



**2008/09**  
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 2008 (the "Period") together with comparative figures for the corresponding period in 2007 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended 31 December</b>	
		<b>2008</b>	2007
		<b>(Unaudited)</b>	(Unaudited)
		<b>HK\$'000</b>	HK\$'000
	Notes		
<b>REVENUE</b>	3	<b>52,183</b>	61,752
Cost of sales		<b>(31,081)</b>	(36,135)
Gross profit		<b>21,102</b>	25,617
Other income		<b>2,092</b>	6,228
Selling and distribution costs		<b>(13,047)</b>	(10,669)
Administrative expenses		<b>(14,481)</b>	(18,325)
Other operating expenses		<b>(572)</b>	(747)
<b>(LOSS)/PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>(4,906)</b>	2,104
Finance costs	5	<b>(56)</b>	(109)
<b>(LOSS)/PROFIT BEFORE TAXATION</b>		<b>(4,962)</b>	1,995
Taxation	6	<b>(39)</b>	(322)
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(5,001)</b>	1,673
<b>ATTRIBUTABLE TO:</b>			
Equity holders of the Company		<b>(5,087)</b>	1,476
Minority interests		<b>86</b>	197
		<b>(5,001)</b>	1,673
<b>(LOSS)/PROFIT PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD</b>	8		
Basic		<b>HK(0.65) cents</b>	HK0.20 cents
Diluted		<b>N/A</b>	N/A

## CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	31 December 2008 (Unaudited) HK\$'000	30 June 2008 (Audited) HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	9	4,997	6,568
Intangible assets		1,700	2,397
Available-for-sale financial assets		21,700	21,700
Financial assets at fair value through profit or loss		2,162	2,162
Pledged bank deposit		20	20
		<b>30,579</b>	32,847
<b>Current assets</b>			
Inventories	10	17,416	16,398
Trade receivables	11	12,401	4,342
Deposits, prepayments and other receivables		25,996	20,319
Cash and bank balances		24,375	10,196
		<b>80,188</b>	51,255
<b>Current liabilities</b>			
Trade payables	12	6,283	5,550
Accrued liabilities and other payables		24,839	8,436
Deposits received		9,048	8,975
Interest-bearing bank loans		2,827	3,265
Provision for income tax		22	66
		<b>43,019</b>	26,292
<b>Net current assets</b>		<b>37,169</b>	24,963
<b>Net assets</b>		<b>67,748</b>	57,810
<b>EQUITY</b>			
Equity attributable to equity holders of the Company			
Share capital	13	22,070	18,392
Reserves		43,493	37,319
		<b>65,563</b>	55,711
<b>Minority interests</b>		<b>2,185</b>	2,099
<b>Total equity</b>		<b>67,748</b>	57,810

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium	Statutory reserve	Capital redemption		Translation reserve	Share option reserve	Retained	Total	Minority interests	Total equity
				reserve	reserve			profits/ losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	(Unaudited) HK\$'000	HK\$'000	(Unaudited) HK\$'000	HK\$'000
At 1 July 2007 (Audited)	17,464	33,131	8,789	29	28,764	4,945	—	(51,087)	42,035	1,909	43,944
Issue of share capital	928	12,072	—	—	—	—	—	—	13,000	—	13,000
Profit for the Period	—	—	—	—	—	—	—	1,476	1,476	197	1,673
Equity-settled share option arrangements	—	—	—	—	—	—	6,114	—	6,114	—	6,114
Translation adjustment	—	—	—	—	—	(1,886)	—	—	(1,886)	—	(1,886)
At 31 December 2007	18,392	45,203	8,789	29	28,764	3,059	6,114	(49,611)	60,739	2,106	62,845
At 1 July 2008 (Audited)	18,392	45,203	8,789	29	28,764	7,227	8,619	(61,312)	55,711	2,099	57,810
Issue of share capital	3,678	11,057	—	—	—	—	—	—	14,735	—	14,735
Loss for the Period	—	—	—	—	—	—	—	(5,087)	(5,087)	86	(5,001)
Translation adjustment	—	—	—	—	—	204	—	—	204	—	204
At 31 December 2008	22,070	56,260	8,789	29	28,764	7,431	8,619	(66,399)	65,563	2,185	67,748

