



# 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)

## ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 30 JUNE 2005

### RESULTS

The board of directors (the “Board”) of Vitop Bioenergy Holdings Limited (“Vitop” or the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 30 June 2005, together with the comparative figures for 2004, as follows:

### CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	<b>2005</b> <b>HK\$'000</b>	2004 <i>HK\$'000</i>
<b>TURNOVER</b>	4	<b>145,551</b>	139,982
Cost of sales		<b>(74,740)</b>	(63,024)
Gross profit		<b>70,811</b>	76,958
Other revenue and gains	5	<b>2,954</b>	2,925
Selling and distribution costs		<b>(33,370)</b>	(29,389)
Administrative expenses		<b>(29,560)</b>	(26,261)
Other operating expenses		<b>(7,045)</b>	(1,102)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	6	<b>3,790</b>	23,131
Share of loss of a jointly controlled entity		<b>(758)</b>	–
<b>PROFIT BEFORE TAXATION</b>		<b>3,032</b>	23,131
Taxation	7	<b>(766)</b>	(2,281)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>2,266</b>	20,850
Minority interests		<b>(995)</b>	(664)
<b>PROFIT ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>1,271</b>	20,186
<b>DIVIDENDS</b>	8	<b>4,910</b>	6,782
<b>EARNINGS PER SHARE</b>	9		
Basic		<b>HK0.19 cent</b>	HK3.03 cents
Diluted		<b>HK0.19 cent</b>	HK2.97 cents

## CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	<b>2005</b> <i>HK\$'000</i>	2004 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Fixed assets		<b>24,032</b>	21,975
Intangible assets		<b>3,614</b>	5,203
Interests in a jointly controlled entity	<i>10</i>	<b>570</b>	640
		<b>28,216</b>	27,818
<b>Current assets</b>			
Inventories	<i>11</i>	<b>23,661</b>	21,269
Trade receivables	<i>12</i>	<b>5,829</b>	10,958
Deposits, prepayments and other receivables		<b>24,823</b>	19,242
Short term investments		<b>1,495</b>	2,424
Pledged deposit		<b>2,500</b>	–
Cash at banks and in hand		<b>42,280</b>	48,771
		<b>100,588</b>	102,664
<b>Current liabilities</b>			
Trade payables	<i>13</i>	<b>16,630</b>	15,941
Accrued liabilities and other payables		<b>8,370</b>	7,706
Deposits received		<b>9,920</b>	8,578
Interest-bearing bank loan		<b>500</b>	–
Provision for tax		<b>–</b>	846
		<b>35,420</b>	33,071
<b>Net current assets</b>		<b>65,168</b>	69,593
<b>Total assets less current liabilities</b>		<b>93,384</b>	97,411
<b>Minority interests</b>		<b>1,891</b>	1,499
<b>Net assets</b>		<b>91,493</b>	95,912
<b>CAPITAL AND RESERVES</b>			
<b>Share capital</b>		<b>17,048</b>	16,955
<b>Reserves</b>		<b>69,535</b>	72,175
<b>Proposed final dividend</b>	<i>8</i>	<b>4,910</b>	6,782
<b>Shareholders' funds</b>		<b>91,493</b>	95,912

*Notes:*

### 1. Corporate information

The Group is a leading professional provider of technologically advanced healthcare products in the People's Republic of China, excluding Hong Kong (the "PRC").

The Group develops and markets three major healthcare product lines – BIOenergy® products, multi-functional water generators and healthcare food products – under the Vitop® brand, through its nationwide network of franchised point of sales outlets.

The Group's three product lines, which correspond to the three vital components of human life – drink, eat and sleep, underpin the Vitop® brand's philosophy of all rounded health.

## 2. Principal accounting policies

### (a) Recently issued accounting standards

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards (the “New HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005.

The Group has not early adopted these New HKFRSs in the financial statements for the year ended 30 June 2005. The Group has already commenced an assessment of the impact of these New HKFRSs but is not yet in a position to state whether these New HKFRSs would have a significant impact on its results of operations and financial position.

### (b) Basis of preparation

The financial statements are prepared in accordance with and comply with all applicable Hong Kong Financial Reporting Standards (which include Statements of Standard Accounting Practice and Interpretations), issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements are prepared under the historical cost convention as modified by the revaluation of short term investments.

