



new vision

2006/07

Interim Report



VITOP BIOENERGY HOLDINGS LIMITED

天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1178

INTERIM RESULTS

The board of directors (the “Board”) of Vitop Bioenergy Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2006 (the “Period”) together with comparative figures for the corresponding period in 2005 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 December	
		2006	2005
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	4	52,662	53,715
Cost of sales		(34,649)	(33,226)
Gross profit		18,013	20,489
Other income		5,262	4,051
Selling and distribution costs		(17,800)	(16,344)
Administrative expenses		(14,154)	(12,953)
Other operating expenses		(3,514)	(10,069)
LOSS FROM OPERATING ACTIVITIES	5	(12,193)	(14,826)
Finance costs	6	(147)	(31)
Share of loss of a jointly controlled entity		—	(152)
LOSS BEFORE TAXATION		(12,340)	(15,009)
Taxation	7	(90)	(508)
LOSS FOR THE PERIOD		(12,430)	(15,517)
ATTRIBUTABLE TO:			
Equity holders of the Company		(12,652)	(15,621)
Minority interests		222	104
		(12,430)	(15,517)
DIVIDENDS	8	—	—
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD			
Basic	9	HK(1.81) cents	HK(2.28) cents
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Non-current assets			
Property, plant and equipment	10	11,019	12,545
Intangible assets		911	1,773
Financial assets at fair value through profit or loss		2,480	2,480
Pledged bank deposit		20	20
		14,430	16,818
Current assets			
Inventories	11	10,616	19,096
Trade receivables	12	4,424	4,767
Deposits, prepayments and other receivables		10,437	6,470
Cash and bank balances		49,998	31,282
		75,475	61,615
Assets classified as held for sale		—	7,165
		75,475	68,780
Current liabilities			
Trade payables	13	10,141	8,948
Accrued liabilities and other payables		24,493	10,976
Deposits received		8,573	8,567
Interest-bearing bank loans		3,212	2,276
Provision for tax		—	57
		46,419	30,824
Liabilities associated with assets classified as held for sale		—	122
		46,419	30,946
Net current assets		29,056	37,834
Total assets less current liabilities		43,486	54,652
Non-current liabilities			
Interest-bearing bank loans		1,298	1,613
Net assets		42,188	53,039
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		17,464	17,464
Reserves		23,036	33,785
		40,500	51,249
Minority interests		1,688	1,790
Total equity		42,188	53,039

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve	Capital		Translation reserve	Share option reserve	Retained	Proposed	Minority interests	Total equity	
				reemption reserve	Capital reserve			profits/ (Accumulated losses)	final dividend			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 July 2005	17,048	30,496	8,789	29	28,764	(57)	1,255	259	4,910	91,493	1,891	93,384
Loss for the Period	—	—	—	—	—	—	—	(15,621)	—	(15,621)	104	(15,517)
Translation adjustment	—	—	—	—	—	1,666	—	—	—	1,666	—	1,666
Final 2005 dividend paid:												
— Paid by cash	—	—	—	—	—	—	—	—	(1,859)	(1,859)	—	(1,859)
— Satisfied by issue of new shares	416	2,635	—	—	—	—	—	—	(3,051)	—	—	—
At 31 December 2005	17,464	33,131	8,789	29	28,764	1,609	1,255	(15,362)	—	75,679	1,995	77,674
At 1 July 2006 (Audited)	17,464	33,131	8,789	29	28,764	1,478	—	(38,406)	—	51,249	1,790	53,039
Additional interest in a subsidiary	—	—	—	—	—	—	—	—	—	—	(324)	(324)
Loss for the Period	—	—	—	—	—	—	—	(12,652)	—	(12,652)	222	(12,430)
Equity-settled share option arrangements	—	—	—	—	—	—	272	—	—	272	—	272
Translation adjustment	—	—	—	—	—	1,631	—	—	—	1,631	—	1,631
At 31 December 2006	17,464	33,131	8,789	29	28,764	3,109	272	(51,058)	—	40,500	1,688	42,188

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	9,617	(1,469)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	7,053	(876)
NET CASH GENERATED FROM FINANCING ACTIVITIES	621	141
INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	17,291	(2,204)
CASH AND CASH EQUIVALENTS AT 1 JULY	31,282	44,780
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	1,425	2,320
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	49,998	44,896
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	49,998	42,396
Pledged bank deposit as security for a bank loan facility	—	2,500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	49,998	44,896

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BACKGROUND OF THE COMPANY

The Company was incorporated in the Cayman Islands on 15 February 2001 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company withdrew the listing of its shares on The Growth Enterprise Market (the “GEM”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 10 February 2003, and on the same date, by way of introduction, listed its entire issued share capital on the Main Board of the Stock Exchange.

