LANDUNE 蓝顿国际

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 2006

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 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

	Notes	Six months ended 30/6/2006 (unaudited) *HK$'000*	30/6/2005 (unaudited) *HK$'000*
Turnover	2	**18,027**	9,909
Cost of sales		**(4,069)**	(9,643)
Gross profit		**13,958**	266
Other revenue		**65**	87
Gain on disposal of a subsidiary		**6,200**	–
Selling and distribution costs		**(2,537)**	(1,619)
Administrative expenses		**(4,820)**	(7,038)
Other operating expenses		**(85)**	–
Operating profit/(loss)	3	**12,781**	(8,304)
Finance costs		**(396)**	(38)
Profit/(Loss) before tax		**12,385**	(8,342)
Taxation	4	**(2,385)**	–
Profit/(Loss) for the period		**10,000**	(8,342)
Attributable to:			
Equity holders of the Company		**10,020**	(7,944)
Minority interests		**(20)**	(398)
		10,000	(8,342)
Earnings/(Loss) per share	5		
Basic		**0.26 cents**	(0.2) cents
Diluted		**0.25 cents**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

30 June 2006

	30/6/2006 (unaudited) *HK$'000*	31/12/2005 (audited) *HK$'000*
ASSETS		
Non-current assets		
Fixed assets	**2,589**	2,782
Properties under development	**–**	1,861
Goodwill	**28,422**	28,422
	31,011	33,065
Current assets		
Properties held for resale	**9,700**	9,700
Inventories	**461**	2,232
Trade and other receivables	**23,487**	18,289
Cash and bank balances	**48,939**	4,003
	82,587	34,224
Total assets	**113,598**	67,289
EQUITY		
Capital and reserves		
Share capital	**423,104**	372,279
Other reserves	**804,565**	797,006
Accumulated losses	**(1,159,114)**	(1,169,134)
	68,555	151
Minority interests	**1,590**	1,610
Total equity	**70,145**	1,761
LIABILITIES		
Non-current liabilities		
Borrowings	**–**	9,097
Current liabilities		
Trade and other payables	**14,635**	40,622
Borrowings	**21,236**	10,506
Provision for taxation	**7,582**	5,303
	43,453	56,431
Total liabilities	**43,453**	65,528
Total equity and liabilities	**113,598**	67,289
Net current assets/(liabilities)	**39,134**	(22,207)
Total assets less current liabilities	**70,145**	10,858

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 2005 ("2005 annual financial statements''). The accounting policies and basis of preparation used in the preparation of these condensed interim financial statements are consistent with those used in the 2005 annual financial statements, except that the Group has adopted, for the first time, a number of new or amended Hong Kong Financial Reporting Standards ("HKFRSs"), HKAS and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA which are either effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The application of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.

HKAS 19 (Amendment)	Actuarial gains and losses, group loans and disclosures
HKAS 21 (Amendment)	Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedge accounting of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 & HKFRS 4 (Amendments)	Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC) – Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) – Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) – Int 6	Liabilities arising from participating in a specific market-waste electrical and electronic equipment

2. Turnover

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

	Six months ended 30/6/2006 (unaudited) *HK$'000*	30/6/2005 (unaudited) *HK$'000*
Turnover		
Proceeds on disposal of properties	**–**	8,380
Rental income	**457**	77
Manufacture, retail and distribution of consumer products	**9,570**	1,452
Media management services	**8,000**	–
	18,027	9,909

3. Segment information

During the period, the Group had re-aligned its business activities and the new classification of business segments was as follows:

- Property investment – property holding, investment and re-development
- PRC retail and distribution – manufacture, retail and distribution of consumer products as well as the provision of media management services in the PRC

There are no sales nor other transactions between the business segments and between the geographical segments for both period ended 30 June 2006 and 30 June 2005.

Information about these business segments and geographical analysis of the turnover is as follows.

