



INTERIM REPORT 2006



中國水務集團有限公司

China Water Affairs Group Limited

Stock Code:855



The board of directors (the "Board") of China Water Affairs Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2006, together with the comparative figures for the corresponding period in 2005, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 September	
		2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
	<i>Notes</i>		
Revenue	3	61,702	16,677
Cost of sales		(28,087)	(11,160)
Gross profit		33,615	5,517
Other income		22,014	5,560
Gains arising on initial recognition of biological assets at fair value less estimated point-of-sale costs		6,164	–
Selling and distribution costs		(4,605)	(52)
Administrative expenses		(19,025)	(8,718)
Net unrealised loss on financial assets at fair value through profit or loss		(3,221)	–
PROFIT FROM OPERATING ACTIVITIES	4	34,942	2,307
Finance costs	5	(7,780)	(1,486)
PROFIT BEFORE TAXATION		27,162	821
Taxation	6	(1,180)	2,264
PROFIT FOR THE PERIOD		25,982	3,085
Attributable to:			
Equity holders of the Company		15,006	373
Minority interests		10,976	2,712
		25,982	3,085
EARNING PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY DURING THE PERIOD			
Basic	7	HK1.75 cents	HK0.07 cents
Diluted		HK2.01 cents	N/A



CONDENSED CONSOLIDATED BALANCE SHEET

		As at	
	Notes	30 September 2006 (unaudited) HK\$'000	31 March 2006 (audited) HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		238,137	222,988
Prepaid land lease payments		7,346	3,875
Deposits		20,050	5,798
Available-for-sale financial assets/long term investments		20,853	—
		286,386	232,661
Current assets			
Biological assets		—	—
Inventories		12,636	8,165
Trade and bills receivables	8	10,761	7,749
Due from minority equity holders of subsidiaries		3,034	3,487
Due from former subsidiaries		11,385	14,601
Prepayments, deposits and other receivables		69,109	28,765
Financial assets at fair value through profit or loss	9	4,668	—
Bank and cash balances		421,061	235,036
		532,654	297,803
Current liabilities			
Trade payables	10	7,540	11,960
Accrued liabilities and other payables		43,421	54,421
Financial lease liabilities		—	245
Bank loans		3,887	14,336
Other loans		9,500	44,040
Due to a director		1,176	2,294
Due to minority equity holders of subsidiaries		3,517	1,381
Provision for tax		4,115	2,492
		73,156	131,169
Net current assets		459,498	166,634
Total assets less current liabilities		745,884	399,295

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		As at
	30 September	31 March
	2006	2006
	(unaudited)	(audited)
<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities		
Finance lease liabilities	–	592
Bank loans	3,136	3,077
Other loans	48,404	56,437
Convertible notes	282,353	–
	333,893	60,106
Net assets	411,991	339,189
Equity		
Equity attributable to equity holders of the Company		
Issued capital	9,040	8,298
Reserves	313,237	233,032
	322,277	241,330
Minority interests	89,714	97,859
Total equity	411,991	339,189

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

	Six months ended 30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Net cash inflow/(outflow) from operating activities	6,586	(15,366)
Net cash outflow from investing activities	(87,719)	(6,146)
Net cash inflow from financing activities	267,158	11,665
Increase/(decrease) in cash and cash equivalents	186,025	(9,847)
Cash and cash equivalents at beginning of period	235,036	20,239
Cash and cash equivalents at end of period	421,061	10,392
Analysis of balances of cash and cash equivalents		
Bank and cash balances	421,061	10,392

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the Company

	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Property, Plant and equipment revaluation reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share option reserves (unaudited) HK\$'000	Convertible notes reserves (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000	Minority interests (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 April 2006	8,298	306,801	340	70,725	-	(3,598)	26,242	-	(167,478)	241,330	97,859	339,189
Share options exercised	742	55,425	-	-	-	-	-	-	-	56,167	-	56,167
Return of capital contributed by minority shareholder of a subsidiary	-	-	-	-	-	-	-	-	-	-	(19,121)	(19,121)
Convertible notes- equity components	-	-	-	-	-	-	-	9,774	-	9,774	-	9,774
Net profit for the period	-	-	-	-	-	-	-	-	15,006	15,006	10,976	25,982
At 30 September 2006	9,040	362,226	340	70,725	-	(3,598)	26,242	9,774	(152,472)	322,277	89,714	411,991