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December	
	<b>2008</b> <b>(Unaudited)</b> <b>HK\$'000</b>	2007 (Unaudited) HK\$'000
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	<b>(64)</b>	3,626
NET CASH USED IN INVESTING ACTIVITIES	<b>(258)</b>	(22,149)
NET CASH GENERATED FROM FINANCING ACTIVITIES	<b>14,297</b>	13,090
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	<b>13,975</b>	(5,433)
CASH AND CASH EQUIVALENTS AT 1 JULY	<b>10,196</b>	30,563
EFFECT OF FOREIGN EXCHANGE	<b>204</b>	(2,064)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<b>24,375</b>	23,066
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
CASH AND BANK BALANCES	<b>24,375</b>	23,066

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements of the Group 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 (the "HKICPA") and with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the "Listing Rules") of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

The basis of preparation and accounting policies adopted in preparing these condensed financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 30 June 2008.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations issued by the HKICPA (hereinafter collectively referred to as the "new HKFRSs"), which are effective for the Group's financial year beginning on the 1 July 2008. The adoption of the new HKFRSs has no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior adjustment has been required.

The Group has not early applied the new standards, amendments or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

## 2. SEGMENT INFORMATION

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

	BIOenergy products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Segment revenue:										
Sales to external customers	6,320	12,892	13,440	14,728	31,696	33,760	727	372	52,183	61,752
Segment results	1,731	4,619	3,224	3,704	5,781	6,684	(309)	(59)	10,427	14,948
Unallocated other income									2,092	6,228
Unallocated expenses									(17,481)	(19,181)
(Loss)/profit before taxation									(4,962)	1,995
Taxation									(39)	(322)
(Loss)/profit for the Period									(5,001)	1,673

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

## 3. 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.

#### 4. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

The Group's unaudited (loss)/profit from operating activities is arrived at after charging/(crediting):

	<b>Six months ended 31 December</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Cost of inventories sold	<b>31,081</b>	36,135
Amortisation of intangible assets	<b>697</b>	726
Depreciation of property, plant and equipment	<b>1,804</b>	1,493
Impairment loss on trade receivables	<b>—</b>	5
Loss on disposal of property, plant and equipment	<b>(62)</b>	(4)

#### 5. FINANCE COSTS

	<b>Six months ended 31 December</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Interest on bank loans		
Wholly repayable within five years	<b>56</b>	109

#### 6. TAXATION

	<b>Six months ended 31 December</b>	
	<b>2008 (Unaudited) HK\$'000</b>	2007 (Unaudited) HK\$'000
Current tax – PRC	<b>39</b>	322

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2007: 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.

As at 31 December 2008, the Group did not have any significant unprovided deferred tax liabilities (30 June 2008: Nil).



## 7. DIVIDENDS

The Board has resolved not to declare any interim dividend for the Period (2007: Nil).

## 8. (LOSS)/PROFIT 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\$5,087,000 (2007: Profit HK\$1,476,000) and the weighted average number of 784,719,294 (2007: 728,620,744) ordinary shares in issue during the Period.

Diluted loss per share amounts for the six months ended 31 December 2008 has not been disclosed as there were no potential dilutive ordinary shares.

No diluted loss per share was presented for the six months ended 31 December 2007 as the impact of the exercise of share options was anti-dilutive.