Six months ended 30 June 2006

	Unaudited Property investment 2006 *HK$'000*	PRC retail and distribution 2006 *HK$'000*	Group 2006 *HK$'000*
Geographical analysis of the turnover:			
Hong Kong	**457**	**–**	**457**
The PRC	**–**	**17,570**	**17,570**
Turnover	**457**	**17,570**	**18,027**
Segment results	**52**	**10,543**	**10,595**
Unallocated revenue			**65**
Gain on disposal of a subsidiary			**6,200**
Unallocated expenses			**(4,079)**
Operating profit			**12,781**
Finance costs			**(396)**
Profit before taxation			**12,385**
Taxation			**(2,385)**
Profit for the period			**10,000**
Minority interests			**20**
Profit attributable to equity holders of the Company			**10,020**

Six months ended 30 June 2005

	Unaudited Property investment *HK$'000*	PRC retail and distribution *HK$'000*	Group *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	(322)	(1,416)	(1,738)
Unallocated revenue			58
Unallocated expenses			(6,624)
Operating loss			(8,304)
Finance costs			(38)
Loss before taxation			(8,342)
Taxation			–
Loss for the period			(8,342)
Minority interests			398
Loss attributable to equity holders of the Company			(7,944)

4. Taxation

Taxation in the condensed consolidated income statement represents:

	Six months ended 30/6/2006 (unaudited) *HK$'000*	30/6/2005 (unaudited) *HK$'000*
Current income tax		
– PRC taxation	**2,385**	–

No provision for Hong Kong profits tax is required for both period ended 30 June 2006 and 30 June 2005 since each individual Hong Kong company sustained losses for taxation purposes in each respective period.

Taxes on profits assessable in the PRC have been provided at the applicable rates of tax in the PRC in which the subsidiaries operate, based on existing legislation, interpretations and practices in respect thereof.

5. Earnings/(Loss) per share

The calculation of basic and diluted earnings/(loss) per share is based on the following data:

	Six months ended 30/6/2006 (unaudited) *HK$'000*	30/6/2005 (unaudited) *HK$'000*
Earnings/(Loss) for the purpose of basic and diluted earnings per share	**10,020**	(7,944)

	30/6/2006 Number of ordinary shares '000	30/6/2005 Number of ordinary shares '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**3,901,546**	3,722,792
Effect of dilutive potential ordinary shares:		
Share options	**12,740**	11,528
Consideration shares issuable for the acquisition of Top Pro Limited	**74,260**	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**3,988,546**	3,734,320

Diluted loss per share has not been presented for the six months period ended 30 June 2005 as the dilutive potential ordinary shares has an anti-dilutive effect.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Development

On 7 September 2006, the Company announced that a new venture has been set up to allow the Company to tap the burgeoning television home shopping business in the PRC. Through a series of structured contracts entered with a PRC incorporated entity, Shanghai Seven Star International Shopping Co., Ltd. ("Seven Star (Shanghai)"), the Group will be able to engage in the business of retail, distribution and television shopping business in the PRC.

By virtue of the structured contracts (which are fully described in the Company's announcement dated 7 September 2006), all the economic benefits achieved by Seven Star (Shanghai) will flow through to the Group while its operation and management will also be fully controlled by the Group as from the date of signing the structured contracts on 31 August 2006.

The new venture is owned as to 70% by the Group. It is the intention of the Group that Seven Star (Shanghai) will actively pursue television home shopping business through a country-wide television shopping platform and call centers as well as a distribution network of retail outlets in various provinces in the PRC.

It is also the intention of the Group that its retail and television shopping business will be conducted under the brand name of "七星購物", the trademark of which has been licensed to the Group by its controlling shareholders. The licensing was done at nil consideration for three years and the Group has the sole option to renew it for two further years. To avoid conflict of interests, the controlling shareholders have also undertaken to the Group that they would not be engaged in any business in competition with Seven Star (Shanghai).

The Group expects that the above arrangement will be effected as from 1 October 2006 and this new business will add a substantial revenue stream to the Group and enhance the Group's profitability.

Outlook

The Group is positive about the prospects of the retail and distribution businesses in the PRC. In particular, the Directors believe that Seven Star (Shanghai) will substantially increase the earnings of the Group and bring synergistic benefits to the Group's existing retail and distribution business conducted through Shanghai Pei Lian Trading Company Limited ("Shanghai Pei Lian").