The principal activity of the Company is investment holding. The principal activities of its subsidiaries are manufacturing and trading of multi-functional water generators, BIOenergy products, and healthcare food products, and other healthcare products in the People’s Republic of China, excluding Hong Kong (the “PRC”).

2. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

The accounting policies and basis of preparation of these unaudited condensed financial statements are consistent with those set out in the Group’s audited financial statements for the year ended 30 June 2006.

In the current Period, the Group has applied, for the first time, a number of new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs and interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2006. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they would not have significant impact on the results and financial position of the Group.

Certain comparative figures have been reclassified and restated to conform with the current Period presentation.

3. SEGMENT INFORMATION

The Group's unaudited revenue and loss for the Period analysed by business segment are as follows:

	BIOenergy products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:										
Sales to external customers	11,231	17,549	11,079	8,084	28,668	27,162	1,684	920	52,662	53,715
Segment results	1,760	3,599	604	1,305	(531)	(1,007)	(70)	110	1,763	4,007
Unallocated other income									5,262	4,051
Unallocated expenses									(19,365)	(22,915)
Loss from operating activities									(12,340)	(14,857)
Share of loss of a jointly controlled entity									—	(152)
Loss before taxation									(12,340)	(15,009)
Taxation									(90)	(508)
Loss for the Period									(12,430)	(15,517)

No geographical analysis is presented as all of the Group's revenue and contribution to loss is attributable to markets in the PRC.

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts (where applicable). All significant intra-group transactions have been eliminated on consolidation.

5. LOSS FROM OPERATING ACTIVITIES

The Group's unaudited loss from operating activities is arrived at after charging:

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	34,649	33,226
Amortisation of intangible assets	914	925
Depreciation of property, plant and equipment	2,096	2,191
Impairment loss on trade receivables	1,211	7,410
Impairment loss recognised on the remeasurement of assets of disposal group	—	1,323
Loss on disposal of property, plant and equipment	17	41
Provision for obsolete and slow-moving inventories	949	1,531

6. FINANCE COSTS

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans Wholly repayable within five years	147	31

7. TAXATION

	Six months ended 31 December	
	2006	2005
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current tax — PRC	90	508

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2005: Nil). Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the Period.

In accordance with the applicable corporate income tax law of the PRC, Vitop Bioenergy (China) Ltd. ("Vitop China"), wholly-owned subsidiary of the Company operating in the PRC, is exempt from corporate income tax for the first two profitable calendar years of operations and is entitled to a 50% relief on corporate income tax for the following three years. The two years' tax exemption period for Vitop China commenced from the tax year ended 31 December 2001 and expired as at 31 December 2002 under the local jurisdiction. With effect from 1 January 2003, Vitop China is subject to a 50% relief on the corporate income tax rate of 15% of its assessable profit for each of the years ending 31 December 2003, 2004 and 2005. Accordingly, Vitop China is subjected to 15% and a concessional 7.5% corporate income tax rates for the Period and for the six months ended 31 December 2005, respectively.

As at 31 December 2006, the Group did not have any significant unprovided deferred tax liabilities (30 June 2006: Nil).

8. DIVIDENDS

The Board has resolved not to declare any interim dividend for the Period (2005: Nil).

9. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS

The calculation of basic loss per share is based on the loss attributable to equity holders for the Period of approximately HK\$12,652,000 (2005: HK\$15,612,000) and the weighted average number of 698,543,104 (2005: 683,278,587) ordinary shares in issue during the Period.

Diluted loss per share amounts for the six months ended 31 December 2006 and 2005 have not been disclosed as there were no potential dilutive ordinary shares.

