

LANDUNE 藍頓國際

LANDUNE INTERNATIONAL LIMITED

藍頓國際有限公司

(Incorporated and existing under the laws of Hong Kong with limited liability)
(Stock Code : 245)

INTERIM RESULTS

FOR THE SIX MONTHS ENDED 30 JUNE 2005

INTERIM RESULTS

The Board of Directors (the "Board") of Landune International Limited is pleased to announce the unaudited interim financial results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

Notes	Six months ended	
	30/6/2005 (unaudited) HK\$'000	30/6/2004 (unaudited) HK\$'000
Turnover	9,909	11,335
Cost of sales	(9,643)	(11,277)
Gross profit	266	58
Other gains	87	-
Selling and distribution costs	(1,619)	-
Other operating and administrative expenses	(3,684)	(3,380)
(Loss)/profit from operation	(4,950)	(3,322)
Employee share options	(3,354)	-
Gain on deconsolidation of a subsidiary	-	42
Gain arising from the debt restructuring arrangements	-	144,877
Finance costs	(38)	(3,301)
(Loss)/Profit before tax	(8,342)	138,296
Income tax	-	-
(Loss)/Profit for the period	(8,342)	138,296
Attributable to:		
Shareholders of the Company	(7,944)	138,296
Minority interests	(398)	-
	(8,342)	138,296
(Loss)/Earnings per share Basic	(0.2) cents	5.7 cents
Diluted	N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2005

	30/6/2005 (unaudited) HK\$'000	31/12/2004 (audited) HK\$'000
ASSETS		
Non-current assets		
Plant and equipment	206	233
Properties under development	6,762	5,825
Investment securities	-	997
	6,968	7,055
Current assets		
Properties held for resale	8,500	16,880
Inventories	30	890
Trade and other receivables	3,760	5,675
Tax recoverable	177	177
Available-for-sale financial assets	997	-
Bank and cash balances	4,111	5,008
	17,575	28,630
Total assets	24,543	35,685
EQUITY		
Equity attributable to equity holders of the Company		
Share capital	372,279	372,279
Reserves	(366,058)	(361,468)
	6,221	10,811
Minority interest	1,949	2,347
Total equity	8,170	13,158
LIABILITIES		
Non-current liabilities		
Other loan, unsecured	6,000	-
Other loan, secured	724	-
	6,724	-
Current liabilities		
Trade and other payables	9,149	11,390
Short term borrowings	500	6,644
Current portion of long term borrowings	-	4,493
	9,649	22,527
Total liabilities	16,373	22,527
Total equity and liabilities	24,543	35,685

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

These condensed interim financial statements should be read in conjunction with the Group annual financial statements for the year ended 31 December 2004 ("2004 annual financial statements"). The accounting policies and basis of preparation used in the preparation of the condensed interim financial statements are consistent with those used in the 2004 annual financial statements, except that the Group has adopted, for the first time, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are effective for accounting periods beginning on or after 1 January 2005.

HKAS 1 – Presentation of Financial Statements

In summary, HKAS 1 has affected the presentation of minority interests, share of net after-tax results of associates and other disclosures.

HKAS 32 – Financial Instruments: Disclosure and Presentation

HKAS 39 – Financial Instruments: Recognition and Measurement
In prior periods, the Group classified its investments in debt securities as investment securities which were held for non-trading purposes and were stated at cost less impairment losses.

Upon adoption of HKAS 32 and HKAS 39 from 1 January 2005, these securities were re-designated as available-for-sale financial assets. After initial recognition, available-for-sale financial assets are measured at the fair value with gains or losses being recognised as a separate component of capital and reserves until the available-for-sale financial assets are sold, collected or otherwise disposed of or until the available-for-sale financial assets are determined to be impaired at which time the cumulative gain or loss previously reported in capital and reserves is included in the income statement.

The available-for-sale financial assets were reclassified to non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

HKFRS 2 – Share-based Payment

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. In prior periods, the provision of share options to directors did not result in an expense in the income statements. Effective on 1 January 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 January 2005 was expensed retrospectively in the income statement of the respective periods.

2. Summary of the effects of the changes in accounting policies

The effects of the changes in the accounting policies described above on the results to the current and prior periods are as follows:

(a) The effect on opening balance of total equity at 1 January 2005

	Capital reserve (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000
Prior period adjustment:			
HKFRS 2 – Employee share option	4,082	(4,082)	-

Following the transitional provisions of the HKFRS 2, there was no retrospective adjustment made to the opening balance as at 1 January 2004.

