



**VITOP BIOENERGY HOLDINGS LIMITED**

**天年生物控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*



Interim Report  
2004/2005

## INTERIM RESULTS

The board of directors (the "Board") of Vitop Bioenergy Holdings Limited ("Vitop" or the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2004 (the "Period") together with comparative figures for the corresponding period in 2003. The interim results for the six months ended 31 December 2004 are not audited, but have been reviewed by the audit committee.

## CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended	
		2004 (Unaudited) HK\$'000	2003 (Unaudited) HK\$'000
<b>TURNOVER</b>		<b>81,371</b>	70,806
Cost of sales		(39,975)	(30,196)
Gross profit		41,396	40,610
Other revenue		1,055	4,308
Distribution costs		(18,481)	(18,767)
Administrative expenses		(14,141)	(11,106)
Other operating expenses		(1,129)	(1,798)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>8,700</b>	13,247
Share of loss of a jointly controlled entity		(266)	–
<b>PROFIT BEFORE TAXATION</b>		<b>8,434</b>	13,247
Taxation	5	(800)	(979)
<b>PROFIT BEFORE MINORITY INTERESTS</b>		<b>7,634</b>	12,268
Minority interests		(722)	–
<b>NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS</b>		<b>6,912</b>	12,268
<b>DIVIDENDS</b>	6	<b>–</b>	–
<b>EARNINGS PER SHARE</b>	7		
Basic		<b>HK1.02 cents</b>	HK1.8 cents
Diluted		<b>HK1.00 cents</b>	N/A

# CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
	Notes		
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Fixed assets	8	23,729	21,975
Intangible assets		4,737	5,203
Interest in a jointly controlled entity	9	1,062	640
		29,528	27,818
<b>Current assets</b>			
Inventories	10	18,149	21,269
Trade receivables	11	9,529	10,958
Deposits, prepayments and other receivables		30,826	19,242
Short-term investments		591	2,424
Cash at banks and in hand		47,508	48,771
		106,603	102,664
<b>Current liabilities</b>			
Trade payables	12	18,881	15,941
Accrued liabilities and other payables		7,056	7,706
Deposits received		9,031	8,578
Provision for tax		2,343	846
		37,311	33,071
<b>Net current assets</b>		69,292	69,593
<b>Total assets less current liabilities</b>		98,820	97,411
<b>Minority interests</b>		2,221	1,499
<b>Net assets</b>		96,599	95,912
<b>CAPITAL AND RESERVES</b>			
Share capital		17,005	16,955
Reserves		79,594	72,175
Proposed final dividends		–	6,782
<b>Shareholders' funds</b>		96,599	95,912

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Note 1) (Unaudited) HK\$'000	Share premium (Note 1) (Unaudited) HK\$'000	Statutory reserve (Note 2) (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividends (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 July 2003	16,629	31,047	6,471	29	-	-	17,940	4,789	76,905
Net profit for the Period	-	-	-	-	-	-	12,268	-	12,268
Transfer to statutory reserve	-	-	1,271	-	-	-	(1,271)	-	-
Final dividends paid	-	-	-	-	-	-	-	(4,789)	(4,789)
At 31 December 2003	<u>16,629</u>	<u>31,047</u>	<u>7,742</u>	<u>29</u>	<u>-</u>	<u>-</u>	<u>28,937</u>	<u>-</u>	<u>84,384</u>

	Share capital (Note 1) (Unaudited) HK\$'000	Share premium (Note 1) (Unaudited) HK\$'000	Statutory reserve (Note 2) (Unaudited) HK\$'000	Capital redemption reserve (Unaudited) HK\$'000	Capital reserve (Unaudited) HK\$'000	Translation reserve (Unaudited) HK\$'000	Retained profits (Unaudited) HK\$'000	Proposed final dividends (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
At 1 July 2004	16,955	34,345	7,327	29	28,764	(14)	1,724	6,782	95,912
Issue of shares	49	552	-	-	-	-	-	-	601
Share options exercised	1	17	-	-	-	-	-	-	18
Net profit for the Period	-	-	-	-	-	-	6,912	-	6,912
Transfer to statutory reserve	-	-	683	-	-	-	(683)	-	-
Addition final 2004 dividends	-	-	-	-	-	-	(19)	19	-
Translation adjustment	-	-	-	-	-	(43)	-	-	(43)
Final dividends paid	-	-	-	-	-	-	-	(6,801)	(6,801)
At 31 December 2004	<u>17,005</u>	<u>34,914</u>	<u>8,010</u>	<u>29</u>	<u>28,764</u>	<u>(57)</u>	<u>7,934</u>	<u>-</u>	<u>96,599</u>