10. PROPERTY, PLANT AND EQUIPMENT

	Total HK\$'000
At 1 July 2006 (audited)	12,545
Additions	450
Depreciation	(2,096)
Disposals	(306)
Translation adjustment	426
	<hr/>
At 31 December 2006 (unaudited)	11,019

11. INVENTORIES

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Raw materials	4,694	6,351
Work in progress	3,362	3,994
Finished goods	12,081	17,323
	20,137	27,668
Less: Provision for obsolete and slow-moving inventories	(9,521)	(8,572)
	10,616	19,096

12. TRADE RECEIVABLES

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Outstanding balances aged:		
Within 30 days	1,855	1,661
Between 31 to 60 days	1,163	1,163
Between 61 to 180 days	1,739	1,683
Over 180 days	6,925	6,307
	11,682	10,814
Less: Provision for impairment	(7,258)	(6,047)
	4,424	4,767

The general credit terms that the Group offers to customers are not more than 90 days.

13. TRADE PAYABLES

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Outstanding balances aged:		
Within 30 days	3,045	3,608
Between 31 to 60 days	4,333	1,880
Between 61 to 180 days	737	1,392
Over 180 days	2,026	2,068
	10,141	8,948

14. COMMITMENTS

a. Operating lease arrangements

At the balance sheet date, the Group's total future minimum lease payments under non-cancellable operating leases in respect of land and buildings are as follows:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Falling due:		
Within one year	2,080	1,829
In the second to fifth years, inclusive	1,120	1,719
	3,200	3,548

b. Capital commitments

The Group had capital commitments as follows:

	31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
Commitments contracted, but not provided for:		
Capital injection to a jointly controlled entity	—	2,857
Purchase of property, plant and equipment	1,802	1,751
Others	—	952
	1,802	5,560

MANAGEMENT DISCUSSION & ANALYSIS

Business Review

The principal activities of the Group are manufacturing and trading of multi-functional water generators, BIOenergy products and healthcare food products in the PRC.

For the Period, the Group's revenue amounted to approximately HK\$52.66 million, representing a decrease of 2.0% as compared with the same period of last year. Loss for the Period amounted to approximately HK\$12.65 million (six months ended 31 December 2005: approximately HK\$15.62 million). Market conditions continued to remain challenging given the cautious consumer behavior towards healthcare products and the increased operating cost environment for our franchisees.

In the multi-functional water generator line of business, a moderate increase of 5.5% in revenue was achieved. A number of positive actions have been put in place to address consumer concerns arising from the Document No. 10 (the "Document"). In September 2006, the Group announced a water generator service campaign (無憂服務), which set the standard of servicing our customers' water generators to ensure on-time replacement of filters and superior functioning of our customers' water generators. This campaign markedly improved consumer confidence and enhanced the reliability of the product. In November 2006, with the significant contribution and cooperation of the Group, our partnering factory in Suzhou successfully localised the manufacturing of the OSG HU-50 water generator, one of the best selling product formerly imported from Japan. The localisation helped to lower the retail price point and shortened the procurement lead time.

In November 2006, as part of the Group's strategic business realignment plan, the Group disposed of its 40% equity interest in Vitop OSG Environmental Technology (Suzhou) Co., Limited ("Vitop OSG") to its joint venture partner, OSG Corporation ("OSG"), resulting in a gain on disposal of approximately HK\$1.17 million. With an exclusive distributorship agreement in place for Vitop OSG's products in the PRC market, the Group will focus on the marketing of OSG machines.

Revenue derived from the BIOenergy product line of business recorded a decrease of 36.0%. The continuing drop in revenue was due to severe market competition and lack of new products. The Group is currently reviewing new product development plans and product positioning, and identifying new channels of distribution such as electronic commerce to rectify the situation.

The healthcare food product line continued to be the fastest growing line of business, with a 37.1% growth in revenue. During this financial period, the Group introduced a new product called Bone-Shukang (骨疏康), which has been very well received by the market. This boosted the confidence of both our consumers and franchisees, re-emphasising Vitop's commitment in marketing only the best healthcare food products in the market. The Group aims at introducing a few high quality healthcare food products during the rest of the financial year.

To expand market penetration internationally, the Group set up an international market development task force. The Group participated in the Chinese Export Commodities Fair in Autumn 2006. Interest was encouraging, particularly in our water generators, and the Group is currently in discussions with a number of parties from the United States and Europe. At the same time, the Group's electronic commerce initiative has successfully been launched, and accomplished credible month-by-month growth in sales orders. The Group sees a good potential in the electronic commerce business in conjunction with international market development.

The Board has committed to upgrade the management capability of the Group to revitalise the business and set a strong foundation for future growth. In December 2006, the Group appointed a new leadership team comprising seasoned marketing, business development and finance professionals from multinational corporations. With the support of the original leadership team, we believe that the new team will contribute to re-building the business and further strengthening the competitive advantage of the Group in wellness market both in China and internationally.

