



# 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

#### FOR THE SIX MONTHS ENDED 31 DECEMBER 2006

#### 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)
		HK\$'000	HK\$'000
	Notes		
<b>REVENUE</b>	4	<b>52,662</b>	53,715
Cost of sales		<b>(34,649)</b>	(33,226)
<b>Gross profit</b>		<b>18,013</b>	20,489
Other income		<b>5,262</b>	4,051
Selling and distribution costs		<b>(17,800)</b>	(16,344)
Administrative expenses		<b>(14,154)</b>	(12,953)
Other operating expenses		<b>(3,514)</b>	(10,100)
<b>LOSS FROM OPERATING ACTIVITIES</b>	5	<b>(12,193)</b>	(14,857)
Finance costs		<b>(147)</b>	—
Share of loss of a jointly controlled entity		<b>—</b>	(152)
<b>LOSS BEFORE TAXATION</b>		<b>(12,340)</b>	(15,009)
Taxation	7	<b>(90)</b>	(508)
<b>LOSS FOR THE PERIOD</b>		<b>(12,430)</b>	(15,517)

**ATTRIBUTABLE TO:**

Equity holders of the Company		(12,652)	(15,621)
Minority interests		222	104
		<u>(12,430)</u>	<u>(15,517)</u>
<b>DIVIDENDS</b>	8	<u>—</u>	<u>—</u>
<b>LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD</b>	9		
Basic		<u>HK(1.81) cents</u>	<u>HK(2.28) cents</u>
Diluted		<u>N/A</u>	<u>N/A</u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

		31 December 2006 (Unaudited) HK\$'000	30 June 2006 (Audited) HK\$'000
	<i>Notes</i>		
<b>Non-current assets</b>			
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
		<u>14,430</u>	<u>16,818</u>
<b>Current assets</b>			
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
		<u>75,475</u>	<u>61,615</u>
Assets classified as held for sale		<u>—</u>	<u>7,165</u>
		<u>75,475</u>	<u>68,780</u>

**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
		<u>46,419</u>	<u>30,824</u>

Liabilities associated with

assets classified as held for sale

—	122
<u>46,419</u>	<u>30,946</u>

**Net current assets**

<u>29,056</u>	<u>37,834</u>
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**Total assets less current liabilities**

43,486	54,652
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**Non-current liabilities**

Interest-bearing bank loans

<u>1,298</u>	<u>1,613</u>
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**Net assets**

<u>42,188</u>	<u>53,039</u>
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**EQUITY****Equity attributable to equity holders  
of the Company**

Share capital

17,464	17,464
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Reserves

<u>23,036</u>	<u>33,785</u>
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40,500	51,249
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**Minority interests**

<u>1,688</u>	<u>1,790</u>
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**Total equity**

<u>42,188</u>	<u>53,039</u>
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## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES	Six months ended 31 December	
	2006	2005
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
	9,617	(1,469)
NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES	7,053	(876)
NET CASH GENERATED FROM FINANCING ACTIVITIES	<u>621</u>	<u>141</u>
 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	<u>1,425</u>	<u>2,320</u>
 CASH AND CASH EQUIVALENTS AT 31 DECEMBER	 <u><u>49,998</u></u>	 <u><u>44,896</u></u>
 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	<u>—</u>	<u>2,500</u>
 CASH AND CASH EQUIVALENTS AT 31 DECEMBER	 <u><u>49,998</u></u>	 <u><u>44,896</u></u>

## 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.

### 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	<u>11,231</u>	<u>17,549</u>	<u>11,079</u>	<u>8,084</u>	<u>28,668</u>	<u>27,162</u>	<u>1,684</u>	<u>920</u>	<u>52,662</u>	<u>53,715</u>
Segment results	<u>1,760</u>	<u>3,599</u>	<u>604</u>	<u>1,305</u>	<u>(531)</u>	<u>(1,007)</u>	<u>(70)</u>	<u>110</u>	<u>1,763</u>	<u>4,007</u>
Unallocated other income									5,262	4,051
Unallocated expenses									<u>(19,365)</u>	<u>(22,915)</u>
Loss from operating activities									(12,340)	(14,857)
Share of loss of a jointly controlled entity									<u>—</u>	<u>(152)</u>
Loss before taxation									(12,340)	(15,009)
Taxation									<u>(90)</u>	<u>(508)</u>
Loss for the Period									<u>(12,430)</u>	<u>(15,517)</u>

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

## 7. TAXATION

	Six months ended 31 December	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) 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 in 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

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

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

## 12. TRADE RECEIVABLES

	<b>31 December 2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	30 June 2006 (Audited) <i>HK\$'000</i>
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
	<u>11,682</u>	<u>10,814</u>
<i>Less: Provision for impairment</i>	<u>(7,258)</u>	<u>(6,047)</u>
	<u><b>4,424</b></u>	<u><b>4,767</b></u>

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

### 13. TRADE PAYABLES

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

	<b>31 December 2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	30 June 2006 (Audited) <i>HK\$'000</i>
Falling due:		
Within one year	<b>2,080</b>	1,829
In the second to fifth years, inclusive	<b>1,120</b>	1,719
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	<b>3,200</b>	3,548
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#### *b. Capital commitments*

The Group had capital commitments as follows:

	<b>31 December 2006</b> <b>(Unaudited)</b> <i>HK\$'000</i>	30 June 2006 (Audited) <i>HK\$'000</i>
Commitments contracted, but not provided for:		
Capital injection to a jointly controlled entity	—	2,857
Purchase of property, plant and equipment	<b>1,802</b>	1,751
Others	—	952
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	<b>1,802</b>	5,560
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## 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 ("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 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 HK\$3.00 million to 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\$6.59 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 a bank loan 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 in 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 Corporation, 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 announcement is 698,543,104.

## **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 for Securities Transactions by Directors of Listed Issuers (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 announcement, the executive directors of the Company are Mr. Hung Kai So, Mr. Ying Yoke Nuan, 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

*\* For identification purpose only*

Please also refer to the published version of this announcement in the China Daily.