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)

ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

The Board of Directors (the"Board") of Landune International Limited is pleased to announce the audited consolidated results of the Company and its subsidiaries (hereinafter together referred as "the Group") for the year ended 31 December 2005 together with the comparative figures of the corresponding year in 2004, as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2005

	Note	**2005** **HK\$'000**	2004 HK\$'000
Turnover	3	**23,090**	30,977
Cost of sales		**(13,843)**	(18,433)
Gross profit		**9,247**	12,544
Other revenue		**93**	20
Gain on disposal/deconsolidation of subsidiaries		**253**	44
Gain on debts restructuring arrangements		**–**	144,843
Reversal of write down/(write down) of properties held for resale		**1,200**	(3,620)
Impairment loss on properties under development		**(4,803)**	–
Distribution costs		**(4,976)**	(8,920)
Administrative expenses		**(14,867)**	(7,312)
Other operating expenses		**(975)**	(359)
Operating (loss)/profit		**(14,828)**	137,240
Finance costs		**(530)**	(3,419)
(Loss)/Profit before taxation		**(15,358)**	133,821
Taxation	4	**(1,967)**	–
(Loss)/Profit for the year		**(17,325)**	133,821
Attributable to:			
Equity holders of the Company		**(16,572)**	132,974
Minority interests		**(753)**	847
		(17,325)	133,821
(Loss)/Earnings per share	5		
Basic		**(0.4) cents**	4 cents
Diluted		**N/A**	4 cents

CONSOLIDATED BALANCE SHEET
At 31 December 2005

	Note	**2005** **HK\$'000**	2004 HK\$'000
ASSETS			
Non-current assets			
Fixed assets		**2,782**	233
Properties under development		**1,861**	5,825
Goodwill		**28,422**	–
Available-for-sale financial assets		**–**	997
		33,065	7,055
Current assets			
Properties held for resale		**9,700**	16,880
Inventories		**2,232**	890
Trade and other receivables	6	**18,289**	5,675
Tax recoverable		**–**	177
Bank and cash balances		**4,003**	5,008
		34,224	28,630
Total assets		**67,289**	35,685
EQUITY			
Capital and reserves			
Share capital		**372,279**	372,279
Other reserves		**797,006**	791,094
Accumulated losses		**(1,169,134)**	(1,152,562)
		151	10,811
Minority interests		**1,610**	2,347
Total equity		**1,761**	13,158
LIABILITIES			
Non-current liabilities			
Borrowings		**9,097**	–
Current liabilities			
Trade and other payables	7	**40,622**	11,390
Borrowings		**10,506**	11,137
Provision for taxation		**5,303**	–
		56,431	22,527
Total liabilities		**65,528**	22,527
Total equity and liabilities		**67,289**	35,685
Net current (liabilities)/assets		**(22,207)**	6,103
Total assets less current liabilities		**10,858**	13,158

Notes:

1. **BASIS OF PREPARATION**
   The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. **APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS/CHANGES IN ACCOUNTING POLICIES**
   In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the HKICPA that are relevant to its operations and effective for accounting periods beginning on or after 1 January 2005. The adoption of these new and revised Standards and Interpretations has resulted in changes to the Group's accounting policies in the following areas that have affected the amounts reported for the current or prior years:–

   - share-based payments (HKFRS 2); and
   - business combinations (HKFRS 3).

   In summary:

   – HKAS 1 affects the presentation of minority interests and other disclosures.

   The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognitions and measurement of hedging activities.

   The adoption of HKFRS 2 has resulted in a change in the accounting policy for employee share options. Prior to this, the provision of share options to employees (including executive directors) did not result in an expense in the consolidated income statement. Upon the adoption of HKFRS 2, the fair value of share options at grant date is amortised over the relevant vesting periods/expensed to the consolidated income statement.

   The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The cost of the equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted. The fair value is determined by using a Black-Scholes Option Pricing Model.

   The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the Group revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

   The effects of adopting HKFRS 2 on the Group's share options granted to employees after 7 November 2002 but had not vested by 1 January 2005 are summarised below. Comparative amounts have been restated in accordance with HKFRS 2.

   The adoption of HKFRS 3, HKASs 36 and 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was:

   – Amortised on a straight line basis over a period ranging from 5 to 20 years; and

   – Assessed for an indication of impairment at each balance sheet date.