Attributable to equity holders of the Company

	Issued capital (unaudited) HK\$'000	Share premium account (unaudited) HK\$'000	Capital reserve (unaudited) HK\$'000	Contributed surplus (unaudited) HK\$'000	Property, plant and equipment revaluation reserve (unaudited) HK\$'000	Exchange fluctuation reserve (unaudited) HK\$'000	Share option reserves (unaudited) HK\$'000	Convertible notes reserves (unaudited) HK\$'000	Accumulated losses (unaudited) HK\$'000	Total (unaudited) HK\$'000	Minority interest (unaudited) HK\$'000	Total equity (unaudited) HK\$'000
At 1 April 2005	4,813	86,762	340	70,725	1,298	-	-	-	(128,888)	35,050	7,476	42,526
Issue of shares	576	28,224	-	-	-	-	-	-	-	28,800	-	28,800
Contribution from minority shareholders of a subsidiary	-	-	-	-	-	-	-	-	-	-	11,361	11,361
Issue expenses	-	(1,246)	-	-	-	-	-	-	-	(1,246)	-	(1,246)
Net profit for the period	-	-	-	-	-	-	-	-	373	373	2,712	3,085
At 30 September 2005	5,389	113,740	340	70,725	1,298	-	-	-	(128,515)	62,977	21,549	84,526

Notes:

1. Basis of preparation

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

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate. The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2006, except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. The adoption of the new HKFRSs has no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Group has not early applied the following new standard, amendment and interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the financial information of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments: Disclosures ¹
HK(IFRIC) – INT 8	Scope of HKFRS 2 ²
HK(IFRIC) – INT 9	Reassessment of Embedded Derivatives ³
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment ⁴

¹ Effective for annual periods beginning on or after 1 January 2007

² Effective for annual periods beginning on or after 1 May 2006

³ Effective for annual periods beginning on or after 1 June 2006

⁴ Effective for annual periods beginning on or after 1 November 2006

3. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are classified as follows:

- (a) "Electronic" segment, which is presented as "electronic products" segment and "electronic component" segment, involves the manufacture and trading of electronics product and component;
- (b) "Water" segment, which is presented as "city water supply" and "sewage treatment" segment, involves the provision of water supply and sewage treatment;
- (c) "Sea buckthorn related business" segment involves cultivation, manufacture and sale of sea buckthorn seedling and sea buckthorn based products; and
- (d) "Concrete products and others" segment involves manufacture and sale of concrete products and others.

(a) *Business segments*

The following table presents revenue and result for the Group's business segments:

	Electronic products		City Water Supply		Sewage treatment		Sea buckthorn related business		Concrete products and others		Consolidated	
	Six months ended		Six months ended		Six months ended		Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September		30 September		30 September		30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Segment revenue:												
External customers	-	5,317	37,426	6,871	-	4,489	4,712	-	19,564	-	61,702	16,677
Other revenue and gain	-	1,260	3,610	3,010	-	-	6,164	-	-	-	9,774	4,270
Total	-	6,577	41,036	9,881	-	4,489	10,876	-	19,564	-	71,476	20,947
Segment results:	-	537	10,989	3,249	-	4,967	6,773	-	5,160	-	22,922	8,753
Interest income from bank deposits											4,441	3
Unallocated corporate income											13,963	1,287
Unallocated corporate expense											(6,384)	(7,736)
Profit from operating activities											34,942	2,307
Finance costs											(7,780)	(1,486)
Profit before taxation											27,162	821
Taxation											(1,180)	2,264
Profit for the period											25,982	3,085

(b) *Geographical segments*

No geographical segments are provided as most of revenue, assets and liabilities of the Group for the six months ended 30 September 2006 and 2005 were either generated or located in the PRC.

4. Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Six months ended 30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Cost of inventories sold and services rendered	28,087	11,160
Depreciation	4,004	2,205
Amortisation of prepaid land lease payments	78	26
Gain arising on initial recognition of biological assets at fair value less estimated point-of-sale costs	(6,164)	–
Net realised gain on disposal of financial assets at fair value through profit or loss	(13,808)	–
Interest income from bank deposits	(4,441)	(3)
	<u> </u>	<u> </u>

5. Finance costs

	Six months ended 30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Interest on bank loans wholly repayable within five years	281	863
Interest on other loans	1,357	435
Interest on convertible notes	6,083	188
Interest on finance leases	59	–
	<u>7,780</u>	<u>1,486</u>

6. Taxation

Hong Kong Profits Tax is provided at 17.5% (2005:17.5%) based on the assessable profit for the period. Taxation for other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

	Six months ended 30 September	
	2006 (Unaudited) HK\$'000	2005 (Unaudited) HK\$'000
Current period		
Hong Kong profits tax	-	-
Overseas taxation		
Current	1,180	-
Overprovision in previous period	-	(2,264)
	1,180	(2,264)

7. Earning per share attributable to equity shareholders of the Company

The calculation of basic earnings per share for the six months ended 30 September 2006 is based on the profit attributable to equity holders of the Company of HK\$15,006,000 (2005: HK\$373,000) and on the weighted average of 856,375,097 shares (2005: 512,074,303 shares) in issue during the period.

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible notes and share options. The convertible notes are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the related interest expense less tax effect. Reconciliation of the earnings and number of shares used in the calculation of diluted earnings for shares is as follows:

	Six months ended 30 September 2006 HK\$'000
Earnings:	
Profit for the period and earnings for the purposes of basic earnings per share	15,006
Effect of dilutive potential ordinary shares in respect of convertible notes	6,083
Earnings for the purpose of diluted earnings per share	21,089

	Number of shares
	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	856,375
Effect of dilutive potential ordinary shares in respect of:	
Share options	17,670
Convertible notes	176,471
	<u>1,050,516</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>1,050,516</u>

No diluted earning per share had been presented for the period ended 30 September 2005 since the exercise prices of the Company's share options were higher than the average market price per share for the six months ended 30 September 2005 and there were no convertible notes outstanding as at 30 September 2005.

8. Trade and bills receivables

An analysis of the aging of the Group's trade and bills receivables is as follows:

	30 September 2006 (unaudited) HK\$'000	As at 31 March 2006 (audited) HK\$'000
Current to 90 days	5,399	4,453
91 to 180 days	290	526
Over 180 days	5,072	2,770
	<u>10,761</u>	<u>7,749</u>

The Group has a policy of allowing trade customers with credit normally ranged from 30 to 90 days.

9. Financial assets at fair value through profit or loss

	30 September 2006 (Unaudited) HK\$'000	As at 31 March 2006 (Audited) HK\$'000
Securities listed in Hong Kong, at market value	<u>4,668</u>	<u>—</u>

Changes in fair values of financial assets at fair value through profit or loss are recorded in the condensed consolidated income statement (note 4).

10. Trade payables

An analysis of the aging of the Group's trade payable is as follows:

	30 September 2006 (unaudited) HK\$'000	As at 31 March 2006 (audited) HK\$'000
Current to 90 days	2,956	3,895
91 to 180 days	1,859	5,517
Over 180 days	2,725	2,548
	7,540	11,960

The credit terms of trade payables varies according to the terms agreed with different suppliers.

11. Convertible notes

Previously, convertible notes were classified as liabilities and carried at proceeds received. In accordance HKAS 32 and HKAS 39, convertible notes are regarded as compound instruments, consisting of a liability component and an equity component, unless in certain circumstances when the issuer is required to recognise the instrument as a whole as financial liability with embedded derivatives. Derivatives embedded in a financial instrument are treated as separate components when their economic risks and characteristics are not closely related to those of the host contract (the liability component) and the host contract is not carried at fair value through profit or loss. Upon adoption of HKAS 32 and HKAS 39, convertible notes issued by the Company are split into their liability and equity components at initial recognition. The liability component is subsequently carried at amortised cost. The equity component is recognised as convertible notes reserve, a separate component of equity, until the convertible notes are either converted (in which case it is transferred to share premium account) or redeemed (in which case it is released directly to retained profits).

