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 2005

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 2005 (the "Period") together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 31 December	
		2005	2004
		(Unaudited)	(Unaudited)
	Notes	***HK$'000***	*HK$'000*
TURNOVER	*4*	**53,715**	81,371
Cost of sales		**(33,226)**	(39,975)
Gross profit		**20,489**	41,396
Other revenue and gains		**4,051**	1,055
Selling and distribution costs		**(16,344)**	(18,481)
Administrative expenses		**(12,953)**	(14,141)
Other operating expenses		**(10,100)**	(1,129)
(LOSS)/PROFIT FROM OPERATING ACTIVITIES	*5*	**(14,857)**	8,700
Share of loss of a jointly controlled entity		**(152)**	(266)
(LOSS)/PROFIT BEFORE TAXATION		**(15,009)**	8,434
Taxation	*6*	**(508)**	(800)
(LOSS)/PROFIT FOR THE PERIOD		**(15,517)**	7,634
ATTRIBUTABLE TO:			
Equity holders of the Company		**(15,621)**	6,912
Minority interests		**104**	722
(LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS		**(15,517)**	7,634

	Notes		
DIVIDENDS	*7*	**—**	—
(LOSS)/EARNINGS PER SHARE	*8*		
Basic		**HK(2.28) cent**	HK1.02 cent
Diluted		**N/A**	HK1.00 cent

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**31 December 2005 (Unaudited) *HK$'000***	30 June 2005 (Audited) *HK$'000*
ASSETS AND LIABILITIES			
Non-current assets			
Fixed assets	*9*	**21,552**	24,032
Intangible assets		**3,434**	3,614
Interests in a jointly controlled entity	*10*	**418**	570
		25,404	28,216
Current assets			
Inventories	*11*	**21,029**	23,661
Trade receivables	*12*	**8,899**	5,829
Deposits, prepayments and other receivables		**18,359**	24,823
Short term investments		**716**	1,495
Pledged bank deposit		**2,500**	2,500
Cash at banks and in hand		**42,396**	42,280
		93,899	100,588
Current liabilities			
Trade payables	*13*	**13,011**	16,630
Accrued liabilities and other payables		**16,423**	8,370
Deposits received		**9,695**	9,920
Interest-bearing bank loan		**2,500**	500
		41,629	35,420
Net current assets		**52,270**	65,168
Total assets less current liabilities		**77,674**	93,384

CAPITAL AND RESERVES		
Share capital	**17,464**	17,048
Reserves	**58,215**	69,535
Proposed final dividends	**—**	4,910
Shareholders' funds	**75,679**	91,493
Minority interests	**1,995**	1,891
Total equity	**77,674**	93,384

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
NET CASH INFLOW GENERATED FROM/(USED IN) OPERATING ACTIVITIES	**(1,469)**	9,560
NET CASH USED IN INVESTING ACTIVITIES	**(876)**	(4,598)
NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES	**141**	(6,182)
DECREASE IN CASH AND CASH EQUIVALENTS	**(2,204)**	(1,220)
CASH AND CASH EQUIVALENTS AT 1 JULY	**44,780**	48,771
EFFECT OF FOREIGN EXCHANGE RATE CHANGES, NET	**2,320**	(43)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**44,896**	47,508
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at banks and in hand	**44,396**	47,008
Pledged bank deposit as security for a bank loan facility	**2,500**	500
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**44,896**	47,508

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 BIOenergy® products, healthcare food products, multi-functional water generators 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 Standards ("HKASs") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPAs") 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 unaudited condensed financial statements have been prepared under the historical cost convention, except for the short term investments in equity securities which are stated at fair value on the basis of their quoted market price at the end of the Period.

The accounting policies adopted are consistent with those followed in the Group's annual financial statements for the year ended 30 June 2005, except that the Group has changed its accounting policy following the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") and HKASs (collectively, the "New HKFRSs") issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2005. Apart from certain changes by the adoption of applicable New HKFRSs as set out below, the other New HKFRSs have no material effect on how the results for the current or prior accounting periods are prepared and presented.