## 9. PROPERTY, PLANT AND EQUIPMENT

	<b>Total</b> HK\$'000
At 1 July 2008 (audited)	6,568
Additions	295
Depreciation	(1,804)
Disposals	(62)
At 31 December 2008 (unaudited)	4,997

## 10. INVENTORIES

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
Raw materials	<b>4,809</b>	6,301
Work in progress	<b>4,984</b>	5,407
Finished goods	<b>14,159</b>	11,226
	<b>23,952</b>	22,934
Less: Provision for obsolete and slow-moving inventories	<b>(6,536)</b>	(6,536)
	<b>17,416</b>	16,398

## 11. TRADE RECEIVABLES

The credit terms that the Group offers to customers are generally not more than 90 days. The ageing analysis of the Group's trade receivables at the balance sheet date is as follows:

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
Within 30 days	1,472	2,221
Between 31 to 60 days	493	663
Between 61 to 180 days	2,576	1,604
Over 180 days	15,734	7,728
	<b>20,275</b>	12,216
Less: Provision for impairment	<b>(7,874)</b>	(7,874)
	<b>12,401</b>	4,342

## 12. TRADE PAYABLES

The credit terms of trade payables varies according to the terms agreed with different suppliers. The ageing analysis of the Group's trade payables as at the balance sheet date is as follows:

	<b>31 December 2008 (Unaudited) HK\$'000</b>	30 June 2008 (Audited) HK\$'000
Within 30 days	2,623	2,862
Between 31 to 60 days	1,899	456
Between 61 to 180 days	530	945
Over 180 days	1,231	1,287
	<b>6,283</b>	5,550

### 13. SHARE CAPITAL

	Number of ordinary shares	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.025 each At 1 July 2008 and 31 December 2008	20,000,000,000	500,000
Issued and fully paid:		
Ordinary share of HK\$0.025 each At 1 July 2008	735,685,961	18,392
Issuance of ordinary shares (note)	147,100,000	3,678
<b>At 31 December 2008</b>	<b>882,785,961</b>	<b>22,070</b>

Note: On 8 September 2008 and 24 September 2008, the Company entered into the Subscription Agreements with each of the Subscribers respectively whereby the Company conditionally agreed to allot and issue and the Subscribers conditionally agreed to subscribe for a total of 23,800,000 and 123,300,000 Subscription Shares at a nominal value of HK\$0.025 each respectively, Subscriptions of such new shares at the Subscription Price of HK\$0.1269 and HK\$0.095 per new Share respectively were completed on 5 November 2008.

### 14. COMMITMENTS

#### Operating lease arrangements

The Group leases certain of its offices, factory and machinery and equipment under non-cancellable operating lease arrangements with lease terms ranging from one to five years.

As at 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	31 December 2008 (Unaudited) HK\$'000	30 June 2008 (Audited) HK\$'000
Within one year	1,202	1,112
In the second to fifth years	3,168	—
	<b>4,370</b>	1,112

## 15. CONTINGENT LIABILITIES

The Company has executed a corporate guarantee amounting to HK\$5,000,000 (2007: HK\$5,000,000) with respect to a bank loan to one of its subsidiaries. Under the guarantee, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the balance sheet date, no provision for the Company's obligation under the guarantee has been made as the directors considered that it was not probable that the repayment of the loan would be in default.

## 16. POST BALANCE SHEET EVENTS

On 16 January 2009, the Company announced that the completion of the acquisition of 18% equity interest in Skyflying Da Zhong Hua Cigarette Limited shall be postponed to a date on or before 31 May 2009. Please refer to the Company's announcement of 16 January 2009 for further details.

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Review

#### Revenue

For the six months ended 31 December 2008, the Group's revenue amounted to approximately HK\$52.18 million (2007: approximately HK\$61.75 million) representing a decrease of approximately 15.50% as compared with the same period of last year. The decrease in revenue was mainly due to the continuous downturn in the BIOenergy products as a result of the weakening PRC economy and high competition.

#### Gross Profit

The gross profit margin of the Group for the Period slightly decreased by approximately 1.04 percentage points to approximately 40.44% from approximately 41.48% in the same period of last year. Gross profit decreased by approximately HK\$4.52 million or approximately 17.64% to approximately HK\$21.10 million for the Period.

