



VITOP BIOENERGY HOLDINGS LIMITED

天年生物控股有限公司

(Incorporated in the Cayman Islands with limited liability)

**Interim Report
2003/2004**



- Bedding System
- Human Water
- Biotechnology

HIGHLIGHTS

- Turnover up 29.6%
- Net profit up 44.6%
- Eligible to use “March 15” label of the China Consumers’ Association
- Exclusive point of sales network increased to 434 outlets
- Launch of nano-grade medical functional dressing products

INTERIM RESULTS

The board of directors (the “Board”) of Vitop Bioenergy Holdings Limited (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 2003 (the “Period”) together with comparative figures for the corresponding period in 2002. The interim results for the six months ended 31 December 2003 are not audited, but have been reviewed by the audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		1 July — 30 September 2003 (Unaudited) HK\$'000	1 October — 31 December 2003 (Unaudited) HK\$'000	Six months ended 31 December 2003 (Unaudited) HK\$'000	2002 (Unaudited) HK\$'000
	<i>Notes</i>				
TURNOVER		29,660	41,146	70,806	54,632
Cost of sales		<u>(13,178)</u>	<u>(17,018)</u>	<u>(30,196)</u>	<u>(20,945)</u>
Gross profit		16,482	24,128	40,610	33,687
Other revenue		1,275	3,033	4,308	623
Distribution costs		(8,296)	(10,471)	(18,767)	(16,016)
Administrative expenses		(4,695)	(6,411)	(11,106)	(9,224)
Other operating expenses		<u>(488)</u>	<u>(1,310)</u>	<u>(1,798)</u>	<u>(583)</u>
PROFIT FROM OPERATING ACTIVITIES	4	4,278	8,969	13,247	8,487
Finance costs		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
PROFIT BEFORE TAX		4,278	8,969	13,247	8,487
Tax	5	<u>(245)</u>	<u>(734)</u>	<u>(979)</u>	<u>—</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u>4,033</u>	<u>8,235</u>	<u>12,268</u>	<u>8,487</u>
DIVIDENDS	6			<u>—</u>	<u>—</u>
EARNINGS PER SHARE	7				
Basic				<u>1.8 cents</u>	<u>1.3 cents</u>
Diluted				<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
	<i>Notes</i>			
NON-CURRENT ASSETS				
Fixed assets	8	20,553	14,509	13,403
Intangible assets		3,143	2,694	3,550
		23,696	17,203	16,953
CURRENT ASSETS				
Accounts receivable	9	8,928	8,804	11,141
Inventories	10	12,780	12,043	15,448
Investments in securities		5,064	4,238	903
Prepayments, deposits and other receivables		14,183	11,128	10,189
Cash and bank balances		44,492	42,144	50,624
		85,447	78,357	88,305
CURRENT LIABILITIES				
Accounts payable	11	7,121	2,171	6,822
Accrued liabilities and other payables		8,292	8,008	10,417
Trade deposits received		8,710	8,075	8,261
Tax payable		636	401	—
		24,759	18,655	25,500
NET CURRENT ASSETS		60,688	59,702	62,805
		84,384	76,905	79,758
CAPITAL AND RESERVES				
Issued capital		16,629	16,629	16,629
Reserves		67,755	55,487	63,129
Proposed final dividend		—	4,789	—
		84,384	76,905	79,758

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>(Note 1)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Share premium <i>(Note 1)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Statutory reserve <i>(Note 2)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Proposed final dividends <i>(Unaudited)</i> <i>HK\$'000</i>	Capital redemption reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Retained profits <i>(Unaudited)</i> <i>HK\$'000</i>	Total <i>(Unaudited)</i> <i>HK\$'000</i>
At 1 July 2002	16,658	31,312	4,758	6,663	—	18,837	78,228
Share repurchase	(29)	(265)	—	—	—	—	(294)
Net profit for the Period	—	—	—	—	—	8,487	8,487
Transfer upon share repurchase	—	—	—	—	29	(29)	—
Transfer to statutory reserve	—	—	849	—	—	(849)	—
Final dividends paid	—	—	—	(6,663)	—	—	(6,663)
At 31 December 2002	<u>16,629</u>	<u>31,047</u>	<u>5,607</u>	<u>29</u>	<u>29</u>	<u>26,446</u>	<u>79,758</u>
	Share capital <i>(Note 1)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Share premium <i>(Note 1)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Statutory reserve <i>(Note 2)</i> <i>(Unaudited)</i> <i>HK\$'000</i>	Proposed final dividends <i>(Unaudited)</i> <i>HK\$'000</i>	Capital redemption reserve <i>(Unaudited)</i> <i>HK\$'000</i>	Retained profits <i>(Unaudited)</i> <i>HK\$'000</i>	Total <i>(Unaudited)</i> <i>HK\$'000</i>
At 1 July 2003	16,629	31,047	6,471	4,789	29	17,940	76,905
Share repurchase	—	—	—	—	—	—	—
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>—</u>	<u>29</u>	<u>28,937</u>	<u>84,384</u>

