatives so that recurring expenses could be broadly reduced. During the financial year under review, although the revenue of the FMCG Trading Business decreased, this business unit remained as the most important revenue contributor which accounted for approximately 60% of the total revenues (FY2018/19: 59%). The revenue of the Agri-Products Business accounted for approximately 37% of the Group's total revenues, compared to 39% a year earlier. The Logistics Services Business was also affected by the decrease in the revenues of the FMCG Trading Business and the Agri-Products Business but its contribution remained stable at approximately 2% of the total revenue, same as that of the last financial year.

FINANCIAL PERFORMANCE

During the financial year under review, the Group generated total revenue of approximately HK$541.9 million as compared to HK$840.7 million for FY2018/19, representing a fall of approximately 35.5%. The decline in revenues was mainly attributable to the decrease in the revenues from the FMCG Trading Business, the Agri-Products Business, the Logistics Services Business, and partly offset by the Other Business for which the tourist retailing business made its first full year contribution. During the financial year under review, especially the first half of 2020, the overall Chinese retail market has been abruptly deteriorating due to the pandemic, the Group's traditional trading businesses were severely affected following a widespread lockdown and restrictive measures in economic activities, ranging from suppliers' production, freight transport, customs clearance to distribution of products to the Group's customers. Additionally, the keen competition from domestic brands and fresh produce as well as the anti-extravagance atmosphere also posed a threat to the Group's businesses. Therefore, the Group adopted more aggressive pricing strategies by offering special promotions and discounts to our customers in order to remain competitiveness amid such a weak macro environment, resulting in the decline in revenues across different segments. The closure of cold chain product trading business also attributed to the decline in turnover of the FMCG Trading Business.

Gross profit margin decreased from approximately 8.6% to 5.9% compared to FY2018/19. The decrease was mainly attributable to the Group's more aggressive pricing strategies including special promotions and discounts to induce additional sales in this difficult market condition as mentioned above. Furthermore, Renminbi fell past the important psychological level of 7 against US dollar for the first time in August 2019 since 2008 and persistently remained at this level during the financial year. Our gross profit margin has been squeezed from all sides as the weakened demand from customers due to weakened Renminbi and fierce competitions have prevented us to pass all the increased costs to customers. Furthermore, the cessation of the cold chain products trading business which normally provided an above-average gross profit also attributed to the decrease in gross profit margin.

Changes in fair value due to biological transformation increased from approximately HK$19.4 million to approximately HK$32.7 million. The increase was mainly attributable to the decreased production yield and increased cost of sales due to the inclement weather and the increased plantation costs.

Other gains and income increased from approximately HK$17.8 million to approximately HK$33.8 million. The increase in other gains and income was mainly attributable to the unrealised fair value gain on investment of approximately HK$9.6 million derived from the investment in convertible bonds, the gain on redemption of the convertible bonds of approximately HK$1.1 million, the gain on disposal of the investment in listed equity securities of approximately HK$2.0 million and increase in interest income of approximately HK$1.7 million.

Selling and distribution expenses decreased by approximately 19.2% from approximately HK$68.7 million to approximately HK$55.5 million, representing approximately 10.2% of total revenue which increased compared to last year (FY2018/19: 8.2%). The increase in the selling and distribution expenses as a percentage of turnover was mainly attributable to the increase in handling and distribution expenses for the traditional trading businesses. Selling and distribution expenses included, among others, promotion campaigns for the development of sales and marketing channels, outlays on brand building, freight and transportation, as well as handling and distribution expenses all together spent in support of the Group's sales activities.

Administrative expenses decreased by approximately 18.5% from approximately HK$95.0 million to approximately HK$77.5 million. The decrease was mainly attributable to the various cost saving initiatives taken by the Group.

Impairment losses on trade receivables and deposits and other receivables increased from approximately HK$20.6 million to approximately HK$58.6 million as the Group has taken a more cautious approach on the receivables that exposed to a higher risk of collectability given these tumbling and uncertain economic conditions.