FINANCIAL REVIEW

The financial performance of the Group for the Period was unsatisfactory.

Revenue

Revenue decreased by 2.0% or approximately HK\$1.06 million to approximately HK\$52.66 million as compared with HK\$53.72 million for the same period of last year.

The decrease was attributable to the decrease in the revenue of BIOenergy products by 36.0% or approximately HK\$6.32 million to approximately HK\$11.23 million as compared with the same period of last year. The 2005 revenue was significantly affected by the Document incident. Despite the fact that the impact of the Document has been absorbed by the market, the BIOenergy products still recorded a 36.0% drop in revenue in the Period due to the increasing market competition and a lack of new products introduced to the market.

The significant decrease in the revenue of the BIOenergy products was largely offset by the increase in revenue in the following product segments:

- (1) The revenue of multi-functional water generators increased by 5.5% or approximately HK\$1.51 million to approximately HK\$28.67 million. The increase was mainly a result of the partial recovery in market confidence after the Document incident (which occurred in July 2005 and therefore significantly affected the performance during the last period) and the favourable sales momentum of a new water generator manufactured by 合肥天年美菱環保科技有限責任公司 (“Meiling”) in the last quarter of 2005. During the Period, there was a shift in the sales mix of products with less weighting on imported OSG water generators, as OSG water generators commenced local production; and
- (2) The revenue of healthcare food products increased by 37.1% or approximately HK\$3.00 million to approximately HK\$11.08 million. The increase was mainly attributable to the introduction of a new product called Bone-Shukang (骨疏康) to the market during the Period.

Gross profit

The overall gross margin of the Group for the Period decreased by 3.9% points to 34.2% from 38.1% in the same period of last year. This can be further analysed as follows:

- (1) The gross profit margin of the BIOenergy products was 49.5%, representing a 3.8% points drop as compared with 53.3% in the same period of last year, as the Group increased the discounts offered to franchisees to cope with the severely competitive market environment.
- (2) With regard to the healthcare food products, the Group adopted a low margin strategy to stimulate sales of these products to franchisees, resulting in a drop in gross profit margin from 47.4% in the same period of last year to 38.7% in order to compete with other propolis products in the market and to ensure a successful launch of Bone-Shukang (骨疏康) during the Period.
- (3) The gross profit margin of water generators increased from 25.4% in the same period of last year to 27.0%. This was due to the change in the sales mix with a reduction in the proportion of sales of imported OSG water generators, with a lower gross margin as compared with the locally produced Meiling and Vitop OSG water generators, from 58.1% of total water generator revenue for the last period to 40.7% for this Period.

Other income

The increase in other income represents mainly the gain on disposal of the 40% equity investment in Vitop OSG amounting to approximately HK\$1.17 million during the Period.

Expenses

Selling and distribution expenses increased approximately HK\$1.46 million from approximately HK\$16.34 million in the last period to approximately HK\$17.80 million for the Period. This is mainly due to the increase in advertising contribution to franchisees.

Administration expenses increased from approximately HK\$12.95 million in the last period to approximately HK\$14.15 million for the Period. The increase mainly represents expenses incurred for enhancing the Group's market visibility and influence in the wellness industry.

Other operating expenses of the Group amounted to approximately HK\$3.51 million for the Period, representing a decrease of approximately HK\$6.56 million as compared with the same period of last year. The decrease was mainly due to certain one-time charges or losses recorded in last period, including:

- (1) A provision made in the last period. The Legal Daily Press Media Production Centre (法制日報影視制作中心), an independent third party, began internal evaluation of financial position at the end of 2005 due to difficulties in operation. It may apply for bankruptcy proceedings and if bankruptcy is declared, prepaid advertising fee of approximately HK\$6.00 million to become uncollectible. The Group made a provision for the bad and doubtful debt accordingly during the last period; and
- (2) A loss on disposal of Shanghai Heng Fai Biological Products Company Limited of approximately HK\$1.32 million recorded in the last period.