Business and Financial Review

In order to facilitate the review, the segmental information shown in Note 3 to the interim financial statements is reproduced below:

	2006 first half *HK$'000*	2005 first half *HK$'000*
Contribution from PRC retail and distribution	**10,543**	(1,416)
Income from property investments	**52**	(322)
	10,595	(1,738)
Unallocated revenue	**65**	58
Gain on disposal of a subsidiary	**6,200**	-
Unallocated corporate expenses	**(4,079)**	(6,624)
Operating profit/(loss)	**12,781**	(8,304)
Finance costs	**(396)**	(38)
Profit/(Loss) before tax	**12,385**	(8,342)
Taxation	**(2,385)**	–
Profit/(Loss) for the period	**10,000**	(8,342)
Minority interest	**20**	398
Profit/(Loss) attributable to equity holders of the Company	**10,020**	(7,944)

Profit attributable to equity holders of the Company

Profits attributable to equity holders of the Company amounted to HK$10,020,000 in the current period as opposed to a loss of HK$7,944,000 for the six months ended 30 June 2005. Such a change reflected a complete turnaround of the Group's operational profitability and is primarily due to the contribution from the Group's retail and distribution business in the PRC.

PRC Retail and Distribution

The first half of 2006 saw strong improvement in the contribution from the PRC retail and distribution segment from a loss of HK$1,416,000 (for the six months ended 30 June 2005) to a gain of HK$10,543,000 as a result of the contribution from Top Pro Limited ("Top Pro"), whose main asset is its investment in Shanghai Pei Lian, a company engaged in the sales and distribution of consumer products through media and call centres.

Shanghai Pei Lian was acquired by the Group in November 2005. It derives its income from two main sources, namely:

(1) Provision of comprehensive solution and media management services to corporate customers who wish to sell consumer products through television media and call centres; and

(2) Sourcing and wholesaling of consumer products to corporate customers.

Going forward, it is expected that Shanghai Pei Lian will derive substantial synergistic benefits from Seven Star (Shanghai).

The manufacture and sale of health products, which formed the sole source of income in the corresponding period in 2005, has continually been wound down as scheduled and its contribution to the current period under review has become negligible.

Income from Property Investments

The Group's property investments have also continually been wound down intentionally. During the period under review, an investment property re-development project held by a Group's subsidiary was disposed of, resulting in a gain of HK$6.2 million.

As at 30 June 2006, the carrying value of the remaining investment property held for resale amounted to HK$9.7 million. This property is currently being leased out at a yield of approximately 5.6%. The Board expects to dispose of this property at an opportune time in the future.

Corporate Expenses

As a result of the reduction in the amortised amount of share option expenses from HK$3.4 million for the first half of 2005 to HK$514,000 for the first half of this year, unallocated corporate expenses decreased by approximately 38% to HK$4.1 million as compared to HK$6.6 million for the corresponding period in 2005.

Finance Costs

Finance costs for the period under review were increased to HK$396,000 (for the six months ended 30 June 2005: HK$38,000) as a result of a shareholder loan required for general working capital purposes.

Financial Resources and Liquidity

Issuance of shares

On 19 April 2006, the Company placed a total of 438,250,000 new shares to institutional and professional investors at a gross price of HK$0.118 per share. During the period under review, 70,000,000 share options were also exercised.

As a result, the Company received net proceeds (after fund-raising related expenses) in the aggregate amount of approximately HK$58 million.

Borrowings

Total borrowings (largely comprised of shareholder's loans) of the Group amounted to HK$21,236,000 at 30 June 2006 as compared with HK$19,603,000 as at 31 December 2005. The Group had heavily relied on the borrowings from its controlling shareholders during the period to sustain its business expansion. As a result, total borrowings from shareholder's loans increased from HK$5.8 million as at 31 December 2005 to a maximum of HK$30.8 million during the period and was gradually reduced to approximately HK$21 million as at 30 June 2006, of which HK$20 million was related to the acquisition of the new retail and media management business in the PRC in November 2005.