Other operating expenses decreased from approximately HK$173.2 million to approximately HK$160.2 million. The expenses mainly represented impairment losses of approximately HK$156.3 million on the fixed assets, right-of-use assets, other intangible assets, inventories and prepayment as well as one-off repair and maintenance costs of approximately HK$1.1 million for infrastructure and an exchange loss of approximately HK$2.7 million. For the financial year under review, as the Group recorded a decrease in segment revenue and an increase in segment loss for the Group's FMCG Trading Business and Agri-Products Business segments, and given the persistent gloomy economic outlook and challenging environment, the Board had adopted a more cautious approach on the profit forecasts on these segment businesses, which resulted in recoverable amounts of the business segments less than the carrying amounts and hence substantial impairments were recognized.

Finance costs were kept at a minimal level during the financial year.

Net loss for the year ended 30 June 2020 was approximately HK$318.4 million (FY2018/19: HK$286.0 million). The increase in the net loss was mainly attributable to a combination of approximately 35.5% decrease in turnover, approximately 2.7% decrease in gross profit margin, approximately HK$25.0 million increase in impairment losses on trade receivables and deposits and other receivables and other operating expenses and approximately HK$13.3 million increase in loss of changes in fair value due to biological transformation, and partly offset by approximately HK$15.9 million increase in other gains and income, approximately 19.2% decrease in selling and distribution expenses, and approximately 18.5% decrease in administrative expenses.

Business Review

FMCG Trading Business

The FMCG Trading Business sells finished FMCG 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 Trading Business contributed approximately HK$322.3 million in revenues to the Group for FY2019/20, decreased by 34.9% from that contributed in FY2018/19. The decrease in revenues was primarily attributable to the impact from the pandemic and the persistently weak market demand arising from the tension between China and the United States and the fierce competition against domestic brands. The revenue of the FMCG Trading Business dropped drastically in the first half of 2020 due to the large-scale shutdown in economic activities worldwide. Distribution of products in the PRC market had been disrupted and some of our suppliers temporarily closed their production sites as containment measure for the pandemic, thus affecting the stability of product supply. Furthermore, the pandemic severely impacted the Group's plan to extend its reach in sourcing new products, and the Group entirely terminated its trading in cold chain product trading business in the light of its high maintenance costs and increasingly complicated customs formalities also attributed to the decline in the revenue of the FMCG Trading Business.

In view of the keen competition from domestic brands, the Group adopted more attractive and aggressive offers to our customers for different kinds of products in order to increase its competitiveness against domestic brands, which inevitably affected its gross profit margins. The depreciation of Renminbi against other major currencies during the financial year also put downward pressure on the gross profit margin, especially considering the difficulty in negotiating better terms with suppliers amid their suspension of operations during the pandemic. Notwithstanding the above, the Group will continue to adopt a sustainable business model to develop the FMCG Trading Business by strengthening the long term relationship and collaboration with the suppliers and customers.

This business unit can be classified into three categories including packaged foods, beverages and household consumable products with their respective contribution of approximately 74%, 20% and 6%. 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 beverage products.

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 generated HK$202.5 million for the FY2019/20, down approximately 37.7% as compared to the HK$324.8 million generated in FY2018/19. Similar to the FMCG Trading Business, the revenue of this business segment was also severely affected by the weak market conditions and the pandemic. The competition for imported fresh produce market remained fierce due to rising import costs and persistent anti-extravagance atmosphere. The upstream farming business also recorded a setback due to various containment measures during the pandemic.

Agri-Products Trading Business

The competition for the Chinese fruit market was very intense as the gap in product quality and product variety between domestic fruit and imported fruit have been shrinking over past few years, which led to the continuous improvement in the popularity of domestically produced fruits. This was further exacerbated by the intensifying global protectionism and more complicated customs formalities, not to mention how large the impact from the pandemic on the stability of product supply, freight transport and warehouse storage operations for imported fruits. Similar to the FMCG Trading Business, the Group reduced selling prices for most of agri-products in order to maintain market share, in spite of the increasing imported costs as a result of weakening Renminbi and stringent customs formalities. Therefore, the Group has been continuously expanding trading business for domestic fresh produce as a supplementary business, the percentage of its revenue over the total revenue of the agri-products trading business increased from approximately 19.2% to approximately 25.2% compared to last financial year. Additionally, its gross profit margin was relatively higher and more stable than its counterparts of the imported fruits in weak market conditions. Therefore, the Group will continue to develop its domestic fresh produce business by leveraging on the well-established distribution networks.