(b) The effect of changes for the six months period ended 30 June 2005 and 2004

	Six months ended 30/6/2005 (unaudited) HK\$'000	30/6/2004 (unaudited) HK\$'000
Effect on loss for the period:		
HKFRS 2 – Employee share option	(3,354)	-
Effect on loss per share:		
Basic	(0.1) cents	-
Diluted	N/A	N/A

3. Turnover and segmental information

The amount of each significant category of revenue recognised in turnover during the period is as follows:

	Six months ended 30/6/2005 (unaudited) HK\$'000	30/6/2004 (unaudited) HK\$'000
Turnover		
Proceeds on disposal of properties	8,380	10,600
Rental income	77	735
Sale of health products	1,452	-
	9,909	11,335

Information about the business segments of the Group and geographical analysis of the turnover is as follows:

Six months ended 30 June 2005

	Unaudited			Group HK\$'000
	Property investment HK\$'000	Sales of health products HK\$'000	Other operations HK\$'000	
Geographical analysis of the turnover:				
Hong Kong	8,457	-	-	8,457
The PRC	-	1,452	-	1,452
Turnover	8,457	1,452	-	9,909
Segment results	(301)	567	-	266
Other revenue	26	3	58	87
Operating costs	(47)	(1,986)	(25)	(2,058)
Unallocated costs	-	-	(3,245)	(3,245)
Loss from operations	(322)	(1,416)	(3,212)	(4,950)
Employee share options	-	-	(3,354)	(3,354)
Finance costs	-	-	(38)	(38)
Loss before taxation	(322)	(1,416)	(6,604)	(8,342)
Taxation	-	-	-	-
Loss after taxation	(322)	(1,416)	(6,604)	(8,342)
Minority interests	-	398	-	398
Loss attributable to shareholders	(322)	(1,018)	(6,604)	(7,944)

No segment information for the period ended 30 June 2004 is presented as substantially all the Group's turnover and contribution to operating results were derived from property investment in Hong Kong.

4. (Loss)/Profit before tax

(Loss)/Profit before tax was determined after charging/(crediting) the following:

	Six months ended 30/6/2005 (Unaudited) HK\$000	30/6/2004 (Unaudited) HK\$000
Crediting		
Rentals receivable from properties less outgoings of HK\$378,000 (2004: HK\$677,000)	(301)	58
Charging		
Depreciation	34	26
Employee benefit expense (including directors' emoluments)	1,933	1,705
Employee share options	3,354	-
Operating lease on land and buildings	215	182
Income tax		
No provision for Hong Kong nor overseas profits tax is required for the current period (six months ended 30 June 2004: HK\$Nil) since each individual company sustained losses for taxation purposes.		
(Loss)/Earnings per share		
The calculations of basic (loss)/earnings per share are based on the Group's net loss attributable to shareholders of HK\$7,944,000 (six months ended 30 June 2004: net profit of HK\$138,296,000) divided by 3,722,792,000 (six months ended 30 June 2004: the weighted average of 2,412,022,769) ordinary shares in issue during the period.		
There were no dilutive potential ordinary shares in existence in both periods ended 30 June 2005 and 2004.		

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Corporate Results

The Group reported a turnover of HK\$9,909,000 in the current period which represented a decrease of 12.58% from last corresponding period ended 30 June 2004. The turnover of current period comprised the proceeds on the disposal of properties of HK\$8,380,000 (last period: HK\$10,600,000), sales of health products of HK\$1,452,000 (last period: HK\$Nil) and rental income of HK\$77,000 (last period: HK\$735,000).

The operating and administrative expenses increased by 9% comparing with last period largely due to the additional manpower associated with the new health products segment which commenced operation since July 2004. The Group also incurred selling and distribution expenses of HK\$1,619,000 in respect of such segment.

Loss attributable to shareholders amounted to HK\$7,944,000 in the current period after taken into account the financial effect arising from the adoption since 1 January 2005 of the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. Of these new HKFRSs, HKFRS 2 – Share-based Payment would have the largest financial impact on the Group as it required the Company to reflect the employee share option value as staff cost through the profit and loss account and as capital reserve in the balance sheet. The Group has thereby inflated the employee cost by HK\$3,354,000 in the current period and HK\$4,082,000 for the year ended 31 December 2004. As no share option had been granted or outstanding during the period ended 30 June 2004, the adoption of HKFRS 2 would have no effect on the financial result of the last period.

Profit in last period of HK\$138 million was mainly attributable to the gain of HK\$145 million arising from debt restructuring arrangements completed in March 2004. Should such exceptional

gain in last period be excluded, the Group would indeed reflect a net loss for the period of HK\$6,581,000. The net loss in the current period is just moderately higher than the last corresponding period by HK\$1,363,000 or 20.71% owing to the inflated employee cost of HK\$3,354,000 reflected under the new accounting requirement of HKFRS 2.

Financial Resources and Liquidity

Borrowings

The Group reflected a slight decrease in cash and bank balances from HK\$5,008,000 at 31 December 2004 to HK\$4,111,000 at 30 June 2005 but on the other hand, the Group has fully repaid its interest-bearing bank borrowing of HK\$4,493,000 during the period. As a result, the total borrowings (excluding trade and other payables) of the Group reduced to HK\$7,224,000 as at 30 June 2005 which represented a decline of 35%. As at 30 June 2005, the Group's properties held for sale and properties under development with carrying value of HK\$8,500,000 and HK\$6,762,000, respectively had been pledged to the financial creditors as security for the indebtedness of around HK\$2,606,000.