Share-based payment

In the current period, the Group has applied HKFRS 2 "Share-based Payment" which requires an expense to be recognized where the Group buys goods or obtains services in exchange for shares or rights over shares, or in exchange for other assets equivalent in value to a given number of shares or rights over shares. The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognize the financial effect of these share options until they were exercised.

Following the adoption of HKFRS 2, the fair value of share options at grant date is charged to the consolidated income statements of relevant accounting periods. As a transitional provision, HKFRS 2 has been applied retrospectively for all share options granted after 7 November 2002 and had not yet vested upon 1 January 2005. The adoption of HKFRS 2 resulted in a decrease in the opening balance of the retained profits as at 1 July 2005 by approximately HK$1.26 million since the grant of the share options in April 2003.

The effect of changes in the above accounting policy on the condensed consolidated balance sheet is as follows:

	HKFRS 2 *HK$'000*	**Total** *HK$'000*
At 1 July 2005 (Audited and restated)		
Increase in employee share-based compensation reserve	**(1,255)**	**(1,255)**
Decrease in retained profits	**(1,255)**	**(1,255)**
At 31 December 2005 (Unaudited)		
Increase in employee share-based compensation reserve	**(1,255)**	**(1,255)**
Increase in accumulated losses	**(1,255)**	**(1,255)**

3. SEGMENT INFORMATION

The Group's unaudited turnover and (loss)/profit before tax analyzed by business segment are as follows:

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	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	**17,549**	30,633	**8,084**	1,644	**27,162**	49,094	**920**	—	**53,715**	81,371
Segment results	**3,599**	11,147	**1,305**	510	**(1,007)**	11,258	**110**	—	**4,007**	22,915
Unallocated other revenue and gains									**4,051**	1,055
Unallocated expenses									**(22,915)**	(15,270)
(Loss)/Profit from operating activities									**(14,857)**	8,700
Share of loss of a jointly controlled entity									**(152)**	(266)
(Loss)/Profit before taxation									**(15,009)**	8,434
Taxation									**(508)**	(800)
(Loss)/Profit for the Period									**(15,517)**	7,634
Minority interests									**(104)**	(722)
(Loss)/Profit attributable to shareholders									**(15,621)**	6,912

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

4. TURNOVER

Turnover 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	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
Cost of inventories sold	**33,226**	39,975
Amortisation of intangible assets	**925**	780
Depreciation of fixed assets	**2,191**	2,370
Provision for doubtful debts and bad debts expenses	**7,410**	163
Provision for impairment in cost of fixed assets	**1,323**	—
Loss on disposal of fixed assets	**41**	11

6. TAXATION

	Six months ended 31 December	
	2005	2004
	(Unaudited)	(Unaudited)
	HK$'000	*HK$'000*
PRC	**508**	800
	508	800

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2004: 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"), a 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.

As at 31 December 2005, the Group did not have any significant unprovided deferred tax liabilities (30 June 2005: Nil).

7. DIVIDENDS

The Board has resolved not to pay any interim dividend for the Period (2004: Nil).

8. LOSS PER SHARE

The calculation of basic loss per share is based on the loss attributable to shareholders for the Period of approximately HK$15,621,000 (2004: profit of approximately HK$6,912,000) and the weighted average number of 683,278,587 (2004: 680,009,585) ordinary shares in issue during the Period.

Diluted loss per share for the six months ended 31 December 2005 was not presented because the impact of the exercise of the share options was anti-dilutive.

For the period ended 31 December 2004, the calculation of diluted earnings per share is based on the profit attributable to shareholders for the period of approximately HK$6,912,000 and the weighted average number of 688,004,397 ordinary shares outstanding during the period, adjusted for the effects of all dilutive potential shares.