   In accordance with the provisions of HKFRS 3:–

   – The Group ceased amortisation of goodwill from 1 January 2005;

   – Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

   – From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

   All changes in the accounting policies have been made in accordance with transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

   – HKAS 16 – the initial measurement of an item of fixed assets acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

   – HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations;

   – HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 January 2005;

   – HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005; and

   – HKFRS 3 – prospectively after 1 January 2005.

   Summary of the effects of the changes in accounting policies regarding the adoption of HKFRS 2 is as follows:
   The adoption of HKFRS 2 resulted in:

	2005 **HK\$'000**	2004 HK\$'000
Increase in accumulated losses and loss for the year	**(5,778)**	–
Increase in employee share-based compensation reserve	**5,778**	–
Increase in basic loss per share	**(0.2) cents**	–

3. **TURNOVER AND SEGMENTAL INFORMATION**
   Turnover
   The amount of each significant category of revenue recognised in turnover during the year is as follows:

	2005 **HK\$'000**	2004 HK\$'000
Proceeds on disposal/deemed disposal of properties	**8,380**	10,600
Rental income	**77**	1,461
Manufacture and distribution of cosmetic and health products	**1,778**	18,916
Retail and distribution of consumer products	**8,019**	–
Media management service fees	**4,836**	–
	23,090	30,977

Business segments

An analysis of the Group's turnover and results for the years ended 31 December 2004 and 2005 by business segments is as follows:

31 December 2005

	Property investment *HK$'000*	**Health products** *HK$'000*	**Retail and media management** *HK$'000*	**Other operations** *HK$'000*	**Group** *HK$'000*
Turnover	**8,457**	**1,778**	**12,855**	**–**	**23,090**
Segment results	**(5,017)**	**(2,611)**	**5,910**	**178**	**(1,540)**
Unallocated revenue					**8**
Unallocated expenses					**(13,296)**
Operating loss					**(14,828)**
Finance costs					**(530)**
Loss before taxation					**(15,358)**
Taxation					**(1,967)**
Loss for the year					**(17,325)**
Minority interests					**753**
Loss attributable to the equity holders of the Company					**(16,572)**

31 December 2004

	Property investment *HK$'000*	Health products *HK$'000*	Other operations *HK$'000*	Group *HK$'000*
Turnover	12,061	18,916	–	30,977
Segment results	140,693	2,668	14	143,375
Unallocated revenue				6
Unallocated expenses				(6,141)
Operating profit				137,240
Finance costs				(3,419)
Profit before taxation				133,821
Taxation				–
Profit for the year				133,821
Minority interests				(847)
Profit attributable to the equity holders of the Company				132,974

Geographical segments

The following table presents turnover for the Group's geographical segments for the years ended 31 December 2004 and 2005:

	2005		2004	
	Hong Kong *HK$'000*	**PRC** *HK$'000*	Hong Kong *HK$'000*	PRC *HK$'000*
Turnover	**8,457**	**14,633**	12,061	18,916

4. **TAXATION**

	2005 *HK$'000*	2004 *HK$'000*
Current income tax		
– PRC taxation	**1,967**	–

No provision for Hong Kong profits tax is required for current year since each individual Hong Kong company sustained losses for taxation purposes.

Pursuant to a notice issued by the relevant PRC tax authority, a subsidiary in Fuzhou is exempted from enterprise income tax for two years starting from its first year of profitable operation in 2004, following by a 50% reduction for the next three years.

A subsidiary in Shanghai is currently subject to enterprise income tax calculated at the rate determined by the local tax authority at 4% on the invoiced amount of the retail sales. Such locally determined tax rate may in certain area inconsistent with the national tax law and may subject to a subsequent review when new interpretation of tax law or guidance note is being released or executed. On prudent measure, the taxable profit of the subsidiary in Shanghai upon consolidation is provided at the standard enterprise income tax rate of 33% in accordance with Provisional Regulations of the People's Republic of China on Enterprise Income Tax. The provision of tax as at 31 December 2005 in the amount of HK$5,303,000 would be reassessed at each balance sheet date and would be written back if consider excessive in future.

5. **(LOSS)/EARNINGS PER SHARE**

Basic

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2005 *HK$'000*	2004 *HK$'000*
(Loss)/Profit attributable to equity holders of the Company	**(16,572)**	132,974
Weighted average number of ordinary shares in issue (thousands)	**3,722,792**	3,070,989
Basic (loss)/earnings per share	**(0.4) cents**	4 cents

Diluted

Diluted loss per share for the year ended 31 December 2005 has not been disclosed, as the share options outstanding during the year had an anti-dilutive effect on the basic loss per share for the year.