Upstream Farming Business

During the financial year under review, the Group continued to carefully operate in the plantations of early crop oranges and ponkans in the Jiangxi's farming base. Similar to the traditional trading business, the upstream farming business was also affected by the weak market conditions and the pandemic. Notwithstanding the above, the Group is cautiously optimistic on the prospect of this business unit leveraging on its improved distribution channels and agricultural operations. For instance, although the inclement weather like sustained rainy and foggy weather continuously affected the production yield, the Group's cumulative years of operating experience noticeably enhanced its ability to mitigate its impact by implementing advanced agricultural technology and working more closely with China's authorised institutions in weather forecasting. To further exploit its potential, the Group has been proactively developing a project including the construction of a fruit processing centre and the development of agri-tourism business nearby. The construction of fruit processing centre is expected to be completed by the end of 2020, which will provide various functions such as washing, packaging and warehousing for the Group's self-grown products. The remaining part of the project including agri-tourism facilities such as pick-your-own farm and recreational facilities will be carefully developed subject to the development of the pandemic.

On 23 September 2020, the Group entered into a memorandum of understanding for exploring an opportunity to develop ecological agricultural business, including environmental protection technology projects that convert domestic waste into feed for animal husbandry and plantation, which may enhance the agricultural yield and expand the Group's network in this business.

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 2% of the Group's total revenue amounted to approximately HK$9.5 million, decreased by approximately 38.1% compared to the last financial year. The decline in its revenue was primarily attributable to the decline in the business volume of the Group's traditional trading businesses because they are highly correlated with each other.

Other Business

The Other Business contains providing securities trading, margin financing and IPO subscription brokerage services through Sino Wealth Securities Limited and operating tourist retailing business. The revenue of the securities brokerage business dropped by approximately 28.1% compared to the last financial year. The decline in the revenue of the securities brokerage business was primarily attributable to the weak global financial market stemmed from the pandemic and the intensifying tension between China and the United States. As aforesaid, the Group would proceed carefully to its securities brokerage business when market conditions show signs of improvement. The use of the proceeds of the right issue held on 11 January 2017 was earmarked for the securities brokerage business, of which HK$60 million has been used as intended as at the date of this announcement. The remaining proceeds of approximately HK$147.3 million is expected to be utilized as originally intended for the development of the securities brokerage business based on continuous assessment on market conditions and demand before 10 March 2021.

During the financial year under review, the Group's tourist retailing business in Hong Kong with mainland Chinese tourists as its major clientele has been hit hardest by the pandemic. It is expected that it would take a long period of time for the retail and tourism industry returning to regular level in Hong Kong. Meanwhile, the Group has been carefully reviewing this business unit and implementing various austerity measures to cope with the toughest time.

PRINCIPAL RISKS AND UNCERTAINTIES

A number of factors are crucial for the results and business operations of the Group, some of which are inherent to FMCG Trading Business, Agri-Products Business, Logistics Services Business and Other Business and some are from external macro-environment. The major principal risks and uncertainties are summarized as follows:

1) Economic and Financial Market Volatility

The Group's trading businesses and the relevant logistics business are impacted by fluctuations in the global economy and financial market, particularly those in China. The decline in Chinese economic growth inevitably affected the level of disposable income and consumer confidence, and hence weighing on the demand on the Group's products and revenues. Therefore, if there is any significant financial volatility and economic setback, or even economic shutdown caused by force majeure events such as global pandemic and wars, the Group's operations and financial performance may be adversely affected. The economic risks may result in financial market turbulence and market disruption, which may severely affect the operations of the securities brokerage business and the tourist retailing business.