The weighted average number of ordinary shares used in the calculation of diluted earnings per share is calculated based on the weighted average number of 680,009,585 ordinary shares in issue during that period plus the weighted average number of 7,994,812 ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

9. FIXED ASSETS

	Total
	HK$'000
At 1 July 2005 (audited)	**24,032**
Additions	**631**
Depreciation	**(2,191)**
Disposals	**(59)**
Translation adjustment	**462**
Provision for impairment in cost	**(1,323)**
At 31 December 2005 (unaudited)	**21,552**

10. INTERESTS IN A JOINTLY CONTROLLED ENTITY

	31 December 2005	30 June 2005
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Share of net assets	**418**	570

11. INVENTORIES

	31 December 2005	30 June 2005
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Raw materials	**4,958**	6,622
Work in progress	**2,801**	2,846
Finished goods	**16,054**	15,446
	23,813	24,914
Less: Provision for obsolete and slow-moving inventories	**(2,784)**	(1,253)
	21,029	23,661

12. TRADE RECEIVABLES

	31 December 2005	30 June 2005
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Outstanding balances aged:		
Within 30 days	**4,495**	3,462
Between 31 to 60 days	**1,317**	230
Between 61 to 180 days	**1,846**	712
Over 180 days	**5,898**	5,218
	13,556	9,622
Less: Provision for doubtful debts	**(4,657)**	(3,793)
	8,899	5,829

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

13. TRADE PAYABLES

	31 December 2005	30 June 2005
	(Unaudited)	(Audited)
	HK$'000	*HK$'000*
Outstanding balances aged:		
Within 30 days	**5,968**	9,563
Between 31 to 60 days	**1,068**	3,231
Between 61 to 180 days	**5,359**	3,045
Over 180 days	**616**	791
	13,011	16,630

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 falling due are as follows:

	31 December 2005 (Unaudited) *HK$'000*	30 June 2005 (Audited) *HK$'000*
Within one year	**2,817**	3,430
In the second to fifth years, inclusive	**4,412**	5,525
	7,229	8,955

b. Capital commitments

The Group had capital commitments as follows:

	31 December 2005 (Unaudited) *HK$'000*	30 June 2005 (Audited) *HK$'000*
Commitments contracted, but not provided for:		
— the capital injection to a jointly controlled entity	**2,943**	2,943
— the purchase of fixed assets	**2,299**	2,336
— others	**—**	1,300
	5,242	6,579

15. COMPARATIVE FIGURES

Certain comparative figures have been reclassified as a result of the adoption of new HKFRSs as set out in note 2 above to conform with the current period's presentation of the financial statements.

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW AND PROSPECT

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

The market was difficult to the Group for the first six months of the year. As presented in the annual report dated 21 October 2005, after the Group spending years to the successful promotion of water generators in the PRC, there have been different water generator models entering into the market, resulting in severe market competition. In some cases, certain irresponsible short term actions and products of poor quality were found. In July 2005, the Ministry of Health of the PRC issued "Document No. 10" (the "Document"), which accused fake and exaggerated promotion activities of multi-functional water generators. The Document directly and seriously affected the Group's sales performance of water generators and brought about indirect impact on the confidence of some customers, and also drove some customers to the sideline over other products.

BIOenergy® products

The BIOenergy® products of the Group adopted the BIOenergy® compound and MBF®, and the principal products are Healthy Sleeping System, including healthy pillows, healthy mattresses, healthy quilts and other bedroom accessories. In September 2005, the Company introduced a new product with a variety of compound efficacies — "Nobel Endless Spring", with positive market response.

The turnover of the BIOenergy® products was approximately HK$17.55 million, dropping by approximately 43% as compared to the same period of last year and representing approximately 33% of the total turnover (the same period of last year: approximately 38%). The drop was mainly attributable to the increasing competition in the market and the Document issued in July 2005. When the confidence crisis brought by the Document is over, the Group expects the introduction of "Nobel Endless Spring" and other new BIOenergy® products to improve the overall business performance of BIOenergy® products.