Notes:

- During the period from 24 July 2002 to 30 July 2002, the Company repurchased 1,130,000 shares for a total consideration of HK\$294,398.71. All repurchased shares were subsequently cancelled.
- In accordance with the relevant regulations of the People's Republic of China excluding Hong Kong, Macau and Taiwan ("PRC") applicable to wholly-owned foreign enterprises, Vitop Bioenergy Science and Technology Co., Ltd. ("Zhuhai Bioenergy"), 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 Zhuhai Bioenergy.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	13,815	14,307
NET CASH USED IN INVESTING ACTIVITIES	(6,678)	(5,021)
NET CASH USED IN FINANCING ACTIVITIES	(4,789)	(8,630)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	2,348	656
CASH AND CASH EQUIVALENTS AT 1 JULY	42,144	49,968
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44,492	50,624
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	44,492	50,624

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 Society of Accountants ("HKSA") 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 investment 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 2003.

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 Bedding System		Other BIOenergy® Products		Polypeptide Products		Ionised Water Maker		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	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>35,359</u>	<u>34,787</u>	<u>6,121</u>	<u>6,066</u>	<u>3,784</u>	<u>1,830</u>	<u>25,542</u>	<u>11,949</u>	<u>70,806</u>	<u>54,632</u>
Segment gross profit %	68.7%	68.9%	36.8%	48.0%	68.0%	58.3%	45.0%	48.0%	57.4%	61.7%
Segment results	<u>15,192</u>	<u>12,980</u>	<u>808</u>	<u>1,001</u>	<u>1,366</u>	<u>117</u>	<u>4,477</u>	<u>3,573</u>	<u>21,843</u>	<u>17,671</u>
Unallocated other revenue									<u>4,308</u>	<u>623</u>
Unallocated expenses									<u>(12,904)</u>	<u>(9,807)</u>
Profit from operating activities									<u>13,247</u>	<u>8,487</u>
Finance costs									<u>—</u>	<u>—</u>
Profit before tax									<u>13,247</u>	<u>8,487</u>
Tax									<u>(979)</u>	<u>—</u>
Net profit from ordinary activities attributable to shareholders									<u>12,268</u>	<u>8,487</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	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold and services provided	30,196	20,945
Amortisation	581	512
Depreciation	1,984	1,538
Provision for doubtful debts and bad debts written off	1	—
Provision for obsolete and slow-moving inventories and inventories written off	—	68
Loss on disposal of fixed assets	64	17
	<u>64</u>	<u>17</u>

5. Tax

	Six months ended 31 December	
	2003	2002
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
PRC	979	—
Hong Kong	—	—
	<u>979</u>	<u>—</u>

Hong Kong profits tax has not been provided as the Group had no assessable profits arising in Hong Kong during the Period (2002: 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, Zhuhai Bioenergy 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 Zhuhai Bioenergy 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, Zhuhai Bioenergy 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 2003, the Group did not have any significant unprovided deferred tax liabilities (30 June 2003: Nil).

6. Dividends

The Board has resolved not to pay any interim dividend for the Period (2002: 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\$12,268,000 (2002: HK\$8,487,000) and the weighted average number of 665,170,000 (2002: 665,318,197) shares in issue during the Period. There were no potential dilutive ordinary shares in existence for the Period and the six months ended 31 December 2002 and accordingly, no diluted earnings per share has been presented.