Current Ratio

The current ratio substantially improved from 1.27 at 31 December 2004 to the existing 1.82 as the Group has successfully re-scheduled certain short-term loans into long-term liabilities during the period. In view that the current ratio remains at a healthy level, the Directors are of the opinion that sufficient working capital is available to fulfil the financial obligations when they fall due and to meet the future funding requirement of the Group.

REVIEW OF OPERATIONS, FUTURE OUTLOOK AND STRATEGY

Business Review, Corporate Strategy and Outlook

During the first six months of 2005, the property market in Hong Kong remains volatile but the remarkable growth in 2004 is somehow restricted owing to the continuous rise in prime interest rate from 5% at the end of 2004 to 7% as of today. In order to capitalise the upward market trend, the Group had disposed half of its properties portfolio in early 2005 and thus recorded a lower rental income in return. The remaining properties portfolio of the Group is situated in fringe area and has not yet fully benefit from the recent growth. Accordingly, the Board has resolved to maintain such properties in the foreseeable future for rental income.

In view of the unfavourable interest environment in the coming period and the increasing cost of funding, the Board is very caution and prudent in finalising the development plan of its property development project. The Board will keep monitoring the market situation in order to formulate the best strategy as well as development and financing plan for such project.

The newly established health products segment has faced significant setback in the current period due to the stringent measures adopted by the Government of the People Republic of China (the "PRC") in regulating the advertising materials utilised in health products and cosmetic sectors. Such measures have unavoidably affected the advertising campaign of the Group in selling and distribution of its health products and such effect is expected to last through the third quarter of 2005. As a result of such administrative measures, the health products segment posted a segmental loss of HK\$1,018,000 for the current period as compare to a segmental profit of HK\$1,827,000 in last year.

The Group is actively refining its advertising materials and applying for appropriate license of broadcasting and the Board believed that the Group is able to overcome the effect of the rulings in near future. These new measures and policies are applying across the industry and no market players could be exempted and the Board believed that in the long run, these measures and policies would help to restore the industrial norm and stability and drive out those irresponsible and exaggerated competitors. The Group will capitalise on this opportunity to enlarge its market share and to formulate more aggressive strategy in positioning and enforcing itself in the industry.

Acquisition

As announced recently, the Company has entered into an acquisition agreement on 4 September 2005 to purchase the entire issued share capital of Top Pro Limited, subject to the satisfactory fulfilment of the conditions precedent including the approval by the shareholders of the Company. The acquiring group is now engaged in distance selling through television and catalogue mailing in the PRC.

The Board believes that the acquisition will open the Group to a new mode of selling and will broaden the revenue and customers base of the Group to a large extent. The acquiring group will supplement the existing distribution business of the Group and is synergistic to its health products segment. Accordingly, the Board considers the acquisition will benefit the Group and is in the interest of the Company and the shareholders as a whole.

Exchange Rate Exposure

As at 30 June 2005, Renminbi and HK dollar accounted for 73.24% and 26.76% of the Group's total bank balance respectively.

As majority of the sales, purchases, assets and liabilities committed by the health products segment of the Group were mainly in Renminbi, the Group is subject to a certain level of exchange rate exposure. However, as the exchange rate of Renminbi to HK dollar was relatively stable and there had not been any material conversion issue, the Board considered the Group's exposure to foreign exchange risk remained relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 30 June 2005 was 17 persons (11 persons as at 30 June 2004). Employees are remunerated with reference to their individual qualification, experience, responsibility, performance and the prevailing salary levels in the market. The Group also operates a share option scheme for eligible employees (including Directors) to provide incentive to the participants for their contribution and continuing efforts to promote the interests of the Group.

Compliance with the Code on Corporate Governance Practices of the Listing Rules

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules throughout the accounting period covered by the interim report except with deviations from code provision A.4.1. The independent non-executive directors of the Company have not been appointed for a specific term, but are subject to the same retirement and re-election provisions as set out in the Articles of Association of the Company.

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. On specific enquiries made, the members of the Board have confirmed that they have complied with the required standard set out in the Model Code throughout the six months period ended 30 June 2005.

Purchase, Sale or Redemption of the Company's Listed Securities

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2005 (six months ended 30 June 2004: HK\$Nil).

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Company's 2005 interim report which set out all the information required to be disclosed under Appendix 16 of the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board
Landune International Limited
Ni Xinguang
Chairman

Hong Kong, 28 September 2005

As at the date of this announcement, the Board comprises Messrs. Ni Xinguang, Ha Shu Tong, Wang Zhiming and Ng Chun Chuen, David who are executive directors and Messrs. Chan Wai Sum, Tang Chi Wing and Lu Wei who are independent non-executive directors.