Multi-functional water generators

The production bases of the multi-functional water generators of the Group are in Hefei (the "Hefei Factory", the shares of which are held as to 80% by the Group) and Suzhou (the "Suzhou Factory", the joint venture with OSG Corporation Co., Ltd. ("OSG"), the shares of which are held as to 40% by the Group). Also, the Group imports water generators from OSG's Japan factory to balance the product sales mix of the Group.

The turnover of the water generators of the Group for the first six months of the year decreased significantly due to the direct impact of the Document. In addition, the Hefei Factory was in the stage of adjustment. As the official approval for the production of the new series of water generators was obtained in November 2005, the turnover of the water generators for the Period dropped significantly. The Suzhou Factory has just completed the production preparation phase. Yet, the production schedule of the Suzhou Factory has been delayed so that the Group was unable to localize the manufacturing of the imported OSG water generator models in the Suzhou Factory to enhance the competitiveness.

To sum up, the turnover of the multi-functional water generators for the first six months of the year decreased by approximately HK$21.93 million from approximately HK$49.09 million in the same period of last year to approximately HK$27.16 million, representing approximately 51% of the total turnover (the same period of last year: approximately 60%).

The Group expects the effect of the Document to become clear in 2006. Before the introduction of a regulatory mechanism of the industry, with the commencement of production by the Suzhou Factory and the Hefei Factory obtaining the official production approval for its new model of water generators in 2005, the Group is determined to rationalize its product sales mix to improve the Group's overall turnover and gross profit contributions.

Healthcare food products

The overall turnover increased by approximately 392% to approximately HK$8.08 million, representing approximately 15% of the total turnover (the same period of last year: approximately 2%). The Group was committed to the development of new healthcare food products and Vitop yellow propolis was introduced during the first six months of the year. The Vitop propolis represents a new product successfully launched to the market and the sales of Vitop yellow propolis together with Vitop black propolis in a package also helps to boost the sales of Vitop black propolis. The Group is consistently dedicated to identify other healthcare food products and to cooperate with other local and/or overseas famous corporations. The Group expects a stable growth in the sales from the healthcare food products.

Brand name

During the year, the Group obtained awards in respect of brand development again. The Group was granted the《3.15》Consumer Confidence Label by the China Consumers' Association (中國消費者協會) and the Group's "Vitop Healthy Sleeping System" was granted the status of the "State Free of Inspection Product" by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) in September 2004. Besides, the Group's Vitop healthy quilts were also granted in September 2005 the "China Top Brand" (《中國名牌產品》) by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局) based on the recommendation of the State Top Brand Promotion Committee (國家名牌推進委員會). The Group is the third corporation in Zhuhai receiving this award. In addition, the Group's Vitop trademark applied in BIOenergy® products was granted the "China Well-known Trademark" (《中國馳名商標》) by the State Administration for Industry & Commerce (國家工商行政管理總局) on 31 December 2005.

At this point in time, the Group has completed establishing its brand and reputation in the market. With our strong brand equity, the confidence of the customers will be enhanced, facilitating promotion and marketing activities of the Group's products.

OUTLOOK AND FUTURE PROSPECTS

The Document exerted a significant impact on the confidence of some customers in the short term and also drove some customers to the sideline, thereby seriously affecting the Group's sales performance for the first six months of the year. Yet, the Group believes that the Document will induce a regulatory mechanism of the industry and unqualified manufacturers will be eliminated in the long run. Therefore, as a deputy chairman entity of the China Healthcare Association, we will actively cooperate with its Functional Water Sub-association in enacting rules and regulations for the industry. The Group still regards the product line of multi-functional water generators a long term business and the effect of the Document will disperse shortly. The Group believes that it will maintain a significant market share in the regulated multi-functional water generators industry by continuous research and development and marketing efforts.