The calculation of diluted earnings per share for the year ended 31 December 2004 is based on the Group's profit attributable to equity holders of the Company for the year of HK$132,974,000 and on 3,092,642,856 ordinary shares, being the weighed average number of 3,070,988,721 ordinary shares in issue during the year, as used in the basic earnings per share calculation plus the weighted average of 21,654,135 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the share options outstanding during the year.

6. **TRADE AND OTHER RECEIVABLES**

	2005 *HK$'000*	2004 *HK$'000*
Trade receivables	**11,324**	2,748
Other receivables	**2,726**	1,049
Prepayments and deposits	**4,239**	1,878
	18,289	5,675

At 31 December 2005, the ageing analysis of the trade receivables was as follows:

	2005 *HK$'000*	2004 *HK$'000*
Current – 60 days	**8,915**	378
61 – 90 days	**75**	277
Over 90 days	**2,334**	2,093
	11,324	2,748

7. **TRADE AND OTHER PAYABLES**

	2005 *HK$'000*	2004 *HK$'000*
Trade payables *(Note (a))*	**6,491**	2,464
Other payables and accruals *(Note (b))*	**32,368**	6,603
Deposits received	**189**	1,770
Due to directors	**1,574**	553
	40,622	11,390

Notes:

(a) At 31 December 2005, the ageing analysis of the trade payables was as follows:

	2005 *HK$'000*	2004 *HK$'000*
Current – 60 days	**871**	818
61 – 90 days	**36**	34
Over 90 days	**5,584**	1,612
	6,491	2,464

(b) The other payables and accruals of the Group included consideration of HK$20,000,000 (2004: HK$Nil) to be paid on business combination. After the balance sheet date, the consideration was settled through loan from a shareholder.

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors wish to set out below the review of the Group's business activities for the year ended 31 December 2005 and the overview of the Company's objectives for the year ahead.

Corporate Results

The Group recorded a turnover of HK$23,090,000 in the current year (2004 – HK$30,977,000). Of that HK$8,457,000 (2004 – HK$12,061,000) was derived from property investments.

The health products segment experienced a substantial downturn in the current year and contributed revenue of HK$1,778,000 as compared with HK$18,916,000 in 2004.

The newly acquired business in retail and media management in the People's Republic of China (the "PRC"), of which the Group took control in November 2005, generated total revenue of HK$12,855,000 in the last two months of 2005.

Total operating and administrative expenses increased by 25% or HK$4,227,000 as compared to the previous year. Distribution costs reduced by more than 40% as a result of the setback in the health products segment.

On the other hand, other operating expenses which mainly represented allowance for bad and doubtful debts, increased by HK$616,000. Administrative expenses increased by 103% from HK$7,312,000 in 2004 to HK$14,867,000 in the current year. The sharp increase in administrative expenses was mainly due to the inclusion in the income statement of the fair values of the share options granted to the Directors in late 2004 of HK$5,778,000.

Following the completion of the debt restructuring exercises, the Group had substantially reduced its total bank borrowings and thereby largely scaled down its interest expenses to HK$530,000 (2004 – HK$3,419,000).

Losses attributable to equity holders of the Company amounted to HK$16,572,000 in the current year (2004 – Profit of HK$132,974,000) after taken into account the financial effect arising from the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA since 1 January 2005. Of these new HKFRSs, HKFRS 2 – Share-based Payment had the largest financial impact on the Company and the Group, as it required the issuing entity to reflect the share option value as employee cost through the income statement. As a result, employee cost was inflated by HK$5,778,000 in the current year. These share options were only granted towards the end of 2004, its effect for the year ended 31 December 2004 was negligible and therefore no prior year adjustment was put through.

Dividends

The Board has resolved not to recommend the payment of any dividend for the year ended 31 December 2005 (2004: HK$Nil).

Financial Resources and Liquidity

Borrowings

Cash and bank balances fell from HK$5,008,000 at 31 December 2004 to HK$4,003,000 at 31 December 2005. On the other hand, the Group fully repaid its interest-bearing bank borrowing of HK$4,493,000 during the year. During the year, the Group mainly relied on the borrowings from controlling shareholders to sustain its business expansion as well as merger and acquisition needs. As a result, total borrowings (largely comprised of shareholder's loans) of the Group surged to HK$19,603,000 as at 31 December 2005 and represented an increase of 76% of which HK$9,185,000 was related to the acquisition of the new retail and media management business in PRC in November 2005.