2) Increasing Market Competition

The industries in which the Group operates in China are highly competitive. The Group's competitiveness is its product differentiation by providing high quality imported products at reasonable prices. However, the Group's competitiveness may be weakening in light of increasing market competition arising from the improvement of domestic product quality and the higher penetration of cross-border internet shopping. The Hong Kong financial and retail industries are also a highly competitive market and the Group cannot assure to maintain existing client base or not to engage in price competition.

3) Increasing Political Risks

Political risks including the recent rise of global protectionism may severely affect the Group's trading businesses. The increase in tariffs and various customs formalities as a result of the protectionism will increase the import costs and decrease the competitiveness of the Group's imported products, the Group cannot assure to pass on the increased costs to customers or maintain existing client base under such circumstances. The Group's tourist retailing business may be severely affected by the occurrence of large-scale protests arising from political events, the Group cannot assure to maintain existing client base or not to engage in price competition.

4) Supply Chain Risk

The Group sources products from a number of overseas suppliers. The cooperation is based on well-entrenched relationship and fair terms of trade between the Group and suppliers. However, the Group cannot warrant that the relationship with each supplier will remain unchanged, in the event the Group is unable to reach agreement upon reasonable terms with any suppliers and cannot find suitable substitute suppliers, the Group's operations may be affected.

5) Inclement Weather Condition

The Group's upstream farming business is highly dependent on the weather condition. Inclement weather condition will inevitably damage the level of crop productivity and thus the revenues of the upstream farming business. Furthermore, the climate conditions of the areas where the suppliers for the Group's agri-products trading business are located could also severely affect the stability of product supply.

6) Financial Risk

The Group is exposed to various financial risks, including but not limited to, interest rate risk, currency risk, credit default risk, liquidity risk and policy risk. While the Group actively monitors these risks and adopts risk management measures to mitigate the potential adverse effects that could be derived from these risks, the Group cannot warrant that these risks can be fully hedged and the Group may suffer when unexpected financial events occur.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group devotes much attention to environmental protection and is committed to promoting environment-friendly behaviours in the course of business activities. The Group implemented different measures and set out guidelines for saving electricity, water and other precious resources and encouraged recycle of office supplies and other materials. The Group also operated major logistics centres and facilities in strict compliance with the relevant environmental regulations and internationally recognized standards.

KEY RELATIONSHIP

The Group's success highly depends on the support from key relationships with employees, suppliers and customers. The Group understands the importance of maintaining a good relationship with them to achieve its immediate and long-term business goals.

The Group is continuously offering training and encouraging continuing education for our employees. Meanwhile, the Group recognises the value of its key personnel in maintaining team morale and competitiveness. Both internal promotion and external recruitment are applied to select and promote top employees for vacant positions and attract qualified candidates to join the Group.

The Group cooperates with a number of suppliers based on long term relationships. The Group emphasises on the communication with suppliers and timely keeps them abreast of market trend in China's consumer market. The Group also provides value-added and tailor-made services to our suppliers to increase their stickiness.

The Group's customers include wholesalers, on-premise customers, e-commerce operators and securities investors and tourists. The Group's most important mission is to deliver high quality, safe and niche products to our customers. The Group continuously conducts market research and expands various communication channels to understand customers' needs.

During FY2019/20, there was no material and significant dispute between the Group and its employees, suppliers and customers.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

As far as the management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During FY2019/20, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

SIGNIFICANT INVESTMENTS HELD AND THEIR PERFORMANCE

In October and November 2018, the Group utilised its available cash to subscribe two convertible bonds issued by China Healthwise Holdings Limited ("China Healthwise") and Global Mastermind Holdings Limited ("Global Mastermind") for HK$120.0 million and HK$80.0 million respectively, and acquired a bond issued by Earthasia International Holdings Limited ("Earthasia") in June 2020 for HK$25.5 million.

China Healthwise is a listed company in the main board of the Stock Exchange and together with its subsidiaries are principally engaged in sale of toys, Chinese health products, money lending business and investment in financial instruments. As at the date of this announcement, China Healthwise redeemed in total HK$34.5 million of its convertible bond. At 30 June 2020, the fair value of the Group's investment in its convertible bond was approximately HK$97.1 million (30 June 2019: HK$109.8 million), representing approximately 6.0% (30 June 2019: 5.5%) of the Group's total assets, and recorded an unrealised fair value gain on investment of approximately HK$7.2 million and an interest income of approximately HK$7.0 million for the financial year.