### Notes:

- During the Period, a total of 1,998,000 shares were issued, as to 1,938,000 shares pursuant to the subscription of the first tranche of the subscription shares by Mr. Lee Kwok Ming ("Mr. Lee"), the then executive director of the Company, 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 an exercise price of HK\$0.30 per share.
- In accordance with the relevant regulations of the People's Republic of China excluding Hong Kong, Macau and Taiwan (the "PRC") applicable to wholly-owned foreign enterprises, Vitop Bioenergy (China) Ltd ("Vitop China"), a wholly-owned subsidiary of the Company operating in the PRC, is required to transfer 10% of its profit after tax, if any, to the statutory reserve. Subject to certain restrictions as set out in the relevant PRC regulations, the statutory reserve may be used to offset against the accumulated losses of Vitop China.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	9,560	13,815
NET CASH USED IN INVESTING ACTIVITIES	(4,598)	(6,678)
NET CASH USED IN FINANCING ACTIVITIES	(6,182)	(4,789)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(1,220)	2,348
CASH AND CASH EQUIVALENTS AT 1 JULY	48,771	42,144
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(43)	–
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>47,508</u>	<u>44,492</u>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash at banks and in hand	<u>47,508</u>	<u>44,492</u>

04

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. Background of the Company

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 15 February 2001 under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares had been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 1 February 2002. On 10 February 2003, the Company withdrew the listing of its shares on GEM and on the same date, the Company's shares were listed on the Main Board of the Stock Exchange by way of introduction.

## 2. Basis of preparation and principal accounting policies

The unaudited condensed financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "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 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 2004.

### 3. Segment information

Turnover represents the net invoiced value of goods sold, after allowance for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

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

	Healthy Sleeping System		Other BIOenergy® Products		Polypeptide Products		Anion Water Producer		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	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>27,314</u>	<u>35,359</u>	<u>3,319</u>	<u>6,121</u>	<u>1,644</u>	<u>3,784</u>	<u>49,094</u>	<u>25,542</u>	<u>81,371</u>	<u>70,806</u>
Segment results	<u>10,805</u>	<u>15,192</u>	<u>342</u>	<u>808</u>	<u>510</u>	<u>1,366</u>	<u>11,258</u>	<u>4,477</u>	<u>22,915</u>	<u>21,843</u>
Unallocated other revenue and gains									1,055	4,308
Unallocated expenses									(15,270)	(12,904)
Profit from operating activities									8,700	13,247
Share of loss of a jointly controlled entity									(266)	-
Profit before taxation									8,434	13,247
Taxation									(800)	(979)
Profit before minority interests									7,634	12,268
Minority interests									(722)	-
Net profit from ordinary activities attributable to shareholders									<u>6,912</u>	<u>12,268</u>

No geographical analysis is presented as all of the Group's turnover and contribution to profit before tax is attributable to markets inside the PRC.

#### 4. Profit from operating activities

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

	Six months ended 31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold and services provided	39,975	30,196
Amortisation	780	581
Depreciation	2,370	1,984
Provision for doubtful debts and bad debts written off	163	1
Loss on disposal of fixed assets	11	64
	<u>43,309</u>	<u>33,726</u>

#### 5. Taxation

	Six months ended 31 December	
	2004	2003
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC	800	979
Hong Kong	—	—
	<u>800</u>	<u>979</u>

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2003: 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 China 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 2004, the Group did not have any significant unprovided deferred tax liabilities (30 June 2004: Nil).



## 6. Dividends

The Board has resolved not to pay any interim dividend for the Period (2003: Nil).

## 7. Earnings per share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the Period of approximately HK\$6,912,000 (2003: HK\$12,268,000) and the weighted average number of 680,009,585 (2003: 665,170,000) ordinary shares in issue during the Period.

The calculation of diluted earnings per share is based on the net profit from ordinary activities 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 the 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.