## 3. Segment information

### (a) Business segments

The following tables present revenue and results information for the Group’s business segments:

	BIOenergy® products		Healthcare food products		Multi-functional water generators		Others		Consolidated	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Segment revenue:										
Sales to external customers	<u>44,624</u>	<u>65,321</u>	<u>7,763</u>	<u>5,788</u>	<u>90,870</u>	<u>68,873</u>	<u>2,294</u>	<u>–</u>	<u>145,551</u>	<u>139,982</u>
Segment results	<u>15,122</u>	<u>25,918</u>	<u>2,106</u>	<u>1,574</u>	<u>16,994</u>	<u>19,547</u>	<u>369</u>	<u>–</u>	<u>34,591</u>	<u>47,039</u>
Unallocated other revenue and gains									2,954	2,925
Unallocated expenses									(33,755)	(26,833)
Profit from operating activities									3,790	23,131
Share of result of a jointly controlled entity									(758)	–
Profit before taxation									3,032	23,131
Taxation									(766)	(2,281)
Profit before minority interests									2,266	20,850
Minority interests									(995)	(664)
Profit attributable to shareholders									<u>1,271</u>	<u>20,186</u>

### (b) Geographical segments

A geographical analysis of the Group’s revenue and profit information is not presented as the Group’s revenue and profit in geographical segments other than the PRC is less than 10% of the aggregate amount of all segments.

## 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. Other revenue and gains**

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Bank interest income	409	465
Interest income from other loan	196	554
Dividend income	26	121
Gain on disposal of short term investments	793	984
Others	1,530	801
	<u>2,954</u>	<u>2,925</u>

**6. Profit from operating activities**

Profit from operating activities is arrived at after charging/(crediting):

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Cost of inventories sold	74,740	63,024
Staff costs (excluding directors' remuneration)		
Wages and salaries	15,994	11,735
Pension scheme contribution	981	489
	<u>16,975</u>	<u>12,224</u>
Depreciation of fixed assets	4,676	3,982
Amortisation of intangible assets	1,903	725
Operating lease charges in respect of land and buildings	3,652	3,655
Provision for doubtful debts and bad debts expenses	3,571	102
Increase/(Decrease) in provision for obsolete and slow-moving inventories	575	(758)
Loss on disposal of fixed assets	16	754
Unrealised loss on revaluation of short term investments	221	326

**7. Taxation**

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Group		
Current – PRC:		
Charge for the year	1,138	2,281
Overprovision in prior years	(372)	–
Current – Hong Kong	–	–
	<u>766</u>	<u>2,281</u>

Hong Kong Profits Tax has not been provided as the Group had no assessable profits arising in Hong Kong during the year (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 year.

As at 30 June 2005, the Group did not have any significant unprovided deferred tax liabilities (2004: Nil).

**8. Dividends**

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Proposed final dividend of HK0.72 cent (2004 : HK1.00 cent) per ordinary share	<u>4,910</u>	<u>6,782</u>

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

**9. Earnings per share**

The calculation of basic earnings per share is based on profit attributable to shareholders for the year ended 30 June 2005 of approximately HK\$1,271,000 (2004: HK\$20,186,000) and the weighted average of 680,897,278 (2004: 666,412,169) ordinary shares in issue during the year.

The calculation of diluted earnings per share is based on profit attributable to shareholders for the year ended 30 June 2005 of approximately HK\$1,271,000 (2004: HK\$ 20,186,000) and the weighted average of 683,412,782 (2004: 678,799,730) ordinary shares outstanding during the year, 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 of 680,897,278 (2004: 666,412,169) ordinary shares in issue during the year plus the weighted average of 2,515,504 (2004: 12,387,561) ordinary shares deemed to be issued at no consideration as if all the Company's share options had been exercised.

## 10. Interests in a jointly controlled entity

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Share of net assets	<u>570</u>	<u>640</u>

## 11. Inventories

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Raw materials	6,622	8,268
Work in progress	2,846	2,973
Finished goods	<u>15,446</u>	<u>10,706</u>
	24,914	21,947
<i>Less: Provision for obsolete and slow-moving inventories</i>	<u>(1,253)</u>	<u>(678)</u>
	<u>23,661</u>	<u>21,269</u>

As at 30 June 2005, no inventories were stated at net realisable value (2004: Nil).