On 28 August 2020, a supplemental agreement was signed to conditionally extend the original maturity date of the outstanding HK$85,500,000 principal amount of the convertible bond issued by China Healthwise for another two years to 10 October 2022. An extraordinary general meeting will be convened on 7 October 2020 to seek for shareholders' approval.

Global Mastermind is a listed company in the GEM board of the Stock Exchange and together with its subsidiaries are principally engaged in provision and operation of travel business, treasury management business, money lending business and provision of securities, futures and asset management and financial advisory services. At 30 June 2020, the fair value of the Group's investment in its convertible bond was approximately HK$84.1 million (30 June 2019: HK$81.7 million), representing approximately 5.2% (30 June 2019: 4.1%) of the Group's total assets, and recorded an unrealised fair value gain on investment of approximately HK$2.4 million and an interest income of approximately HK$6.4 million for the financial year.

On 25 September 2020, a subscription agreement was signed to conditionally subscribe a new convertible bond issued by Global Mastermind in the principal amount of HK$60 million. The subscription price shall be satisfied in cash and shall be set-off and deducted on a dollar-to-dollar basis from the repayment of all sums due under the existing convertible bond payable by Global Mastermind to the Group due on 12 November 2020. An extraordinary general meeting will be convened to seek for shareholders' approval.

Earthasia is a listed company in the main board of the Stock Exchange and together with its subsidiaries are principally engaged in the provision of landscape architectural services in Hong Kong and China, catering business in Italy and China and graphene business in China. At 30 June 2020, the fair value of the Group's investment in its bond was approximately HK$25.9 million, representing approximately 1.6% of the Group's total assets, and recorded an increase in investment revaluation reserve of approximately HK$0.4 million and an interest income of approximately HK$0.4 million for the financial year.

The objective for the above investments is to better utilise the Group's available cash and seek higher interest income in view of the current uncertain global trading market.

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.

On 11 January 2017, the Company raised from a rights issue the net proceeds of approximately HK$207.3 million, which were intended to inject into the securities brokerage business. Out of the net proceeds, HK$60 million has been used as intended as at the date of this announcement. In view of the market uncertainty and to better utilize its financial resources, on 8 March 2019, the Group had proposed to change the use of part of the proceeds to finance a possible acquisition of a target company, running retailing and catering businesses in Hong Kong. The acquisition was subsequently not materialized in view of the social unrest in Hong Kong, the unused proceeds of approximately HK$147.3 million, shall continue its original intended use and be further extended to 10 March 2021.

At 30 June 2020, the Group had interest-bearing borrowings of approximately HK$20.4 million (30 June 2019: HK$20.2 million) of which all borrowings were denominated in Hong Kong dollars and all would mature within one year. All of the Group's bank borrowings at 30 June 2020 were floating-interest bearing and secured by corporate guarantees provided by the Company and certain subsidiaries of the Company and a charge over cash of a subsidiary in carrying amount of approximately HK$0.4 million (30 June 2019: Nil).

A significant portion of sales, purchases, services income and bank and cash equivalents of the Group were either denominated in Renminbi, Hong Kong dollars or US dollars. During the financial year under review, the Group experienced a high volatility in Renminbi, and the Group will closely monitor the foreign currency exposure and may consider arranging for hedging facilities when it is necessary. At 30 June 2020, the Group did not have any significant hedging instrument outstanding.

At 30 June 2020, the Group's current assets amounted to approximately HK$1,004.3 million (30 June 2019: HK$1,108.0 million) and the Group's current liabilities amounted to approximately HK$110.2 million (30 June 2019: HK$135.9 million). The Group's current ratio maintained at a level of approximately 9.1 at 30 June 2020 (30 June 2019: 8.2). At 30 June 2020, the Group had total assets of approximately HK$1,630.8 million (30 June 2019: HK$1,981.8 million) and total liabilities of approximately HK$125.4 million (30 June 2019: HK$145.7 million) with a gearing ratio of approximately 1.3% (30 June 2019: 1.0%). The gearing ratio was expressed as a ratio of total bank borrowings to total assets. The Group's gearing ratio remained at a fairly low level as at 30 June 2020 and 2019.