Diluted earnings per share for the six months ended 31 December 2003 was not presented because the impact of the exercise of the share options was anti-dilutive.

## 8. Fixed assets

	Total HK\$'000
At 1 July 2004 (audited)	21,975
Additions	4,156
Depreciation	(2,370)
Disposals	(32)
At 31 December 2004 (unaudited)	<u>23,729</u>

## 9. Interest in a jointly controlled entity

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Share of net assets	<u>1,062</u>	<u>640</u>
Unlisted investments, at cost	<u>1,328</u>	<u>640</u>

## 10. Inventories

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Raw materials	6,692	8,268
Work in progress	3,643	2,973
Finished goods	8,379	10,706
	<u>18,714</u>	<u>21,947</u>
Less: Provision for obsolete and slow-moving inventories	(565)	(678)
	<u><b>18,149</b></u>	<u><b>21,269</b></u>

## 11. Trade receivables

The aged analysis of trade receivables is as follows:

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Outstanding balances aged:		
Within 30 days	2,265	5,144
Between 31 to 60 days	1,140	1,151
Between 61 to 180 days	2,808	2,103
Over 180 days	3,538	2,782
	<u>9,751</u>	<u>11,180</u>
Less: Provision for doubtful debts	(222)	(222)
	<u><b>9,529</b></u>	<u><b>10,958</b></u>

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

## 12. Trade payables

The aged analysis of trade payables is as follows:

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Outstanding balances aged:		
Within 30 days	7,960	10,029
Between 31 to 60 days	5,346	953
Between 61 to 180 days	4,448	4,929
Over 180 days	1,127	30
	<u>18,881</u>	<u>15,941</u>

## 13. Commitments

### a. Operating lease arrangements

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

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Within one year	3,855	3,060
In the second to fifth years, inclusive	6,776	6,900
	<u>10,631</u>	<u>9,960</u>

### b. Capital commitments

The Group had capital commitments as follows:

	31 December 2004 (Unaudited) HK\$'000	30 June 2004 (Audited) HK\$'000
Contracted but not provided for, in respect of		
– the capital injection to a jointly controlled entity	2,987	3,675
– the capital injection to a subsidiary	1,989	–
– the purchase of fixed assets	2,030	2,860
	<u>7,006</u>	<u>6,535</u>

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business overview and prospect

The Group develops and markets a series of healthcare products under the Vitop® brand through its nationwide network of franchised point of sales outlets which perseveres the Group's philosophy of "Health": Drink, Eat and Sleep – matching with the major components of human life. The Group's three major product lines, namely Healthy Sleeping System, Anion Water Producer and Polypeptide Products are built on this basis of Vitop's philosophy of "Health" and through the Group's distribution network, are supplementary to each others enhancing better utilization of customer base. On this basis, the Group strives hard to broaden its source of income and ensure steady growth through the internal development, merger and acquisition and development of new products. Take Anion Water Producer as an example, the Group launched this product in the financial year of 2002. During the Period, the Anion Water Producer has shown a significant growth in sales and gross profit from approximately HK\$25,542,000 and HK\$11,489,000 for the corresponding period in last financial year to approximately HK\$49,094,000 and HK\$22,327,000, respectively, during the Period. After two and a half years development, the Group's sales in Anion Water Producer have developed from a provision of product alone to product and service together. In addition, during the year 2004, the Group has acquired 80% interests in 合肥美菱環保電子有限責任公司 (「合肥美菱」) in China from 合肥美菱集團控股有限公司, the shareholder of 合肥美菱, and renamed 合肥美菱 as 合肥天年美菱環保科技有限責任公司; and established a jointly controlled entity, Vitop OSG Environmental Technology (Suzhou) Co., Ltd, in China with OSG Corporation Co., Ltd. from Japan as another shareholder. Through this acquisition and cooperation in China, the directors of the Company believe that the cost of Anion Water Producer will further decrease, as well as the improvement of product quality.