8. Property, Plant and Equipment

	Total HK\$'000
At 1 July 2003 (audited)	14,509
Additions	8,561
Depreciation	(1,984)
Disposals	(533)
	<hr/>
At 31 December 2003 (unaudited)	<u>20,553</u>

9. Accounts Receivable

The aged analysis of accounts receivable is as follows:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
Outstanding balances aged:			
Within 30 days	3,483	2,526	6,156
Between 31 to 60 days	1,000	984	1,515
Between 61 to 180 days	1,992	3,685	3,395
Over 180 days	2,617	1,778	75
	<hr/>	<hr/>	<hr/>
	9,092	8,973	11,141
Less: Provision for doubtful debts	(164)	(169)	—
	<hr/>	<hr/>	<hr/>
	<u>8,928</u>	<u>8,804</u>	<u>11,141</u>

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

10. Inventories

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
Raw materials	5,496	5,536	5,788
Work in progress	3,080	2,978	4,618
Finished goods	<u>5,640</u>	<u>4,965</u>	<u>5,964</u>
	14,216	13,479	16,370
<i>Less: Provision for obsolete and slow-moving inventories</i>	<u>(1,436)</u>	<u>(1,436)</u>	<u>(922)</u>
	<u>12,780</u>	<u>12,043</u>	<u>15,448</u>

11. Accounts Payable

The aged analysis of accounts payable is as follows:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
Outstanding balances aged:			
Within 30 days	4,340	1,325	5,157
Between 31 to 60 days	2,097	604	1,377
Between 61 to 180 days	592	212	184
Over 180 days	<u>92</u>	<u>30</u>	<u>104</u>
	<u>7,121</u>	<u>2,171</u>	<u>6,822</u>

12. 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 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
Within one year	2,597	3,742	4,011
In the second to fifth years, inclusive	<u>8,198</u>	<u>6,495</u>	<u>10,423</u>
	<u>10,795</u>	<u>10,237</u>	<u>14,434</u>

b. Capital commitments

The Group had capital commitments as follows:

	31 December 2003 (Unaudited) HK\$'000	30 June 2003 (Audited) HK\$'000	31 December 2002 (Unaudited) HK\$'000
Contracted but not provided for	<u>—</u>	<u>888</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Business Overview

The Group develops and markets healthcare products under the Vitop® brand through its nationwide network of franchised point of sales outlets. Healthy bedding system, ionised water maker and polypeptide products are the three major lines of healthcare products distributed by the Group. The three product lines, which formed the basis of Vitop's philosophy of "Health": Drink, Eat and Sleep - matching with the three major components of human life, are supplementary to each other enhancing better utilization of customer base. The point of sales network has been built into two major subgroups for the healthy bedding system and ionised water maker respectively with the polypeptide products distributed through both networks to improve resources utilization.

Healthcare products in the PRC have relatively recent history. Demand for healthcare products reached RMB40 billion in 2000 but dropped to around RMB20 billion in 2001 and 2002 due to concerns on the quality of healthcare food products and a change in licensing of healthcare food products. The Group believes that the formation of the healthcare products industry association in the near future will facilitate the development of the healthcare products industry in setting industry standards and improving consumers' confidence. The Group is eligible to use the "March 15" label of the China Consumers' Association on its products signifying the premium quality of the Group's healthcare products and the Group's commitment towards consumers' rights. The Board believes that Vitop® is one of the very few healthcare products, and the first and only brand in the healthcare non-food sector, eligible to use the "March 15" label. Apart from using the "March 15" label of the China Consumers' Association on the Group's products, the Group has increased its effort in corporate communication to position Vitop® as a premium healthcare brand with over ten years of operation to improve consumers' awareness and confidence. In addition, the corporate communication program is beneficial to franchisees recruitment and expansion of the point of sales network. As of the end of 2003, the Group has 271 franchisees (June 2003: 222) in 271 cities (June 2003: 222) with 434 (June 2003: 387) exclusive point of sales outlets carrying the Group's products.

The Group has applied the BIOenergy[®] and MBF[®] technology to develop a series of nano-grade medical functional dressing products and has established a task force in Shanghai with a view to building a distribution network to market the medical functional dressing products into hospitals. Penetration into this new channel has been satisfactory and several agents have been appointed with initial orders placed.

Outlook

The improvement in living standard of the majority of population in the PRC led to increased awareness of personal healthcare, offering tremendous opportunities in the healthcare products market in the PRC. The management remains committed to executing the Group's growth strategy of new products, new outlets, new channels and new business focuses to sustain the Group's performance. Resources will be invested in strengthening the existing franchisees network, recruiting new franchisees to penetrate the untapped markets, providing professional consultation and services to franchisees, investing in building a unified point of sales network with the new Vitop[®] corporate identity. More products will be introduced to the three existing product lines to position Vitop[®] as a professional, high end technology healthcare brand. The Group is also looking into penetrating new distribution networks through alliances and acquisitions.