Following the share placement described above, the Board expects that the reliance on controlling shareholders will be lessened in future. The existing shareholders loan will largely be due in October this year and may be extended for another twelve months with the consent of the lenders.

Pledge of assets

As at 30 June 2006, the Group's property held for resale had a carrying value of HK$9,700,000 and the bank loan associated with this property had been fully repaid in previous years. However, the Company is in dispute with the management company of the property concerned regarding certain outstanding management fees amounting to HK$2.2 million. For prudence, such an amount had been fully provided for in the income statement in previous years. Due to the unsettled management fee, the property remains pledged to the relevant bank. The Company expects to reach a settlement agreement with the management company soon.

Current Ratio

Cash and bank balances increased substantially from HK$4,003,000 at 31 December 2005 to HK$48,939,000 at 30 June 2006. The current ratio, as a result, was improved from 0.61 as at 31 December 2005 to 1.90 at 30 June 2006.

Taking into account the turnaround of the operations and the strong performance of the retail and media management business, the Directors are of the opinion that there is sufficient working capital to meet its current investment plan and all financial obligations when they fall due.

Exchange rate exposure

As at 30 June 2006, Renminbi and Hong Kong dollars accounted for 13.5% and 86.5% of the Group's total cash and bank balances respectively. As the majority of sales, purchases, assets and liabilities committed by the PRC retail and distribution business are mainly denominated in Renminbi, the Group is subject to a certain level of exchange rate exposure. However, as the exchange rate of Renminbi to HK dollar has been relatively stable and there has not been any material conversion issue, the Board considers the Group's exposure to foreign exchange risk to be relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 30 June 2006 was increased to 51 (30 June 2005: 17) as a result of the acquisition of the new retail and media management business. The Group recruits and promotes individuals based on merits and their development potential for the positions offered. Remuneration package is determined with reference to their performance and the prevailing salary levels in the market. In addition, the Group operates a share option scheme for eligible employees (including directors) to provide incentives to the participants for their contributions and continuing efforts to promote the interests of the Group.

CORPORATE GOVERNANCE

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

The Board is committed to principles of corporate governance consistent with prudent management and enhancement of shareholder value. These principles emphase transparency, accountability and independence.

The Board has adopted the principles and complied all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the period ended 30 June 2006 except for deviations from provision A.4.1 and provision A.2.1 of the Code.

Provision A.4.1. stipulates that non-executive directors should be appointed for specific term and subject to re-election. None of the existing independent non-executive directors of the Company is appointed for specific term and this constituted a deviation. However, all Directors are subject to retirement by rotation and re-election at the annual general meeting. In the opinion of the Directors, this meets the same objectives and is no less exacting than those in the Code.

On 17 January 2006, Mr. Ha Shu Tong tendered his resignation as Executive Director and Managing Director of the Company. The Company is looking for suitable candidate to fill up the vacancy and for the time being, Mr. Ni Xinguang ("Mr. Ni") took up the role and duties as Managing Director in addition to his role of being the Chairman of the Company. As there is no segregation between the role of the Chairman and Managing Director, this constituted deviation from provision A.2.1 of the Code.

Mr. Ni is mainly responsible for leadership of the Board, investor relationship, overseeing the business development of the Company and the Group including strategic and corporate development. The Board does not consider that this structure will impair the balance of power and authority between the Board and the management of the Company given there is a clear division of responsibility for the individual business operation of the Group. Nevertheless, the Company is actively seeking a replacement to fill in the position of Managing Director who would be responsible for the day to day operation and management of the Group.

Audit Committee

The Audit Committee has reviewed with management the account principles and practices adopted by the Group and discussed accounting, internal controls and financial reporting matters related to the preparation of the unaudited condensed financial statements for the six months ended 30 June 2006.

Model Code for Securities Transactions by Directors

The Company has adopted 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 2006.

OTHER INFORMATION

Dividend

The Board has resolved not to declare an interim dividend in respect of the six months ended 30 June 2006 (six months ended 30 June 2005: HK$Nil).

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.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE's WEBSITE

The Company's 2006 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, 20 September 2006

As at the date of this announcement, the Board comprises Messrs. Ni Xinguang 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.