Net loss

As a result of the above, the net loss for the Period narrowed to approximately HK\$12.65 million from approximately HK\$15.62 million from the last period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, cash and bank balance of the Group was approximately HK\$50.00 million (30 June 2006: approximately HK\$31.28 million), and the Group's borrowings were bank loans of approximately HK\$4.51 million (30 June 2006: approximately HK\$3.89 million), which is secured by a pledge of the Group's financial assets at fair value through profit and loss of approximately HK\$2.48 million and pledge bank deposit of HK\$0.02 million (30 June 2006: financial assets at fair value through profit and loss of HK\$2.48 million and pledge bank deposit of HK\$0.02 million).

As at 31 December 2006, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of the equity attributable to the shareholders of the Company was approximately 11.14% (30 June 2006: approximately 7.59%).

Despite the loss reported for the Period, cash was generated from operations during the Period amounting to approximately HK\$9.62 million, primarily due to more stringent inventory control and conservative cash management.

Cash generated from investing activities amounted to approximately HK\$7.05 million, represented mainly by the collection of the sales proceeds from disposal of the 40% shares in Vitop OSG, and the remaining balance of sales proceeds from disposal of a subsidiary completed during the previous financial period.

INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2006 (2005: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES/JOINTLY CONTROLLED ENTITIES

In November 2006, the Group disposed of its 40% equity interest in Vitop OSG to its joint venture partner (OSG) resulting in a gain on disposal of approximately HK\$1.17 million.

Save as disclosed above, there were no material acquisitions and disposals of subsidiaries and associated companies/jointly controlled entities during the Period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2006, the Group employed a total of 282 employees, of which 272 are based in the PRC and 10 are based in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) of approximately HK\$7.50 million were incurred for the six months ended 31 December 2006. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

SECURITIES IN ISSUE

No shares were issued during the six months ended 31 December 2006, and the total number of issued shares of the Company as at 31 December 2006 and as at the date of this interim report is 698,543,104.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2006, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in the shares and underlying shares of the Company

Name	Type of interest	Capacity	Number of shares held	Number of underlying shares subject to share options	Aggregate interest	Approximate percentage of interest
Directors						
Hung Kai So	Personal	Beneficial owner	138,707,105	—	138,707,105	19.86%
Kam loi	Personal	Beneficial owner	119,805,112	—	119,805,112	17.15%
Liu Jun	Personal	Beneficial owner	16,816,607	—	16,816,607	2.40%
Ying Yoke Nean	Personal	Beneficial owner	—	14,000,000	14,000,000	2.00%
Chan Yuk Tong	Personal	Beneficial owner	—	10,000,000	10,000,000	1.43%
Chief Executive						
Lum Kan Fai Vincent	Personal	Beneficial owner	—	20,000,000	20,000,000	2.86%

Save as disclosed above, as at 31 December 2006, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or otherwise to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

According to the records entered into the register required to be kept by the Company under section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at 31 December 2006, the interests and short positions of the persons (other than the directors and chief executive of the Company) in the shares and underlying shares of the Company were as follows:

Long positions in the shares and underlying shares of the Company

Name	Capacity	Number of shares held	Percentage of the Company's issued share capital
Sae-lao Rakchanok	Beneficial owner	48,902,949	7.00%
Longway Group Ltd. (Note 1)	Beneficial owner	46,211,493	6.62%
Martin Currie Investment Management Limited	Investment adviser	44,830,000	6.42%

Note 1: By virtue of the SFO, Mr. Ma Yufeng is deemed to be interested in the 46,211,493 shares of the Company held by Longway Group Ltd., a company incorporated in the British Virgin Islands and wholly-owned by him.

Save as disclosed above, as at 31 December 2006, no person, other than the directors and chief executive of the Company whose interests are set out in the "Directors' and chief executive's interests in securities" section above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

SHARE OPTIONS

Particulars of the share options granted and remained outstanding under the share option scheme (the “Scheme”) adopted by the Company on 23 January 2003 during the six months ended 31 December 2006 were as follows:

Name or category of participant	Number of share options				At 31 December 2006	Date of grant*	Exercise period	Exercise price** HK\$
	At 1 July 2006	Granted during the Period	Lapsed during the Period	Re-classification during the Period				
Directors:								
Ma Yufeng (resigned as a director of the Company on 5 December 2006)	4,151,700	—	(4,151,700)	—	—	04/11/2003	04/11/2003 — 04/11/2006	0.300
Liu Jun	4,151,700	—	(4,151,700)	—	—	04/11/2003	04/11/2003 — 04/11/2006	0.300
Ying Yoke Nean (“Mr. Ying”)	—	14,000,000	—	—	14,000,000	22/12/2006	22/12/2006 — 21/12/2011	0.100
Chan Yuk Tong (“Mr. Chan”)	—	10,000,000	—	—	10,000,000	22/12/2006	22/12/2006 — 21/12/2011	0.100
	<u>8,303,400</u>	<u>24,000,000</u>	<u>(8,303,400)</u>	<u>—</u>	<u>24,000,000</u>			
Chief Executive:								
Lum Kan Fai Vincent (“Mr. Lum”)	—	20,000,000	—	—	20,000,000	22/12/2006	22/12/2006 — 21/12/2011	0.100
	<u>—</u>	<u>20,000,000</u>	<u>—</u>	<u>—</u>	<u>20,000,000</u>			
Other employees:								
In aggregate	6,421,700	—	(6,421,700)	—	—	04/11/2003	04/11/2003 — 04/11/2006	0.300
In aggregate	2,100,000	—	—	—	2,100,000	01/06/2004	01/06/2004 — 31/05/2007	0.425
In aggregate	18,101,364	—	(2,400,000)	—	15,701,364	14/10/2004	14/10/2004 — 13/10/2007	0.371
In aggregate	5,000,000	—	—	—	5,000,000	05/01/2004	05/01/2004 — 04/01/2009	0.495
	<u>31,623,064</u>	<u>—</u>	<u>(8,821,700)</u>	<u>—</u>	<u>22,801,364</u>			
Suppliers:								
In aggregate	9,000,000	—	—	—	9,000,000	14/10/2004	14/10/2004 — 13/10/2007	0.371
In aggregate	6,000,000	—	—	—	6,000,000	28/10/2004	28/10/2004 — 27/10/2009	0.355
	<u>15,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>15,000,000</u>			
Customers:								
In aggregate	70,000	—	(70,000)	—	—	04/11/2003	04/11/2003 — 04/11/2006	0.300
In aggregate	4,250,000	—	—	—	4,250,000	14/10/2004	14/10/2004 — 13/10/2007	0.371
	<u>4,320,000</u>	<u>—</u>	<u>(70,000)</u>	<u>—</u>	<u>4,250,000</u>			
	<u>59,246,464</u>	<u>44,000,000</u>	<u>(17,195,100)</u>	<u>—</u>	<u>86,051,364</u>			

* The vesting period of the share options is from the date of the grant until the commencement of the exercise period.

** The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company’s share capital.

The share options granted on 4 November 2003 were exercisable up to 30%, 60% and 100% on or before 4 November 2004, 2005 and 2006, respectively, for grantees other than the directors of the Company.

The share options granted on 5 January 2004 shall be exercisable for a period of five years from the date of grant.

The share options granted on 1 June 2004 shall be exercisable up to 30%, 60% and 100% on or before 31 May 2005, 2006 and 2007, respectively, by the grantees.

The share options granted on 14 October 2004 shall be exercisable up to 30%, 60% and 100% on or before 13 October 2005, 2006 and 2007, respectively, by the grantees.

The share options granted on 28 October 2004 shall be exercisable as to 2,000,000 share options on execution of the marketing service agreement dated 28 October 2004 and entered into between the Company and the grantees, and as to 4,000,000 share options on completion of the marketing services to be provided by the grantees.

Details of the share options granted on 22 December 2006 are as follows:

Option holders	Mr. Ying	Mr. Lum	Mr. Chan
Number of shares subject to the options (the "2006 Options")	14,000,000 Options Dividing into 3,150,000 shares (the "First Tranche Options"), 4,900,000 shares (the "Second Tranche Options") and 5,950,000 Shares (the "Third Tranche Options")	20,000,000 Options Dividing into 4,500,000 shares (the "First Tranche Options"), 7,000,000 shares (the "Second Tranche Options") and 8,500,000 Shares (the "Third Tranche Options")	10,000,000 Options Dividing into 2,250,000 shares (the "First Tranche Options"), 3,500,000 shares (the "Second Tranche Options") and 4,250,000 Shares (the "Third Tranche Options")

The 2006 Options shall be exercisable by each of Mr. Ying, Mr. Lum and Mr. Chan, (collectively, the "Executives") in the following manner:

- (i) if the audited consolidated net profits after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2007 (the "2007 Final Results") as shown in the audited final results of the Group for the financial year ending 30 June 2007 published by the Company as required under the Listing Rules is not less than HK\$0, the Executives shall be entitled to exercise the subscription rights attaching to the First Tranche Options during the period commencing on the date of publication of the 2007 Final Results and ending on 21 December 2010;
- (ii) if the audited consolidated net profits after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2008 (the "2008 Final Results") as shown in the audited final results of the Group for the financial year ending 30 June 2008 published by the Company as required under the Listing Rules is not less than HK\$10,000,000, the Executives shall be entitled to exercise the subscription rights attaching to the Second Tranche Options during the period commencing on the date of publication of the 2008 Final Results and ending on 21 December 2010;
- (iii) if the audited consolidated net profits after taxation and minority interests but before extraordinary and exceptional items of the Group for the financial year ending 30 June 2009 (the "2009 Final Results") as shown in the audited final results of the Group for the financial year ending 30 June 2009 published by the Company as required under the Listing Rules is not less than HK\$20,000,000, the Executives shall be entitled to exercise the subscription rights attaching to the Third Tranche Options during the period commencing on the date of publication of the 2009 Final Results and ending on 21 December 2010.

The consideration for the grant of share options is HK\$1.00 per grant.

Save as disclosed above, at no time during the six months ended 31 December 2006 was the Company or any of its subsidiaries a party to any arrangement to enable the directors or chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the directors or chief executive or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 31 December 2006, there were no purchases, sales or redemptions of the Company's listed securities by the Company or any of its subsidiaries.

CORPORATE GOVERNANCE

Overview of Corporate Governance

The Company recognises the importance of the provision of transparency and accountability to its shareholders. The Company is committed to achieving high standards of corporate governance and believes that sound corporate governance is essential for the Company to maximise shareholders' value.

Code on Corporate Governance Practices

During the six months ended 31 December 2006, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules, except for the following code provisions:

- (1) Under code provision A.4.1 of the Corporate Governance Code, non-executive directors should be appointed for a specific term and be subject to re-election.

The independent non-executive directors of the Company (other than Mr. Yuan Tsu I) were not appointed for a specific term, but are subject to retirement by rotation and re-election at the annual general meetings of the Company in accordance with the articles of association of the Company.

- (2) Under code provision E.1.2 of the Corporate Governance Code, the chairman of the Board should attend, and the chairmen of the audit and remuneration committees should be available to answer questions at the annual general meeting of the Company.

The chairman of the Board, the audit committee and the remuneration committee were unable to attend the annual general meeting of the Company held on 22 December 2006 in person, but the chairman of the Board has already delegated to one of the executive directors of the Company to chair the meeting on his behalf and on behalf of the chairmen of the audit committee and the remuneration committee.

Directors' Securities Transaction

The Company has adopted the Model Code contained in Appendix 10 of the Listing Rules as its own code of conduct regarding directors' securities transactions. After specific enquiry made by the Company, all directors have confirmed that they have fully complied with the Model Code during the six months ended 31 December 2006.

Independent Non-executive Directors

The board of directors has been in compliance with Rule 3.10(1) of the Listing Rules, which requires a company to maintain at least three independent non-executive directors in the board of directors, and with Rule 3.10(2) of the Listing Rules, which requires one of those independent non-executive directors to be specialised in accounting or relevant financial management.

The Company has received the written confirmation of each of the independent non-executive directors confirming that they are in compliance with Rule 3.13 of the Listing Rules in respect of their independence. The Company is of the opinion that all of the independent non-executive directors are independent.

Audit Committee

The Company has established an audit committee in compliance with the Rules 3.21 and 3.22 of the Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the board of directors. The audit committee consists of three members who are all independent non-executive directors of the Company. The Chairman of the audit committee is Mr. Chan Chiu Hung Alex, a member of the Hong Kong Institute of Certified Public Accountants. The other members of the audit committee are Mr. Yuan Tsu I and Professor Li Li Te.

The audit committee has reviewed the unaudited condensed consolidated interim financial statements of the Company for the six months ended 31 December 2006.

MEMBERS OF THE BOARD

As at the date of this interim report, the executive directors of the Company are Mr. Hung Kai So, Mr. Ying Yoke Nean, Mr. Kam Ioi, Mr. Chan Yuk Tong and Mr. Liu Jun; and the independent non-executive directors are Mr. Yuan Tsu I, Professor Li Li Te and Mr. Chan Chiu Hung Alex.

By Order of the Board

Hung Kai So

Chairman

Hong Kong, 16 March 2007