## 12. Trade receivables

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	3,462	5,144
Between 31 to 60 days	230	1,151
Between 61 to 180 days	712	2,103
Over 180 days	<u>5,218</u>	<u>2,782</u>
	9,622	11,180
<i>Less: Provision for doubtful debts</i>	<u>(3,793)</u>	<u>(222)</u>
	<u>5,829</u>	<u>10,958</u>

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

## 13. Trade payables

As at the balance sheet date, an aged analysis of trade payables, based on invoice date, was as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Outstanding balances with ages:		
Within 30 days	9,563	10,029
Between 31 to 60 days	3,231	953
Between 61 to 180 days	3,045	4,929
Over 180 days	<u>791</u>	<u>30</u>
	<u>16,630</u>	<u>15,941</u>

## MANAGEMENT DISCUSSION & ANALYSIS

### Business review and prospect

The Group believes that the key success factors in the healthcare industry in the PRC are: quality products, a well-known brand name, an energetic team, and an extensive distribution network. In line with its consistent strategy, the Group increased its investments in the above areas so as to build a solid foundation for the Group to continue its development amidst the highly competitive healthcare industry in the PRC.

As regards the product aspect, the Group's consistent health philosophy covers the three major components of human living, namely "sleeping", "drinking" and "eating". The related major products are BIOenergy® products, multi-functional water generators and healthcare food products.

### ***BIOenergy® products***

The BIOenergy® products 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. Besides obtaining the “3.15” Consumer Confidence Label (3.15消費者信心標誌) awarded by the China Consumers’ Association (中國消費者協會), the Group was granted in September 2005 the “China Top Brand” (中國名牌) by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家品質監督檢驗檢疫總局) based on the assessment 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. For the financial year ended 30 June 2005, the turnover of BIOenergy® products was approximately HK\$44.62 million, dropped by 32% when compared with that of 2004 due to the competitive market and insufficient new product development.

During the year, the Group developed BIOenergy® Compound A, B and C from the original BIOenergy® Compound, which are targeted at improving micro-circulation, releasing negative ions, and killing and resisting germs, respectively. BIOenergy® Compound C uses silver nano and photocatalyst complex anti-germs materials (光觸酶複合抗菌材料). In September 2005, the Group introduced the “Nobel Endless Spring” Healthy Sleeping System series, which uses the above technologies, with encouraging sales. The Group expects reasonable growth contributing from this new product and will continue in the further research and development of BIOenergy® products in order to expand the product range for meeting different customer needs.

### ***Multi-functional water generators***

The production bases of the multi-functional water generators are in Hefei (合肥天年美菱環保科技有限責任公司, the shares of which are held as to 80% by the Group) (the “Hefei Factory”) and in Suzhou (at the joint venture with OSG Corporation Co., Ltd. (“OSG”), the shares of which are held as to 40% by the Group) (the “Suzhou Factory”). Also, the Group imports water generators from OSG’s Japan factory to balance the sales mix of the Group. During the year ended 30 June 2005, the Hefei Factory was in the stage of adjustment. As the new series of water generators has not yet obtained the official production approval, the turnover of water generators dropped, which affected the overall gross profit margin of water generators of the Group.

The Suzhou Factory has just completed the production preparation phase. According to our plan, the Suzhou Factory will manufacture water generators of compatible functional features, for substituting the imported OSG water generators. As the cost decreases, the competitive advantage will be enhanced and the gross profit margin of the Group improved. Yet, the production schedule of the Suzhou Factory has been delayed and the Group was required to import the more expensive Japan-made water generators from OSG to meet the customers’ needs.

To sum up, although the turnover of the multi-functional water generators increased from approximately HK\$68.87 million in 2004 to approximately HK\$90.87 million in 2005, with an increase of 32% (approximately HK\$22 million), the respective gross profit contribution decreased from approximately HK\$19.55 million last year to approximately HK\$16.99 million, with a decrease of 13% (approximately HK\$2.55 million).

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, hoping to improve the Group’s gross profit contributions.

After the Group spending years of promoting water generators in the PRC, there have been different water generator models entered into the market, in some cases, by means of certain irresponsible short term actions and/or poor in quality. In July 2005, the state health authority issued “Document No. 10”, which accused fake and exaggerate promotion activities of water generators. The Document created a significant impact on the confidence of some customers and affected the Group’s sales performance in the short term. Yet, the Group believes that the Document will enhance the self-discipline 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 establishing rules and regulations for the industry. The Group still regards the multi-functional water generators a long term business and the Document’s effect is only short term. The Group believes that it will maintain a significant market share in the reorganized multi-functional water generator industry by continuous research and development and marketing efforts.