#### Expenses

Selling and distribution expenses increased by approximately HK\$2.38 million or approximately 22.31% to approximately HK\$13.05 million from approximately HK\$10.67 million in the same period of last year. The increase was mainly due to the increase spending on the marketing and the promotion activities.

Administration expenses decreased by approximately HK\$3.85 million or approximately 21.00% to approximately HK\$14.48 million from approximately HK\$18.33 million for last year, which was mainly due to share option expenses amounted to approximately HK\$6.11 million was provided in last year. Not such expenses being incurred for this Period.

#### (Loss)/Profit attributable to shareholders

For the six months ended 31 December 2008, the Group's loss attributable to shareholders amounted to approximately HK\$5.09 million (profit attributable to shareholders for the first half of 2007: approximately HK\$1.48 million). The Group's net loss for the Period was mainly attributable to the decrease in gross profit and other income.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 December 2008, cash and bank balance of the Group was approximately HK\$24.40 million (30 June 2008: approximately HK\$10.22 million), and the Group's borrowings were bank loans of approximately HK\$2.83 million (30 June 2008: approximately HK\$3.27 million), which is secured by a pledge of the Group's financial assets at fair value through profit and loss of approximately HK\$2.16 million and pledge bank deposit of HK\$0.02 million (30 June 2008: financial assets at fair value through profit and loss of HK\$2.16 million and pledge bank deposit of HK\$0.02 million).

As at 31 December 2008, 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 4.31% (30 June 2008: approximately 5.86%).

## **CONTINGENT LIABILITIES**

There have been no significant adverse changes in the Group's contingent liabilities since 30 June 2008.

## **INTERIM DIVIDEND**

The Board has resolved not to declare any interim dividend for the six months ended 31 December 2008 (2007: Nil).

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES**

There was no material acquisition or disposal of subsidiaries and associated companies during the six months ended 31 December 2008.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2008, the Group employed a total of 214 employees, of which 208 are based in the PRC and 6 are based in Hong Kong. Competitive remuneration packages are structured to commensurate with individual responsibilities, qualification, experience and performance. The Group has a share option scheme for the benefit of its directors and eligible employees of the Group.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SECURITIES

As at 31 December 2008, 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 of directors	Capacity	Number of shares held	Number of underlying shares held pursuant to share options	Aggregate interest	Approximate percentage of interest
Han Xiaoyue	Interest of controlled corporation	3,805,112 (note 1)	5,584,000	9,389,112	1.06%
Han Qingyun	Interest of controlled corporation	200,000,000 (note 2)	—	200,000,000	22.66%
Chen Henglong	Beneficial owner	52,200,000	6,584,000	58,784,000	6.66%

Note 1: These 3,805,112 shares are owned by Portton Investments Limited ("Portton"), the issued share capital of which is beneficially owned by Mr. Han Xiaoyue (the joint-chairman of the Company) and Mr. Wang Jiandong as to 66.67% and 33.33% respectively. Each of Mr. Han Xiaoyue and Mr. Wang Jiandong are deemed to be interested in these 3,805,112 under Part XV of the SFO. Portton is wholly owned by Power Field International Limited.

Note 2: 181,843,836 shares held by Wide Cosmos International Holdings Co Ltd which is beneficially owned by Mr. Han Qingyun. Mr. Han Qingyun also personally holds 18,156,164 shares in the Company.

Save as disclosed above, as at 31 December 2008, 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 2008, 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	Number of underlying shares held pursuant to share options	Aggregate interest	Approximate percentage of interest
Wide Cosmos International Holdings Co. Ltd.	Beneficial owner (note 1)	181,843,836	—	181,843,836	20.60%
Sae-lao Rakchanok	Beneficial owner	48,902,949	2,000,000	50,902,949	5.77%
Chen Henglong	Beneficial owner (note 2)	52,200,000	6,584,000	58,784,000	6.66%
Wang Jing	Beneficial owner	66,800,000	—	66,800,000	7.57%

Note 1: Wide Cosmos International Holdings Co. Ltd. is beneficially owned by Mr. Han Qingyun, the chairman of the Company.