The fair value of the liability component of convertible notes at 30 September 2006 amounted to approximately HK\$282,353,000. The fair value is calculated using cash flows discounted at a rate of 9%.

Interest expense on the convertible notes is calculated using the effective interest method by applying the effective interest rate of 9% to the liability component.

The face value of the outstanding convertible notes at 30 September 2006 amounted to approximately HK\$300,000,000.

The face value of the outstanding convertible notes at the date of this report amounted to approximately HK\$162,000,000 as convertible notes with aggregate face value of HK\$138,000,000 has been converted by notes holders into total of 69,000,000 shares of the Company at conversion price of HK\$2.00 per share subsequent to 30 September 2006 up to the date of this report.

12. Share capital

	Number of shares '000	Value HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2005 and 30 September 2006	20,000,000	200,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.01 each at 1 April 2005	481,302	4,813
Placing and subscription of new shares	302,900	3,029
Share option exercised	45,640	456
Ordinary shares of HK\$0.01 each at 31 March 2006	829,842	8,298
Share option exercised	74,200	742
Ordinary shares of HK\$0.01 each at 30 September 2006	904,042	9,040

Note: During the period ended 30 September 2006, the subscription rights attaching to 74,200,000 share options issued pursuant to the share option scheme of the Company were exercised resulting in the issue of 74,200,000 shares of HK\$0.01 each.

13. Pledge of assets

The Group's bank and other loans at 30 September 2006 were secured by:

- (a) pledge of water revenue of a subsidiary; and
- (b) guarantees by 江西長林機械(集團)有限公司, 江西新余紡織廠, 仁化縣自來水公司 and 江西省水利水電開發總公司. 仁化縣自來水公司 and 江西省水利水電開發總公司 are minority equity holders of the Company's subsidiaries; and
- (c) pledge of certain land use rights and leasehold buildings of a subsidiary.

14. Litigation

During the period, neither the Company nor other members of the Group had any outstanding litigation or arbitration of material importance and the Directors had no knowledge of any pending or threatened litigation or claims of material importance against any member of the Group.

15. Related party transactions

The Group has the following material related party transactions:

	Six months ended 30 September	
	2006 (unaudited) HK\$'000	2005 (unaudited) HK\$'000
Sale to a minority equity holder of subsidiaries (<i>Note</i>)	6,164	—

Note: The sales represented sale of biological assets to China National Administration Center for Sea Buckthorn Development, a minority equity holder of subsidiaries. The sales were based on mutually agreed terms.

16. Capital Commitments*(a) Capital commitments*

	As at	
	30 September 2006 (unaudited) HK\$'000	31 March 2006 (audited) HK\$'000
Contracted, but not provided for	144,750	90,441

(b) Operating lease arrangement

The future total minimum lease payments under non-cancellable operating leases falling due as follows:

	As at	
	30 September 2006 (unaudited) HK\$'000	31 March 2006 (audited) HK\$'000
Within one year	1,574	1,574
In the second to fifth years, inclusive	4,108	1,948
After five years	5,769	5,769
	11,451	9,291

17. Contingent liabilities

As at 30 September 2006 and 2005, the Group had no material contingent liabilities.

18. Post balance sheet events

The details of the significant post balance sheet events of the Group are set out below:

- (i) On 8th November, 2006, the Company and Chongqing Global Credit Water (Group) Company Limited entered into an agreement, pursuant to which the Company conditionally agreed to acquire the entire registered capital of Yongchuan Global Credit Water Company Limited and the 10% of the registered capital of Chongqing Qiaoli City Facilities Engineering Company Limited from Chongqing Global Credit Water (Group) Company Limited for a total consideration of RMB105.5 million (equivalent to approximately HK\$103.4 million) which may be subject to downward adjustments. Yongchuan Global Credit Water Company Limited is principally engaged in water supply business in Yongchuan, Chongqing, the PRC. Chongqing Qiaoli City Facilities Engineering Company Limited, a 90% owned subsidiary of Yongchuan Global Credit Water Company Limited, is principally engaged in city facility engineering work and water pipe maintenance and repair. The acquisition constitutes a major transaction for the Company under the Listing Rules and is subject to the Shareholders' approval at the SGM. Press announcement has been published on 8th November 2006. A circular will also be despatched as soon as practicable to the Shareholders containing details of, among other things, the acquisition and a notice to convene the special general meeting.
- (ii) On 16 November 2006, China Water Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability and a wholly owned subsidiary of the Company (the "Purchaser") entered into an agreement with Color Hill Group Limited, a company incorporated under the laws of the British Virgin Islands with limited liability to acquire 30% of the issued share capital of China Environmental Water Holdings Limited, a company incorporated under the laws of Hong Kong with limited liability (the "Target"). The Target holds 50% equity interest in Conseco Seabuckthorn Co., Ltd., a sino-foreign enterprise formed under the laws of PRC in November 2005 which is principally engaged in the cultivation and sale of sea buckthorn seedling as well as manufacturing and selling of its related products. On completion, the Company through the Purchaser will own 100% of the issued share capital of the Target. The Acquisition constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules and the approval of the independent shareholders of the Company. A circular containing, among other things, details of the Agreement, a letter of advice from the independent board committee of the Company and the independent financial adviser and a notice to convene the special general meeting has been despatched to the shareholders of the Company on 8th December 2006.
- (iii) On 15 and 18 December 2006, the Company and thirteen subscribers entered into a subscription agreement, pursuant to which the subscribers agreed to subscribe and the Company agreed to allot a total of 167,212,400 new shares at the price of HK\$2.73 per share. The Company intends to use the estimated net proceeds of the subscription of approximately HK\$450.4 million as the Group's general working capital.



INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period under review, the Group recorded turnover of approximately HK\$61.7 million (2005: 16.7 million), while net profit attributable to equity holders of the Company amounted to approximately HK\$15.0 million (2005: HK\$0.4 million). The increase in turnover is due to further expansion of the Group in the water business during the period. The Directors consider that the expansion in water business is in the interests of the Company and the Shareholders as a whole.

Liquidity and financial resources

As at 30 September 2006, the Group had current assets of approximately HK\$532.7 million (31 March 2006: HK\$297.8 million) and current liabilities of approximately HK\$73.2 million (31 March 2006: HK\$ 131.2 million). The Group's current ratio is approximately 7.28 times as at 30 September 2006 as compared with approximately 2.27 times as at 31 March 2006. The Group had total assets of approximately HK\$819.0 million (31 March 2006: 530.5 million) and total liabilities of approximately HK\$407.0 million (31 March 2006: HK\$191.3 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 49.7% as at 30 September 2006 as compared with approximately 36.1% as at 31 March 2006.

In light of the financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

Prospects and business outlook

As mentioned previously, the Directors will continue to focus their efforts in expanding the Group's business in the PRC water business. The Board considered that the water projects will strengthen the Group's revenue base and generate steady revenue inflow for the Group. The Board believes that operating efficiency of the water projects will be improved by capitalising on the expertise and experience of the senior management in the water industry in the PRC.

Employees and remuneration policies

As at 30 September 2006, the Group had approximately 1,200 full-time employees. Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2006, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(a) Shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Mr. Duan Chuan Liang (<i>Note</i>)	Corporate and beneficial	145,162,301	–	16.05%
Mr. Chen Guo Ru	Beneficial	6,540,000	–	0.72%
Mr. Zhao Hai Hu	Beneficial	1,900,000	–	0.21%

Note: These 145,162,301 shares consists of 105,862,301 shares held by Asset Full Resources Limited, a company wholly and beneficially owned by Mr. Duan Chuan Liang, and 39,300,000 shares held by Mr. Duan Chuan Liang personally.

(b) Underlying shares

Name of Director	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position (<i>Note</i>)	Short position	
Mr. Wu Jiesi	Beneficial	6,000,000	–	0.66%
Mr. Zhou Wen Zhi	Beneficial	870,000	–	0.10%

Note: Options to acquire ordinary shares of the Company, further details of which are set out in the section headed "Share Option Schemes" below.