Pledge of assets

As at 31 December 2005, the Group's properties held for resale and properties under development with carrying value of HK$9,700,000 and HK$1,861,000, respectively had been pledged to the financial creditors as security for the indebtednesses of around HK$5,186,000.

Current Ratio

The current ratio as at 31 December 2005 stood at 0.61 as compared to 1.27 at 31 December 2004. Taking into account the strong performance of the new retail and media management segment, together with the proceeds from the issuance of new shares in April 2006, the Directors are of the opinion that there is sufficient working capital to meet all financial obligations when they fall due.

Investment

On 9 September 2005, the Company announced its intention to acquire Top Pro Limited, whose main asset is its indirect investment in Shanghai Pei Lian Trading Company Limited ("Shanghai Pei Lian"), a company incorporated in the PRC engaging in the sales and distribution of consumer products through television commercials and call centres. The acquisition was approved by the shareholders in the extraordinary general meeting held on 11 November 2005 and the transformation of Shanghai Pei Lian from a PRC incorporated company into a wholly-foreign owned enterprise was also been approved by the relevant Government authorities on 20 December 2005.

The Group took over the management of Shanghai Pei Lian from 1 November 2005 and has since been actively involved in expanding its business activities and enlarging its scope of business to that of provision of media management services. The acquisition has added a new revenue stream to the Group as well as enhancing the Group's profitability.

Review of Operations

Exchange rate exposure

As at 31 December 2005, Renminbi and HK dollar accounted for 49% and 51% of the Group's total bank and cash balances respectively. As the majority of sales, purchases, assets and liabilities committed by the health products segment and the retail and media management segment of the Group were 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 was relatively stable and there had not been any material conversion issue, the Board considered the Group's exposure to foreign exchange risk to be relatively low.

Staff and Remuneration Policy

The number of employees (including Directors) as at 31 December 2005 increased to 156 persons (2004 – 32 employees) as a result of the inclusion of the newly acquired retail and media management business. The Group recruits and promotes individuals based on merit 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.

Business Review, Corporate Strategy and Outlook

Property investment segment

2005 saw a lackluster property market in Hong Kong. Rental income in 2005 for the Group fell as a result of the disposal of a property in the year. Based on an internal evaluation, an impairment provision of around HK$4.8 million was provided for in 2005 for the properties redevelopment project. Looking ahead, the Board is of the view that property investments will likely become a non-core business of the Group and more emphasis will be placed on the development of the retail and media management business.

Health products segment

The health products segment faced a significant setback in 2005 due to the more stringent measures adopted by the PRC Government in the regulation of advertising materials for health and cosmetics products. As a result of such administrative measures, the health products segment posted a segmental loss of HK$2,611,000 for the current year versus a profit of HK$2,668,000 in 2004. Going forward, in order to streamline our business and achieve more synergies, the Board intends to merge the health products segment with our newly acquired retail and media management segment.

Retail and media management segment

In November 2005, the Group acquired Top Pro Limited, whose main assets is its indirect investment in Shanghai Pei Lian, a company engaging in the sales and distribution of consumer products through television commercials and call centres. As mentioned above, the results from this acquisition for the initial two months (i.e. November and December 2005) were very encouraging. The Group derived an attributable revenue of HK$12,855,000 and segmental result amounting to HK$5,910,000 for the two months ended 31 December 2005. The Board is highly optimistic about the prospects of retail distribution through the television/internet platform and call centres and will actively pursue further opportunities in this area.

By focusing on retail distribution via the television/internet platform and call centres, together with the business connections of the Executive Directors in the PRC, the Board is confident that the Group will return to profitability in the forthcoming year.

PURCHASE, SALE AND REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's share during the year.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the financial year except for deviation from provision A.4.1 of the Code in respect of the service term of director.

Provision A.4.1 stipulates that non-executive directors should be appointed for specific term, subject to re-election. None of the existing Independent Non-executive Directors of the Company is appointed for specific term and this constitutes 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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. The Directors confirmed that they have complied with the required standards as set out in the Model Code during the financial year ended 31 December 2005.

AUDIT COMMITTEE

The Board of Directors has established the audit committee, the committee comprises all the Independent Non-executive Directors of the Company. The audit committee has reviewed the annual results for the year ended 31 December 2005.

PUBLICATION OF DETAILED ANNUAL RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

The annual report of the Company for the year ended 31 December 2005 containing all the information required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be released on the website of The Stock Exchange of Hong Kong Limited in due course.

On behalf of the Board
Ni Xinguang
Chairman

Hong Kong SAR, 26 April 2006

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