On the other hand, as a result of increasing competition, the turnover of the Group's BIOenergy® products such as Healthy Sleeping System and Polypeptide Products has recorded a decrease from approximately HK\$41,480,000 and HK\$3,784,000 for the corresponding period in last financial year to approximately HK\$30,633,000 and HK\$1,644,000, respectively, during the Period. In order to cope with such decrease and ensure the steady turnover of these two products, the Group will strengthen the cooperation with franchisees for the purpose of getting closer relationship with the ultimate customers and encourage cross-selling of these two products to the customers of Anion Water Producer. In the meantime, following China's commitment to World Trade Organization and the potential lifting of the ban on direct selling, the Group is well prepared to capitalize on the opportunities by developing new sales model that conforms to the new regulations. We believe that by selling the Group's three major

products to ultimate customers through the Group's existing distribution network and the new sales model, the sales of Healthy Sleeping System and Polypeptide Products can be improved and able to cope with the increasing competition. In addition, the Group is in the progress of broadening its products line and through the closer cooperation with foreign suppliers, the Group will launch a series of international brand healthcare products. We believe that through the sales of these international brand healthcare products on our existing distribution network and the new sales model, the Group's profit performance will greatly improve in the near future. To sum up, the year 2005 will be the period of strengthening the Group's new products, new business and new market. During this period, the Group will continue to develop through internal development, alliances and acquisitions. We are of confidence that investments during this period will pave the foundation of long-term growth of the Group in the future.

### Financial review

During the Period, the total turnover of the Group increased by 14.9% to approximately HK\$81,371,000 as compared to the corresponding period in last financial year. The increase was mainly attributable to the popularity of Anion Water Producer. The sales of Anion Water Producer have increased from approximately HK\$25,542,000 for the corresponding period in last financial year to approximately HK\$49,094,000 during the Period and the growth rate is approximately 92.2%. The sales of Anion Water Producer contribute to approximately 60.3% of the Group's total turnover. In respect of the sales of Healthy Sleeping System and Polypeptide Products, they have shown a sign of decrease. However, we believe that such a situation of decrease will turn around after the strengthening period in the year 2005.

### Gross profit

During the Period, the overall gross profit margin is approximately 50.9% whereas the overall gross profit margin for the corresponding period in last financial year was approximately 57.4%. The decrease in gross profit margin was mainly attributable to the new product mix with different profit margins, of which the gross profit margin of imported Anion Water Producer was lower as compared with other products such as Healthy Sleeping System and local Anion Water Producer. The gross profit margin of Healthy Sleeping System and Polypeptide Products decreased from approximately 68.7% and 36.8% for the corresponding period in last financial year to approximately 62.6% and 31.0%, respectively, during the Period. The decrease was mainly attributable to increasing market competition. Following the increasing supply of local Anion Water Producer and its higher gross profit margin (approximately 59.2% during the Period), we believe that the overall gross profit margin after the year 2005 will improve.

## Profit attributable to shareholders

During the Period, the Group's profit attributable to shareholders decreased from approximately HK\$12,268,000 for the corresponding period in last financial year to approximately HK\$6,912,000 during the Period. The decrease was mainly attributable to the following. (i) The overall gross profit margin decreased by approximately 6.5%, however, as mentioned above, we believe that the gross profit margin will improve after the strengthening period in the year 2005. (ii) There was a decrease in income from securities investment and interest income as classified in the other income by a total of approximately HK\$2,445,000. In order to concentrate on the core business, the directors of the Company decided to reduce such investment activities. and (iii) The directors' remuneration as classified in the administrative expenses increased by approximately HK\$1,899,000. The increase was mainly attributable to the change of directors and their respective remuneration as well as the ex-gratia payment for resignation as director.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operation with internally generated cash flow. During the Period, the Group recorded a net outflow of approximately HK\$1,220,000 which resulted in decrease in cash at banks and in hand to approximately HK\$47,508,000 at 31 December 2004. The Group has no outstanding bank borrowing and no banking facilities available.

## INTERIM DIVIDEND

The Board has resolved not to pay interim dividend for the six months ended 31 December 2004 (2003: Nil).

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

During the six months ended 31 December 2004, there were no material acquisitions or disposals of subsidiaries and associated companies/jointly controlled entities.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2004, the Group employed a total of 363 employees, of which 356 are based in the PRC and 7 are based in Hong Kong. The total salaries and other remuneration (excluding directors' emoluments) of approximately HK\$8,413,000 were incurred for the six months ended 31 December 2004. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

## MAJOR EVENTS

Subsequent to the Period, on 5 January 2005, 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 Period, a total of 1,998,000 shares were issued, as to 1,938,000 shares pursuant to the subscription of the first tranche of the subscription shares by Mr. Lee 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 an exercise price of HK\$0.30 per share.