SHARE OPTION SCHEMES

The following table discloses movements in the Company's share options during the period:

Name or category of participant	Number of share options				At 30 September 2006	Date of grant of share options (note a)	Exercise period of share options	Exercise price of share options (HK\$) (note b)
	At 1 April 2006	Granted during the period	Exercised during the period	Lapsed during the period				
Directors								
Mr. Duan Chuan Liang (note c)	1,600,000	-	1,600,000	-	-	1 February 2005	Period 2	0.41
	3,700,000	-	3,700,000	-	-	3 January 2006	Period 1	0.41
	40,00,000	-	40,00,000	-	-	7 February 2006	Period 4	0.72
	45,300,000	-	45,300,000	-	-			
Mr. Zhou Wen Zhi	870,000	-	870,000	-	-	1 February 2005	Period 2	0.41
	1,000,000	-	130,000	-	870,000	3 January 2006	Period 1	0.41
	1,870,000	-	1,000,000	-	870,000			
Mr. Wu Jiesi	6,000,000	-	-	-	6,000,000	29 March 2006	Period 3	1.45
Other employees								
In aggregate	3,900,000	-	-	-	3,900,000	1 February 2005	Period 2	0.41
	12,000,000	-	10,300,000	-	1,700,000	3 January 2006	Period 1	0.41
	10,600,000	-	7,300,000	-	3,300,000	17 March 2006	Period 5	1.16
	2,400,000	-	500,000	-	1,900,000	29 March 2006	Period 3	1.45
	28,900,000	-	18,100,000	-	10,800,000			
Suppliers/Advisors								
In aggregate	9,800,000	-	9,800,000	-	-	17 March 2006	Period 5	1.16
	91,870,000	-	74,200,000	-	17,670,000			

Notes:

Period 1	3 February 2006 to 2 January 2008
Period 2	1 August 2005 to 31 January 2007
Period 3	29 March 2006 to 28 March 2011
Period 4	14 March 2006 to 6 February 2011
Period 5	17 March 2006 to 16 March 2011

- (a) The vesting date of the share options is the date of grant.
- (b) 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.
- (c) The number of share options granted to Mr. Duan Chuan Liang on 7 February 2006 exceeded the individual limit of 1% of the shares of the Company then in issue and were approved by the shareholders of the Company at the special general meeting held on 14 March 2006.

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or 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 Division 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.



SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

Name	Capacity/ Nature of interest	Number of Shares		Approximately percentage of shareholding in the Company
		Long position	Short position	
Asset Full Resources Limited (<i>Note</i>)	Corporate	105,862,301	–	11.71%
Atlantis Investment Management Limited	Corporate	47,000,000	–	5.20%
L-R Global Partner L.P.	Corporate	91,260,000	–	10.09%
Charlemagne Capital (IOM) Limited for and on behalf of managed fund	Corporate	53,770,000	–	5.95%
Montpelier Asset Management Limited	Corporate	72,400,000	–	8.01%

Note: These Shares are beneficially owned by and registered in the name of Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 30 September 2006, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2006, except for certain deviations as follows:

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

Except for Mr. Wu Jiesi, none of the existing non-executive directors of the Company is appointed for a specific term. However, under the Company's bye-laws, all the directors of the Company (whether executive or non-executive) are subject to the retirement by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice are no less exacting than those in the Code.

Code Provision A.4.2

Under this code provision, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2006.



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.

REMUNERATION COMMITTEE

The Remuneration Committee comprises the three independent non-executive directors of the Company, is responsible for reviewing and evaluating the remuneration policies of executive directors and making recommendations to the Board from time to time.

AUDIT COMMITTEE

The Audit Committee comprises the three independent non-executive directors of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2006 with the directors.

On behalf of the Board

Duan Chuan Liang

Chairman

21 December 2006

As at the date of this interim report, the Board comprises two executive Directors, being Mr. Duan Chuan Liang and Mr. Chen Guo Ru, three non-executive Directors, being Mr. Wu Jiesi, Mr. Zhao Hai Hu and Mr. Zhou Wen Zhi, and three independent non-executive Directors, being Ms. Huang Shao Yun, Mr. Chen Lizhong and Mr. Chan Chi Shing.