### ***Healthcare food products***

The Group's healthcare food products recorded an increase in turnover of 34% (approximately HK\$1.98 million) to approximately HK\$7.76 million. The Group was committed on the development of new healthcare food products and Vitop Propolis was introduced during the year. The Group is now seeking opportunities to cooperate with other local and/or overseas famous corporations on developing other healthcare food products. The Group expects a stable growth in turnover from the healthcare food products.

### ***Brand name***

The Group has been granted the "3.15" Consumer Confidence Label (3.15消費者信心標誌) by the China Consumers' Association(中國消費者協會). The Group's "Vitop Healthy Sleeping System" was granted the status of the "State Free of Inspection Product" in September 2004 and the "China Top Brand" (中國名牌) by the State General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家品質監督檢驗檢疫總局) in September 2005.

This reflects the Group's established reputation in the market, and the Group will proceed with the next stage of marketing and promotion. With strong brand equity, the confidence of the customers will be enhanced, helping the marketing of the Group's products.

### ***Team***

The Group firmly appreciates that a highly effective marketing and management team can improve the profit generating capability of the Group and is an essential element of the continuous, long term development of the Group. Therefore, the Vitop International Training Institute was established in February 2005. Well-known professional training organizations in the industry are engaged in providing training to the Group personnel and the distributors, which, we believe, can build up a good foundation on the development of the team.

### ***Distribution networks***

In order to strengthen the existing distribution network and to provide more support to the distributors, the Group rationalized its distribution network strategically. Experienced distributors were appointed to expand to new markets and take over the neighborhood badly performed markets. Therefore, the number of distributors reduced from that of the previous year. As at 30 June 2005, there were 278 distributors (2004: 355 distributors) in 451 cities (2004: 355 cities) and there were 686 (2004: 647) points of sales outlets distributing the Group's products. With the strengthened network coupled with better training, supervision and motivation, the Group believes that the productivity of the distribution networks will be improved.

The Group believes that a strong and extensive distribution network is an important asset, which will guarantee an effective marketing channel for introducing new healthcare products to the market in the future.

### ***Back-end systems***

After promoting for over one year, the CRM system shows a positive impact on the network. Customer database will be used for after-sales services and customer demand analysis.

### **Financial review**

#### ***Turnover***

For the year ended 30 June 2005, the financial performance of the Group is unsatisfactory. Turnover increased slightly by 4% to approximately HK\$146 million as compared to 2004 due to the increasing competition in the market.

Multi-functional water generators recorded a turnover of approximately HK\$90.87 million, an increase by 32% when compared with that of 2004. It represented 62% of the total turnover of the Group. BIOenergy® products recorded a turnover of approximately HK\$44.62 million, a drop of 32% when compared with that of 2004 as there were no new products being introduced to the market. A new series of multi-functional product, "Noble Endless Spring", was introduced in September 2005. With the encouraging market response, the Group expects the introduction of the new series will improve the sales performance of the BIOenergy® products. For the healthcare food products, due to the continued introduction of new products, the turnover increased by 34% to approximately HK\$7.76 million.

### ***Gross profit***

Gross margin decreased by 6 percentage points to 49% as compared with 55% in 2004. The decrease in gross margin is due to a change in sales mix and the more competitive market. Multi-functional water generators, with a lower gross profit margin, represented 62% of the total turnover and the imported water generators, with the lowest gross profit margin, represented 26% of the total turnover. This is the main reason for the drop of gross margin from 46.3% in 2004 to 42.4% in 2005. We believe that with the completion of the production adjustment at the Suzhou Factory and the localization of production of water generators, there will be a significant increase in gross profit margin. The gross profit margin of the BIOenergy® products was 61%, representing a drop comparing to 63% in 2004, as the Group focused mainly on new products with planned aggressive clearance of stocks on hand. As regards the healthcare food products, in order to compete with other bee 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 66% last year to 55%.

### ***Net profit***

Although turnover increased, gross profit dropped by 8% from approximately HK\$76.95 million in 2004 to approximately HK\$70.81 million in 2005 due to the above-mentioned reasons. To meet the competitive market, the Group made significant investments in the advertising and marketing of products and in the improvement of operational management skills. Thus, operating expenses increased by 13% from approximately HK\$55.65 million in 2004 to approximately HK\$62.93 million in 2005. The increase in other operating expenses of the Group by approximately HK\$5.94 million as compared with that of 2004 was mainly due to a provision for receivables from an ex-distributor. During the year, one of the major distributors closed down and the trade receivables from that distributor became uncollectible.