With the further opening-up of the healthcare market of the PRC, overseas consortia in the industry will flush into the China market, imposing great competitive pressure on local players. However, opportunities always come with challenges. The Group has accumulated sales experience and brand history in the PRC for 14 years and has gained recognition and reputation among our customers. As a result, the Group is in an advantageous position in the competition.

The Group will further invest in quality products, well-known brands and extensive sales network in the future. By establishing a sound foundation, the Group will steadily improve the results and maintain our market share as well as capitalize on the opportunity from reformation.

FINANCIAL REVIEW

Turnover and gross profit

For the first six months of the year, the financial performance of the Group is unsatisfactory. Turnover decreased by approximately 34% to approximately HK$53.72 million as compared to the same period of last year. The turnover of the healthcare food products increased by approximately 392% to approximately HK$8.08 million, but the turnover of the BIOenergy® products and multi-functional water generators decreased by approximately 43% to approximately HK$17.55 million and approximately 45% to approximately HK$27.16 million, respectively, as compared to the same period of last year. The drop was caused by the increasing competition in the market and the Document which directly affected the sales performance of multi-functional water generators and indirectly drove the distribution networks to the sideline.

The above-mentioned market issues also caused the gross profit of the Group for the first six months of the year to decrease by 13 percentage points to 38% from 51% in the same period of last year. Multi-functional water generators with a lower gross profit margin and imported water generators with the lowest gross profit margin represented approximately 51% and 29% of the total turnover of the Group, respectively. Coupled with the direct impact of the Document, the overall gross profit margin dropped from approximately 45% in the same period of last year to approximately 25%. The gross profit margin of the BIOenergy® products was approximately 53%, representing a drop comparing to approximately 59% in the same period of last year, as the Group increased the discount offered to franchisees to cope with the intensive market environment. Regarding the healthcare food products, in order to compete with other propolis products in the market, the Group adopted a low margin strategy to stimulate sales of these products to distributors, resulting in a drop in gross profit margin from approximately 57% in the same period of last year to approximately 47%.

Net profit

Gross profit dropped by approximately HK$21.00 million from approximately HK$41.40 million in the same period of last year to approximately HK$20.49 million due to the above-mentioned reasons. To meet the difficult market environment, the Group adopted a number of necessary measures, such as streamlining the management structure, reducing our staff number as well as strengthening our business planning and financial control. Thus, operating expenses decreased from approximately HK$32.62 million in the same period of last year to approximately HK$29.30 million in the first six months of the year.

However, other operating expenses of the Group increased by approximately HK$8.97 million to approximately HK$10.10 million as compared to the same period of last year. Reasons are as follows:

1. "法制日報社影視中心", 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 where insolvency incurred, which would cause prepaid advertising fee of RMB6.30 million (approximately HK$6.00 million) to become uncollectible. The Group made a provision for the bad debt accordingly; and

2. On 18 January 2006, the Group sold to an independent third party the entire registered and paid-up capital of Shanghai Heng Fai Biological Products Company Limited ("Shanghai Heng Fai"), an indirect wholly-owned subsidiary of the Company, for a total consideration of RMB7.50 million (equivalent to approximately HK$7.21 million). The principal asset of Shanghai Heng Fai is a piece of land in Shanghai and the related construction in progress. The Group made an impairment provision of approximately HK$1.32 million for the relevant land and the related construction in progress accordingly.

For the first six months of the year, as operating expenses increased and gross profit dropped as compared with those of the same period of last year, the Group recorded an operating loss of approximately HK$14.86 million (the same period of last year: operating profit of approximately HK$8.70 million). For the year, the Group's profit tax for earnings arising in China is still calculated at a preferential tax rate (half of the normal profits tax rate). For the first six months of the year, the profits tax of the Group was approximately HK$0.51 million (the same period of last year: approximately HK$0.80 million). Meanwhile, after deducting the share of losses of a jointly controlled entity of approximately HK$0.15 million (the same period of last year: approximately HK$0.26 million) and the minority interests of approximately HK$0.10 million (the same period of last year: approximately HK$0.72 million), the Group recorded a loss of approximately HK$15.62 million (the same period of last year: profit of approximately HK$6.91 million).

