

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Interim Results

The Board of Directors (the "Board") of Landune International Limited is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

Corporate Results

The Group reported a turnover of HK\$9,909,000 in the current period which represented a decrease of 12.58% from last corresponding period ended 30 June 2004. The turnover of current period comprised the proceeds on the disposal of properties of HK\$8,380,000 (last period: HK\$10,600,000), sales of health products of HK\$1,452,000 (last period: HK\$Nil) and rental income of HK\$77,000 (last period: HK\$735,000).

The operating and administrative expenses increased by 9% comparing with last period largely due to the additional manpower associated with the new health products segment which commenced operation since July 2004. The Group also incurred selling and distribution expenses of HK\$1,619,000 in respect of such segment.

Loss attributable to shareholders amounted to HK\$7,944,000 in the current period after taken into account the financial effect arising from the adoption since 1 January 2005 of the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. Of these new HKFRSs, HKFRS 2 – Share-based Payment would have the largest financial impact on the Group as it required the Company to reflect the employee share option value as staff cost through the profit and loss account and as capital reserve in the balance sheet. The Group has thereby inflated the employee cost by HK\$3,354,000 in the current period and HK\$4,082,000 for the year ended 31 December 2004. As no share option had been granted or outstanding during the period ended 30 June 2004, the adoption of HKFRS 2 would have no effect on the financial result of the last period.

Profit in last period of HK\$138 million was mainly attributable to the gain of HK\$145 million arising from debt restructuring arrangements completed in March 2004. Should such exceptional gain in last period be excluded, the Group would indeed reflect a net loss for the period of HK\$6,581,000. The net loss in the current period is just moderately higher than the last corresponding period by HK\$1,363,000 or 20.71% owing to the inflated employee cost of HK\$3,354,000 reflected under the new accounting requirement of HKFRS 2.

Financial Resources and Liquidity*Borrowings*

The Group reflected a slight decrease in cash and bank balances from HK\$5,008,000 at 31 December 2004 to HK\$4,111,000 at 30 June 2005 but on the other hand, the Group has fully repaid its interest-bearing bank borrowing of HK\$4,493,000 during the period. As a result, the total borrowings (excluding trade and other payables) of the Group reduced to HK\$7,224,000 as at 30 June 2005 which represented a decline of 35%. As at 30 June 2005, the Group's properties held for sale and properties under development with carrying value of HK\$8,500,000 and HK\$6,762,000, respectively had been pledged to the financial creditors as security for the indebtedness of around HK\$2,606,000.

Current Ratio

The current ratio substantially improved from 1.27 at 31 December 2004 to the existing 1.82 as the Group has successfully re-scheduled certain short-term loans into long-term liabilities during the period. In view that the current ratio remains at a healthy level, the Directors are of the opinion that sufficient working capital is available to fulfil the financial obligations when they fall due and to meet the future funding requirement of the Group.

REVIEW OF OPERATIONS, OUTLOOK AND STRATEGY**Business Review, Corporate Strategy and Outlook**

During the first six months of 2005, the property market in Hong Kong remains volatile but the remarkable growth in 2004 is somehow restricted owing to the continuous rise in prime interest rate from 5% at the end of 2004 to 7% as of today. In order to capitalise the upward market trend, the Group had disposed half of its properties portfolio in early 2005 and thus recorded a lower rental income in return. The remaining properties portfolio of the Group is situated in fringe area and has not yet fully benefit from the recent growth. Accordingly, the Board has resolved to maintain such properties in the foreseeable future for rental income.

In view of the unfavourable interest environment in the coming period and the increasing cost of funding, the Board is very caution and prudent in finalising the development plan of its property development project. The Board will keep monitoring the market situation in order to formulate the best strategy as well as development and financing plan for such project.

The newly established health products segment has faced significant setback in the current period due to the stringent measures adopted by the Government of the People Republic of China (the "PRC") in regulating the advertising materials utilised in health products and cosmetic sectors. Such measures have unavoidably affected the advertising campaign of the Group in selling and distribution of its health products and such effect is expected to last through the third quarter of 2005. As a result of such administrative measures, the health products segment posted a segmental loss of HK\$1,018,000 for the current period as compare to a segmental profit of HK\$1,827,000 in last year.

The Group is actively refining its advertising materials and applying for appropriate license of broadcasting and the Board believed that the Group is able to overcome the effect of the rulings in near future. These new measures and policies are applying across the industry and no market players could be exempted and the Board believed that in the long run, these measures and policies would help to restore the industrial norm and stability and drive out those irresponsible and exaggerated competitors. The Group will capitalise on this opportunity to enlarge its market share and to formulate more aggressive strategy in positioning and enforcing itself in the industry.

Acquisition

As announced recently, the Company has entered into an acquisition agreement on 4 September 2005 to purchase the entire issued share capital of Top Pro Limited, subject to the satisfactory fulfilment of the conditions precedent including the approval by the shareholders of the Company. The acquiring group is now engaged in distance selling through television and catalogue mailing in the PRC.

The Board believes that the acquisition will open the Group to a new mode of selling and will broaden the revenue and customers base of the Group to a large extent. The acquiring group will supplement the existing distribution business of the Group and is synergistic to its health products segment. Accordingly, the Board considers the acquisition will benefit the Group and is in the interest of the Company and the shareholders as a whole.

Exchange Rate Exposure

As at 30 June 2005, Renminbi and HK dollar accounted for 73.24% and 26.76% of the Group's total bank balance respectively.

As majority of the sales, purchases, assets and liabilities committed by the health products segment of the Group were mainly in Renminbi, the Group is subject to a certain level of exchange rate exposure. However, as the exchange rate of Renminbi to HK dollar was relatively stable and there had not been any material conversion issue, the Board considered the Group's exposure to foreign exchange risk remained relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 30 June 2005 was 17 persons (11 persons as at 30 June 2004). Employees are remunerated with reference to their individual qualification, experience, responsibility, performance and the prevailing salary levels in the market. The Group also operates a share option scheme for eligible employees (including Directors) to provide incentive to the participants for their contribution and continuing efforts to promote the interests of the Group.

The Board owes a lot of gratitude to the Group's customers, bankers, creditors, management and shareholders for their continuing support in the past.

On behalf of the Board

Ni Xinguang

Chairman

Hong Kong SAR, 28 September 2005