As operating expenses increased and gross profit dropped, operating profit dropped by 84% to approximately HK\$3.79 million. For the financial year ended 30 June 2005, the profits tax expense was approximately HK\$0.77 million, which was calculated at a preferential tax rate (half of the normal profits tax rate). Meanwhile, after deducting for the share of losses of a jointly controlled entity of approximately HK\$0.76 million and the minority interests of approximately HK\$1 million, the net profit of the Group dropped from approximately HK\$20.18 million in 2004 to approximately HK\$1.27 million in 2005.

### **Liquidity and financial budget**

During the year, the Group generated cash inflow of approximately HK\$8.92 million from operating activities. With the payment of approximately HK\$7.09 million for capital expenditures and intangible assets, and the final dividend for the financial year 2004 of approximately HK\$6.80 million, cash on hand as at 30 June 2005 decreased by approximately HK\$3.99 million to HK\$44.78 million. Total bank borrowings amounted to approximately HK\$0.50 million.

### **Pledge of assets and gearing**

As at 30 June 2005, the Group's gearing ratio, measured on the basis of total borrowings as a percentage of total shareholders' equity, is 0.5% (2004: Nil). The bank loan of HK\$0.50 million is secured by a pledge of bank deposit of HK\$2.50 million.

### **Significant investments**

During the year, there was no significant investment held by the Group.

### **Material acquisitions and disposals of subsidiaries and associated companies/jointly controlled entities**

During the year, there were no material acquisitions or disposals of subsidiaries and associated companies/jointly controlled entities.

### **Employees and remuneration policies**

As at 30 June 2005, the Group employed a total of 260 employees, of which 253 are based in the PRC and 7 are based in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) of approximately HK\$15.99 million were incurred for the year. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.



## **Outlook and future prospects**

The further opening up of the PRC healthcare market with many overseas competitors entering into the PRC market will put the Group under tremendous competition. But this will bring in both opportunities and challenges. The Group's competitive advantages in such a highly competitive environment lie in its 13-year sales experience, a well-known brand name and the reputation among customers.

The Group will continue its investments in the development of quality products, well-known brand name, an energetic team and an extensive distribution network. The Group will capture new opportunities and maintain its market share by building a solid foundation with gradual improvement in sales.

## **FINAL DIVIDEND**

The Board has resolved to recommend the payment of a final dividend of HK0.72 cent per share for the year ended 30 June 2005 (2004: HK1.00 cent per share) to shareholders whose names appear on the register of members of the Company as at the close of business on 25 November 2005. The final dividend is expected to be paid to shareholders by post on or around 16 December 2005.

The Board has also proposed that the final dividend should be satisfied by way of a scrip dividend of shares, with an option to elect cash in respect of part or all of such dividend by paying out from the share premium account of the Company in accordance with article 137 of the articles of association of the Company. The market value of the shares to be issued under the scrip dividend proposal will be fixed by reference to the average of the closing prices of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") for the five consecutive trading days ending on 25 November 2005 less a discount of five per cent of such average price or the par value of shares, whichever is the higher. The proposed scrip dividend is conditional upon the Stock Exchange granting listing of, and permission to deal in, the new shares to be issued and the passing at the forthcoming annual general meeting of the Company of an ordinary resolution to approve the final dividend. A circular giving full details of the scrip dividend proposal and a form of election will be sent to shareholders.

## **CLOSE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 21 November 2005 to 25 November 2005, both dates inclusive, during which period no transfers of shares shall be effected. In order to qualify for the proposed final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Union Registrars Limited at 311-312 Two Exchange Square, Central, Hong Kong for registration by 4:00 p.m. on 18 November 2005.

## **MAJOR EVENTS**

During the year, on 5 January 2005, Mr. Lee Kwok Ming ("Mr. Lee") resigned as an executive director of the Company and remains a non-executive director of the Company, and upon his resignation, Mr. Lee entered into with the Company a termination agreement on the same day terminating the service agreement between the Company and Mr. Lee in relation to his appointment as an executive director of the Company and the subscription agreement between the Company and Mr. Lee in relation to the subscription of an aggregate of 7,752,000 new shares in the capital of the Company at the subscription price of HK\$0.31 per share and the grant of options to subscribe for 20,000,000 shares at the exercise price of HK\$0.495 per share under the share option scheme of the Company adopted on 23 January 2003 (the "Scheme"). Details of these transactions have been disclosed in the announcement made by the Company on 5 January 2005.