LIQUIDITY AND FINANCIAL RESOURCES

For the first six months of the year, the Group recorded cash outflow of approximately HK$1.47 million from operating activities. With the payment of approximately HK$1.31 million for capital expenditures and intangible assets, and the final cash dividend (excluding scrip dividend) for the financial year 2005 of approximately HK$1.86 million, cash and bank balance of the Group as at 31 December 2005 was approximately HK$44.90 million. New bank borrowings of the Group for the first six months of the year amounted to approximately HK$2.00 million.

PLEDGE OF ASSETS AND GEARING

As at 31 December 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, is approximately 3.3% (2004: Nil). The bank loan of HK$2.50 million is secured by a pledge of a bank deposit of HK$2.50 million of the Group.

INTERIM DIVIDEND

The Board has resolved not to pay interim dividend for the six months ended 31 December 2005 (2004: Nil).

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

During the six months ended 31 December 2005, there were no material acquisitions or disposals of subsidiaries and associated companies/jointly controlled entities.

In January 2006, the Company announced that its indirect wholly-owned subsidiary, Star Ocean Limited, entered into a sale and purchase agreement with an independent third party in relation to the disposal of the entire registered and paid-up capital of Shanghai Heng Fai for a total cash consideration of RMB7.50 million (equivalent to approximately HK$7.21 million). The disposal constitutes a discloseable transaction on the part of the Company and the details of which were set out in the announcement of the Company dated 19 January 2006 and the circular of the Company dated 9 February 2006. Upon completion of such disposal, the Group would not hold any interests in the registered and paid-up capital of Shanghai Heng Fai and Shanghai Heng Fai would cease to be a subsidiary of the Company.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2005, the Group employed a total of 259 employees, of which 253 are based in the PRC and 6 are based in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) of approximately HK$7.66 million were incurred for the six months ended 31 December 2005. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

SECURITIES IN ISSUE

During the six months ended 31 December 2005, a total of 16,619,356 shares were issued under the scrip dividend scheme of the Company.

As a result of the issue of 16,619,356 new shares under the scrip dividend scheme of the Company as referred to above, the total number of issued shares of the Company 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 2005, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

CORPORATE GOVERNANCE

During the six months ended 31 December 2005, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules, except for the following code provisions:

(1) 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 non-executive director and 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 A.4.2 of the Code, all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

The chairman of the Board and the managing director of the Company were not subject to retirement by rotation or be taken into account in determining the number of directors to retire at the annual general meeting of the Company held on 25 November 2005 in accordance with article 87(1) of the articles of association of the Company before amendment. To comply with the code provision A.4.2 of the Code, the Company passed a special resolution at the annual general meeting of the Company held on 25 November 2005 to amend its articles of association so that all directors (including the chairman of the Board and the managing director of the Company) are now subject to retirement by rotation at least once every three years, and all directors appointed to fill a casual vacancy are now subject to election by shareholders at the first general meeting after their appointment.

(3) Under code provision E.1.2 of the 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 and the chairman of the remuneration committee were unable to attend the annual general meeting of the Company held on 25 November 2005 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 has also arranged for the chairman of the audit committee to be available to answer questions at the annual general meeting on behalf of the chairman of the remuneration committee.

REVIEW OF ACCOUNTS

The audit committee has reviewed the unaudited interim results of the Group for the six months ended 31 December 2005.

MEMBERS OF THE BOARD

As at the date of this announcement, the executive directors of the Company are Hung Kai So, Kam Ioi, Chan Yuk Tong, Ma Yufeng and Liu Jun; and the independent non-executive directors are Yuan Tsu I, Li Li Te and Chan Chiu Hung Alex.

By Order of the Board
Hung Kai So
Chairman

Hong Kong, 24 March 2006

* *for identification purpose only*

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