Note 2: Mr. Chen Henglong is the executive director of the Company.

Save as disclosed above, as at 31 December 2008, 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 2008 were as follows:

	Number of share options			At 31 December 2008	Date of grant*	Exercise period	Exercise price** HK\$
	At 1 July 2008	Granted during the Period	Lapsed during the Period				
<b>Directors:</b>							
Han Xiaoyue	5,584,000	—	—	5,584,000	10 Aug 2007	10 Aug 2007 to 9 Aug 2009	0.26
Chen Henglong	5,584,000	—	—	5,584,000	10 Aug 2007	10 Aug 2007 to 9 Aug 2009	0.26
	1,000,000	—	—	1,000,000	28 Feb 2008	28 Feb 2008 to 27 Feb 2010	0.217
Zhang He	5,584,000	—	—	5,584,000	10 Aug 2007	10 Aug 2007 to 9 Aug 2009	0.26
	1,000,000	—	—	1,000,000	28 Feb 2008	28 Feb 2008 to 27 Feb 2010	0.217
Chan Yuk Tong	7,750,000	—	(3,500,000)	4,250,000	5 Dec 2006	5 Dec 2006 to 4 Oct 2011	0.10
	26,502,000	—	(3,500,000)	23,002,000			
<b>Other employees:</b>							
In aggregate	37,343,000	—	—	37,343,000	10 Aug 2007	10 Aug 2007 to 9 Aug 2009	0.26
In aggregate	18,500,000	—	—	18,500,000	28 Feb 2008	28 Feb 2008 to 27 Feb 2010	0.217
In aggregate	4,000,000	—	—	4,000,000	3 Apr 2008	3 Apr 2008 to 2 Apr 2010	0.255
	59,843,000	—	—	59,843,000			
<b>Suppliers:</b>							
In aggregate	6,000,000	—	—	6,000,000	28 Oct 2004	28 Oct 2004 to 27 Oct 2009	0.355
	6,000,000	—	—	6,000,000			
	92,345,000	—	(3,500,000)	88,845,000			

\* 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.

As at 31 December 2008, the Company had 88,845,000 share options outstanding under the Share Option Scheme representing approximately 10.06% of the Shares in issue. Exercise in full of the share options would, under the present capital structure of the Company, result in the issue of 88,845,000 new Shares and additional share capital of HK\$2.22 million and share premium of HK\$19.87 million (before issue expenses).

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 2008 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 2008, 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 2008, 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.1.1 of the Code, at least four regular board meetings should be held a year at approximately quarterly intervals with active participation of a majority of directors of the Company, either in person or through other electronic means of communication. As the Company did not announce its quarterly results, two regular board meetings were held during the year for reviewing and approving the interim and annual financial performance of the Group. Board meetings will be held on other occasions when board decisions are required.
- (2) Under code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term and be subject to re-election.

The three independent non-executive directors of the Company 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.

- (3) 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 3 December 2008 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 2008.

## 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 now comprises Ms. Zhu Jing Hua (chairman of the audit committee), Mr. Li Xinzhong and Mr. Zhang Wen, all of whom are independent non-executive directors of the Company. During the six months ended 31 December 2008, a regular meeting of the audit committee has been held.

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 31 December 2008 has been reviewed by the current members of the audit committee, namely Ms. Zhu Jing Hua, Mr. Li Xinzhong and Mr. Zhang Wen.

## MEMBERS OF THE BOARD

As at the date of this interim report, the board of directors of the Company comprises Mr. Han Qingyun as chairman; Dr. Han Xiaoyue as joint chairman; Mr. Zhang He, Mr. Chen Henglong, Mr. Xu Nian Chun, Ms. Guo Yan Ni and Mr. Long Minfei as executive directors; Mr. Chan Yuk Tong as non-executive director; and Ms. Zhu Jing Hua, Mr. Zhang Wen and Mr. Li Xinzhong as independent non-executive directors.

By Order of the Board  
**Han Qingyun**  
*Chairman*