The Board is optimistic of prospects in the second half of the year, and believes that the investments in brand, distribution network and products will bring tangible rewards to the Group.

Financial Review

The Group continued to deliver a strong second quarter of financial year 2004 performance, with group turnover and profit before tax rising 18.1% and 57.4% to approximately HK\$41.1 million and approximately HK\$9.0 million respectively over the previous corresponding period. During the first half of financial year 2004, group turnover rose 29.6% to approximately HK\$70.8 million. The improvement was broad-based, ionised water maker posted the strongest turnover growth of 114.0%, followed by polypeptide products at 106.0%. The launch of polypeptide albumin powder was well received by the market and reversed the declining trend of sales of polypeptide products. In December 2003, the Group achieved a monthly historical turnover record. Sustaining this growth is the strong Vitop[®] brand, supplementing product lines, creation of demand from existing customer base and execution of the innovative one to one direct marketing by a well trained and motivated sales force.

In the first six months, gross margin decreased by 4.3 percentage points to 57.4% as compared to 61.7% in the first half of financial year 2003. The decrease in gross margin is due to a change in sales mix, the lower margin ionised water maker amounted to 36.0% of group turnover. Segment-wise, the bedding products recorded a gross margin of 68.7% and was in line with the gross margin of 68.9% in last year. The gross margin of non-bedding MBF® products decreased from 48.0% recorded last year to 36.8% this year as a result of inventory clearance program aiming to reduce the number of stock keeping units to focus sales effort on the core products. Ionised water maker recorded a drop in gross margin to 45.0% from 48.0% last year as new models were introduced to complement the current product range. Polypeptide products, driven by the recently launched albumin powder, achieved a substantial increase in gross margin to 68.0% as compared to 58.3% recorded last year.

Other income comprising of tax refund, investment and interest income increased by approximately HK\$3.7 million to approximately HK\$4.3 million in the first six months. Group operating expenses were higher in the first half, but they lagged the growth in turnover. Consequently, operating profit jumped 56.1% to approximately HK\$13.2 million and operating profit margin expanded to 18.7%. Though taxes were higher, the strong group performance for the six months to December 2003 led to the 44.6% jump in group net profit to approximately HK\$12.3 million.

LIQUIDITY AND FINANCIAL RESOURCES

During the Period, the Group recorded an inflow of approximately HK\$13.8 million from the operating activities, and after the payments of approximately HK\$6.7 million for land acquisition cost for the Group's sales headquarters and training center in Nanxiang, Shanghai and the final dividend of financial year 2003 of approximately HK\$4.8 million, cash on hand increased by approximately HK\$2.3 million to approximately HK\$44.5 million at 31 December 2003. The Group had 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 2003 (2002: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 31 December 2003, there was no material acquisition or disposal of subsidiaries and associated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2003, the Group employed a total of 335 employees, of which 330 are based in the PRC and 5 are based in Hong Kong. The total salaries and other remunerations (excluding directors' emoluments) of approximately HK\$8.2 million were incurred for the six months ended 31 December 2003. Remuneration packages comprised salary, mandatory provident fund, bonus, medical coverage and share options.

MAJOR EVENTS

Subsequent to the Period, on 5 January 2004, Mr. Lee Kwok Ming ("Mr. Lee") was appointed as executive director of the Company and entered into with the Company (i) a director's service agreement for a term of two years and (ii) a subscription agreement in relation to the subscription of an aggregate of 7,752,000 new shares by Mr. Lee at the subscription price of HK\$0.31 per share. On the same day, Mr. Lee was also granted options to subscribe for up to 20,000,000 shares at the exercise price of HK\$0.495 per share exercisable during the period of five years from the date of grant, subject to approval of the grant by independent shareholders of the Company. At an extraordinary general meeting of the Company held on 9 February 2004, the subscription agreement and the grant of the options were approved by the independent shareholders of the Company. Details of these transactions have been disclosed in the Company's announcement dated 5 January 2004 and the Company's circular dated 21 January 2004.

SECURITIES IN ISSUE

During the Period, there was no new issue of shares and no movement in the issued share capital of the Company.