## **SECURITIES IN ISSUE**

During the year, a total of 3,725,348 shares were issued, as to 1,938,000 shares and 1,727,348 shares pursuant to the subscription of the first and second tranches of the subscription shares by Mr. Lee, respectively, at the subscription price of HK\$0.31 per share as referred to in the subscription agreement dated 5 January 2004 and made between the Company and Mr. Lee, and as to 60,000 shares pursuant to the exercise of the subscription rights attaching to the options by the option holder of the Company at the exercise price of HK\$0.30 per share.

As a result of the new issue of 3,725,348 shares upon the subscription of shares and the exercise of share options as referred to above, the total number of issued shares of the Company as at the date of this announcement is 681,923,748.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

During the year, there were no purchases, sales or redemptions by the Company, or any of its subsidiaries, of the Company's listed securities.

## **CODE OF BEST PRACTICE**

In the opinion of the directors, the Company has complied with the Code of Best Practice (the "Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") (which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005) throughout the year, except that the non-executive director and the independent non-executive directors (other than Mr. Yuan Tsu I) are not appointed for a specific term as required by paragraph 7 of the Code, 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.

The Code was replaced by the Code on Corporate Governance Practices (the "CGP Code") which has become effective for accounting periods commencing on or after 1 January 2005 (the internal control section would become effective from 1 July 2005). Appropriate actions are being taken by the Company for complying with the CGP Code.

On 21 March 2005, the Board adopted the CGP Code based on the principles set out in Appendix 14 to the Listing Rules which came into force on 1 January 2005. The Board also established a remuneration committee, comprising Mr. Yuan Tsu I as chairman and independent non-executive directors of the Company, Mr. Yick Wing Fat, Simon and Professor Li Li Te, with written terms of reference, effective for accounting periods commencing on or after 1 January 2005. The terms of reference of the audit committee of the Company were revised to align with the provisions of the CGP Code and would become effective for accounting periods commencing on or after 1 January 2005.

## **MODEL CODE**

During the year, the Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. Having made specific enquiry of all directors, the Company has obtained their confirmations on the compliance with the Model Code.

## **AUDIT COMMITTEE**

The Company has established an audit committee in accordance with the requirements of the Code. The audit committee now comprises Mr. Yick Wing Fat, Simon (chairman of the audit committee), Mr. Yuan Tsu I and Professor Li Li Te, all of whom are independent non-executive directors of the Company. The principal duties of the audit committee of the Company include the review of the completeness, accuracy and fairness of the Company's financial statements and the effectiveness of the Company's internal control system. During the year, two regular meetings of the audit committee have been held. The audited financial statements of the Company for the year ended 30 June 2005 have been reviewed by the audit committee.

## **ANNUAL GENERAL MEETING**

The annual general meeting of the Company will be held on 25 November 2005. The notice of the annual general meeting will be published and dispatched to the shareholders of the Company in the manner as required by the Listing Rules in due course.

## **PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION**

The Stock Exchange has recently amended the Listing Rules by replacing the Code with the CGP Code, which took effect on 1 January 2005 (subject to certain transitional arrangements). The Board therefore proposed to the shareholders of the Company to approve a special resolution at the forthcoming annual general meeting to amend the articles of association of the Company in order to, inter alia, ensure compliance with relevant provisions of the new Appendix 14 to the Listing Rules. Details of the proposed amendments to the articles of association of the Company will be set out in the circular and the notice of the annual general meeting to be dispatched to the shareholders of the Company together with the annual report for the year 2005.

## **CHANGE OF AUTHORIZED REPRESENTATIVE**

Mr. Chan Yuk Tong was appointed as the authorized representative of the Company under rule 3.05 of the Listing Rules in place of Mr. Ma Yufeng with effect from 21 October 2005.

## **APPRECIATION**

On behalf of the Board, I would like to take this opportunity to express our sincere appreciation to our shareholders, customers, suppliers and business partners for their continuous support to the Company and to all management and staff members for their contributions, commitment and dedicated efforts during the year.

## **GENERAL**

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; the non-executive director is Lee Kwok Ming; and the independent non-executive directors are Yuan Tsu I, Yick Wing Fat, Simon and Li Li Te.

By Order of the Board  
**Hung Kai So**  
*Chairman*

Hong Kong, 21 October 2005

\* *For identification purpose only*

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