Subsequent to the Period, a total of 1,727,348 shares were issued pursuant to the subscription of the second tranche of the subscription shares by Mr. Lee 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.

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 interim report is 681,923,748.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2004, the interests and short positions of the directors of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO); or are required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or are required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), to be notified to the Company and the Stock Exchange were as follows:

### Long positions in the shares and underlying shares of the Company

Name of director	Type of interest	Capacity	Number of shares held	Number of underlying shares held pursuant to share options	Aggregate interest	Approximate percentage of interest
Hung Kai So	Personal	Beneficial owner	130,131,229	1,600,000	131,731,229	19.36%
Kam loi	Personal	Beneficial owner	115,282,743	1,600,000	116,882,743	17.18%
Ma Yufeng	Corporate (Note)	Beneficial owner	44,467,115	–	51,118,815	7.51%
	Personal	Beneficial owner	–	6,651,700		
Sae-lao Rakchanok (resigned as director of the Company on 18 October 2004)	Personal	Beneficial owner	47,056,975	6,651,700	53,708,675	7.89%
Liu Jun	Personal	Beneficial owner	16,181,819	6,651,700	22,833,519	3.35%
Lee Kwok Ming	Personal	Beneficial owner	14,432,000	20,000,000	34,432,000	5.06%

*Note: The 44,467,115 shares are held by Longway Group Ltd., a company incorporated in the British Virgin Islands and wholly-owned by Mr. Ma Yufeng.*



Save as disclosed above, as at 31 December 2004, none of the directors of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS

### Long positions in the shares and underlying shares of the Company

According to the records entered into the register required to be kept by the Company pursuant to section 336 of the SFO, so far as the directors of the Company are aware of and having made due enquiries, as at 31 December 2004, the interests and short positions of the persons (other than the directors of the Company) in the shares and underlying shares of the Company were as follows:

Name	Capacity	Name of shares held	Percentage of the Company's issued share capital
Sae-lao Rakchanok	Beneficial owner	47,056,975 shares and 6,651,700 underlying shares held pursuant to share options	7.89%
Martin Currie China Hedge Fund Limited	Beneficial owner	44,830,000 (Note)	6.59%
Martin Currie Investment Management Limited	Investment adviser	44,830,000 (Note)	6.59%
UBS AG	Security interest	44,830,000	6.59%

*Note: These shares refer to the same block of shares.*

Save as disclosed above, as at 31 December 2004, no person, other than the directors of the Company whose interests are set out in the section "Directors' interests in securities" above, had an interest or a short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO.

## SHARE OPTIONS

Particulars of the share options granted and remained outstanding under the Scheme during the six months ended 31 December 2004 were as follows:

Name or category of participant	Number of share options				At 31 December 2004	Date of grant*	Exercise period	Exercise price** HK\$
	At 1 July 2004	Granted during the Period	Lapsed during the Period	Exercised during the Period				
Directors:								
Hung Kai So	1,600,000	-	-	-	1,600,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
Kam Ioi	1,600,000	-	-	-	1,600,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
Ma Yufeng	2,500,000	-	-	-	2,500,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
	4,151,700	-	-	-	4,151,700	04/11/2003	04/11/2003 - 04/11/2006	0.30
Liu Jun	2,500,000	-	-	-	2,500,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
	4,151,700	-	-	-	4,151,700	04/11/2003	04/11/2003 - 04/11/2006	0.30
Lee Kwok Ming	20,000,000	-	-	-	20,000,000	05/01/2004	05/01/2004 - 04/01/2009	0.495
	<u>36,503,400</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>36,503,400</u>			
Shareholder:								
Sae-lao Rakchanok	2,500,000	-	-	-	2,500,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
(resigned as a director of the Company on 18 October 2004)	4,151,700	-	-	-	4,151,700	04/11/2003	04/11/2003 - 04/11/2006	0.30
	<u>6,651,700</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,651,700</u>			
Other employees:								
In aggregate	750,000	-	-	-	750,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
In aggregate	4,370,000	-	(180,000)	(60,000)	4,130,000	04/11/2003	04/11/2003 - 04/11/2006	0.30
In aggregate	5,700,000	-	-	-	5,700,000	01/06/2004	01/06/2004 - 31/05/2007	0.425
In aggregate	-	26,902,728	-	-	26,902,728	14/10/2004	14/10/2004 - 13/10/2007	0.371
	<u>10,820,000</u>	<u>26,902,728</u>	<u>(180,000)</u>	<u>(60,000)</u>	<u>37,482,728</u>			
Suppliers:								
In aggregate	1,500,000	-	-	-	1,500,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
In aggregate	-	9,000,000	-	-	9,000,000	14/10/2004	14/10/2004 - 13/10/2007	0.371
In aggregate	-	6,000,000	-	-	6,000,000	28/10/2004	28/10/2004 - 27/10/2009	0.355
	<u>1,500,000</u>	<u>15,000,000</u>	<u>-</u>	<u>-</u>	<u>16,500,000</u>			