Subsequent to the Period, a total of 2,495,000 shares were issued pursuant to the exercise of the subscription rights attaching to the options by the option holders of the Company at an exercise price of HK\$0.25 per share and HK\$0.30 per share as to 465,000 shares and 2,030,000 shares, respectively.

As a result of the new issue of 2,495,000 shares upon 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 667,665,000.

DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2003, 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	131,759,529	6,651,700	138,411,229	20.81%
Kam Ioi	Personal	Beneficial owner	108,231,043	6,651,700	114,882,743	17.27%
Ma Yufeng	Corporate (Note)	Beneficial owner	44,467,115	—	51,118,815	7.69%
	Personal	Beneficial owner	—	6,651,700		
Sae-lao Rakchanok	Personal	Beneficial owner	47,056,975	6,651,700	53,708,675	8.07%
Liu Jun	Personal	Beneficial owner	26,181,819	6,651,700	32,833,519	4.94%
Lau Hin Hung (resigned as a director of the Company on 5 January 2004)	Personal	Beneficial owner	—	1,000,000	1,000,000	0.15%

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 2003, 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

Save for the directors' interests in the shares and underlying shares of the Company as disclosed above and so far as the directors of the Company are aware, as at 31 December 2003, no other person 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 under Section 336 of the SFO and which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTIONS

Particulars of the share options granted and remained outstanding under the share option scheme of the Company adopted on 23 January 2003 (the "Scheme") during the six months ended 31 December 2003 were as follows:

Name or category of participant	At 1 July 2003	Number of share options		At 31 December 2003	Date of grant*	Exercise period	Exercise price** HK\$
		Granted during the Period	Lapsed during the Period				
Directors:							
Hung Kai So	4,000,000	—	—	4,000,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	—	2,651,700	—	2,651,700	04/11/2003	04/11/2003— 04/11/2006	0.30
Kam Ioi	4,000,000	—	—	4,000,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	—	2,651,700	—	2,651,700	04/11/2003	04/11/2003— 04/11/2006	0.30

Name or category of participant	At 1 July 2003	Number of share options		At 31 December 2003	Date of grant*	Exercise period	Exercise price** HK\$
		Granted during the Period	Lapsed during the Period				
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
Sae-lao Rakchanok	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
Lau Hin Hung (resigned as a director of the Company on 5 January 2004)	500,000	—	—	500,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	—	500,000	—	500,000	04/11/2003	04/11/2003— 04/11/2006	0.30
	<u>16,000,000</u>	<u>18,258,500</u>	<u>—</u>	<u>34,258,500</u>			
Other employees:							
In aggregate (Note)	2,300,000	—	(1,100,000)	1,200,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	—	5,900,000	—	5,900,000	04/11/2003	04/11/2003— 04/11/2006	0.30
	<u>2,300,000</u>	<u>5,900,000</u>	<u>(1,100,000)</u>	<u>7,100,000</u>			

Name or category of participant	At 1 July 2003	Number of share options		At 31 December 2003	Date of grant*	Exercise period	Exercise price** HK\$
		Granted during the period	Lapsed during the period				
Suppliers:							
In aggregate	1,500,000	—	—	1,500,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	<u>1,500,000</u>	<u>—</u>	<u>—</u>	<u>1,500,000</u>			
Customers:							
In aggregate (Note)	2,000,000	1,100,000	—	3,100,000	30/04/2003	30/04/2003— 30/04/2006	0.25
	<u>2,000,000</u>	<u>1,100,000</u>	<u>—</u>	<u>3,100,000</u>			
	<u>21,800,000</u>	<u>25,258,500</u>	<u>(1,100,000)</u>	<u>45,958,500</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.*

Note: During the Period, certain employees ceased as eligible employees as defined under the Scheme and have become customers of the Company.

The consideration for the grant of share options is HK\$1.00 and the closing price of the Company's shares traded on the Stock Exchange immediately before the date of grant of share options on 4 November 2003 is HK\$0.295. No share options under the Scheme were exercised or 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 2003 was the Company or any of its subsidiaries a party to any arrangements 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 spouse 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 2003, 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 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed the financial reporting process and internal control matters including a review of the unaudited interim financial report for the six months ended 31 December 2003.

By Order of the Board
Hung Kai So
Chairman

Hong Kong, 18 February 2004