NUMBER AND REMUNERATION OF EMPLOYEES

At 30 June 2020, the Group had approximately 390 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 12 June 2020, the Board has adopted a share award plan. The purposes of the plan are to recognise and reward the contribution of certain eligible participants to the growth and development of the Group, to give incentives to eligible participants in order to retain them for the continual operation and development of the Group and to attract suitable personnel for further development of the Group.

DEVELOPMENT AND PROSPECTS

The operating environment has been deteriorating unprecedentedly and rapidly since the outbreak of COVID-19, which cast a significant negative outlook and uncertainty on global economic growth. The Group is unable to ascertain how long the pandemic will last and the level of its impact on the global economy. Nevertheless, the Group's business performance is expected to encounter a more difficult environment over next year given there are many uncertainties ahead. Therefore, the Group will continue to retain cautious stance in business development and focus on business and investment the Group is familiar with.

For the traditional trading businesses including the FMCG Trading Business and the agri-products trading business, the Group will continue to reinforce their operations by strengthening the relationship with suppliers, in particular considering the increasing popularity of cross-border internet shopping. The Group will resume its procurement network expansion when the global traffic returns to normal to ensure stable product portfolio and variety. On the other hand, in view of tight liquidity and gloomy economic outlook, the Group will take a more prudent approach by stopping selling products to customers with weak creditworthiness. On the contrary, the Group will continue to implement relatively aggressive pricing strategies to maintain competitiveness for a longer period of time amid the weak market conditions.

For the upstream farming business, although the sales performance dropped for the financial year under review, the Group is cautiously optimistic on its development considering its improving agricultural operations and distribution channels. Therefore, the Group will continue to carefully invest in this business unit such as the fruit processing centre as mentioned above, which is expected to help facilitate brand building and distribution network expansion. Furthermore, the Group will evaluate the cooperation with a business partner in developing the ecological agricultural business, which may enhance the Group's skill, technology and network in agricultural business.

For the securities brokerage business and the tourist retailing business, the Group will monitor closely its developments in such uncertain and volatile market conditions. The Group will focus on cost saving initiatives for these business units until the market shows signs of recovery.

Furthermore, the Group will continue to review the feasibility of the potential cooperation with China Healthwise by selling Chinese dried and health food products under the brand "Nam Pei Hang" when the retail and trading business are resumed to normal.

The financial results were hindered by the deteriorating macro environment. There are many uncertainties ahead including the development of the pandemic, the political tension among different major nations, and the global economic slowdown. The Group will take a more cautious stance for future development and continue to implement cost-saving initiatives, as well as ensure a strong and healthy financial position to weather any unforeseeable headwinds.

DIVIDEND

The Board does not recommend the payment of a final dividend for the financial year ended 30 June 2020 (2019: Nil).

CORPORATE GOVERNANCE

The Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and complied with all the applicable code provisions of the CG Code throughout the financial year ended 30 June 2020, except with deviation from code provision A.2.1.

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separated 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 30 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.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, they all confirmed that they had fully complied with the required standard set out in the Model Code throughout the financial year ended 30 June 2020.

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

Throughout the financial year ended 30 June 2020, 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 financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 30 June 2020 as set out in the preliminary announcement have been reviewed by Audit Committee and agreed by the Group's auditors, RSM Hong Kong, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by RSM Hong Kong in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by RSM Hong Kong on the preliminary announcement.

PUBLICATION OF THE RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This final results announcement is available for viewing on the websites of the Stock Exchange and the Company. The 2019/20 annual report of the Company will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

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

Hong Kong, 30 September 2020

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. Gao Qin Jian and Mr. Chan Cheuk Yu, Stephen; and three independent non-executive directors, namely Ms. Mak Yun Chu, Mr. Poon Yiu Cheung, Newman and Mr. Hung Hing Man.