Name or category of participant	Number of share options				At 31 December 2004	Date of grant*	Exercise period	Exercise price** HK\$
	At 1 July 2004	Granted during the Period	Lapsed during the Period	Exercised during the Period				
Customers:								
In aggregate	2,805,000	-	-	-	2,805,000	30/04/2003	30/04/2003 - 30/04/2006	0.25
In aggregate	-	4,050,000	-	-	4,050,000	14/10/2004	14/10/2004 - 13/10/2007	0.371
	<u>2,805,000</u>	<u>4,050,000</u>	<u>-</u>	<u>-</u>	<u>6,855,000</u>			
	<u>58,280,100</u>	<u>45,952,728</u>	<u>(180,000)</u>	<u>(60,000)</u>	<u>103,992,828</u>			

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

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

The share options granted on 30 April 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for all grantees under the Scheme.

The share options granted on 4 November 2003 shall be exercisable up to 30%, 60% and 100% on or before the first, second and third anniversary of the date of grant, respectively, for grantees other than the directors of the Company.

The share options granted to Mr. Lee on 5 January 2004 shall be exercisable for not more than 5,000,000 shares upon the occurrence of each of the events as set out in the circular to shareholders of the Company dated 21 January 2004.

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

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

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

The consideration for the grant of share options is HK\$1.00 and the closing prices of the Company's shares traded on the Stock Exchange immediately before the dates of grant of share options on 14 October 2004 and 28 October 2004 are HK\$0.37 and HK\$0.345, respectively. The weighted average closing prices of the Company's shares traded on the Stock Exchange immediately before the date of exercise of 60,000 share options at the exercise price of HK\$0.30 per share is HK\$0.312. No share options under the Scheme were cancelled during the Period.

The directors of the Company do not consider it appropriate to disclose a theoretical value of the options granted because a number of factors crucial for the valuation cannot be determined. Accordingly, any valuation of the options based on various speculative assumptions might not be meaningful, and could be misleading to the shareholders of the Company.

Save as disclosed above, at no time during the six months ended 31 December 2004 was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debt securities including debentures of, the Company or any other body corporate and none of the directors or their spouses or children under the age of 18 had any right to subscribe for securities of the Company, or had exercised any such right during the Period.

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

During the six months ended 31 December 2004, 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

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 31 December 2004, in compliance with the Code of Best Practice (the "Code") as set out in Appendix 14 to the Listing Rules, which was in force prior to 1 January 2005 and remains applicable for the accounting periods commencing before 1 January 2005, except that the independent non-executive directors (other than Mr. Yuan Tsu I) are 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.

On 21 March 2005, the Board adopted the Code on Corporate Governance Practices (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 CGP Code would become effective for accounting periods commencing on or after 1 January 2005 (the internal control section would become effective from 1 July 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 six months ended 31 December 2004, 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 six months ended 31 December 2004, a regular meeting of the audit committee has been held.

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

Hong Kong, 21 March 2005

*As at the date of this interim report, the executive directors of the Company are Hung Kai So, Kam Ioi, Ma Yufeng and Liu Jun; the non-executive director of the Company is Lee Kwok Ming; and the independent non-executive directors of the Company are Yuan Tsu I, Yick Wing Fat, Simon and Li Li Te.*