



Interim Report 2006



中盈控股有限公司
Sino Prosper Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

Stock Code : 766

INTERIM RESULTS

The Board of Directors (the “Board”) of Sino Prosper Holdings Limited (the “Company”) presents the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2006. These unaudited interim results have been reviewed by the Company’s Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended 30 September | |
|---|---|----------------------------------|---------------------------------|
| | | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Turnover | 2 | – | 1,867 |
| Cost of sales | | – | (1,400) |
| Gross profit | | – | 467 |
| Other operating income | | 54 | 7 |
| Administrative expenses | | (96,708) | (5,807) |
| Loss before taxation | 3 | (96,654) | (5,333) |
| Taxation | 4 | – | – |
| Loss for the period | | <u>(96,654)</u> | <u>(5,333)</u> |
| Attributable to:- | | | |
| – Equity holders of the Company | | (95,747) | (5,492) |
| – Minority interests | | (907) | 159 |
| | | <u>(96,654)</u> | <u>(5,333)</u> |
| Loss per share for loss attributable to equity holders of the Company for the period | | | |
| Basic and diluted | 6 | <u>(7.95 cents)</u> | <u>(0.57 cents)</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at 30 September 2006 (Unaudited) HK\$'000 | As at 31 March 2006 (Audited) HK\$'000 |
|--|------|---|---|
| | Note | | |
| Non-current assets | | | |
| Property, plant and equipment | | 797 | 986 |
| Current assets | | | |
| Prepayments, deposits and other receivables | | 17,747 | 64,118 |
| Amounts due from minority shareholders | | 3,583 | 3,583 |
| Bank balances and cash | | 229,253 | 135,064 |
| | | <u>250,583</u> | <u>202,765</u> |
| Current liabilities | | | |
| Other payables and accruals | | 12,876 | 12,395 |
| Obligation under a hire-purchase contract | | 186 | 186 |
| | | <u>13,062</u> | <u>12,581</u> |
| Net current assets | | <u>237,521</u> | <u>190,184</u> |
| Total assets less current liabilities | | <u>238,318</u> | <u>191,170</u> |
| Non-current liabilities | | | |
| Obligation under a hire-purchase contract | | 403 | 497 |
| Net assets | | <u>237,915</u> | <u>190,673</u> |
| Capital and Reserves | | | |
| Share capital | 7 | 12,302 | 11,495 |
| Reserves | | 223,410 | 176,068 |
| Equity attributable to equity holders of the Company | | 235,712 | 187,563 |
| Minority interests | | 2,203 | 3,110 |
| Total equity | | <u>237,915</u> | <u>190,673</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 September | |
|--|----------------------------------|---------------------------------|
| | 2006 (Unaudited) HK\$'000 | 2005 (Unaudited) HK\$'000 |
| Net cash generated from/(used in) operating activities | (15,473) | 2,191 |
| Net cash generated from investing activities | 50,000 | – |
| Net cash generated from financing activities | 59,662 | 9,262 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 94,189 | 11,453 |
| Cash and cash equivalents at the beginning of the period | 135,064 | 38,642 |
| CASH AND CASH EQUIVALENTS AT END OF THE PERIOD | 229,253 | 50,095 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Bank balances and cash | 229,253 | 50,095 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | Minority Interests HK\$'000 | Total Equity HK\$'000 |
|--|---|------------------------------|-------------------------------------|---|------------------------------------|---------------------------------|-------------------------------|-----------------------------------|-----------------------------|
| | Share Capital HK\$'000 | Share Premium HK\$'000 | Share Option Reserve HK\$'000 | Shareholder's Contribution HK\$'000 | Translation Reserve HK\$'000 | Retained Profits HK\$'000 | Total Reserves HK\$'000 | | |
| As at 1 April 2005 (Restated) | 9,150 | 59,480 | 5,063 | – | – | 71,037 | 135,580 | – | 144,730 |
| Issue of shares upon exercise of share options (Unaudited) | 140 | 3,795 | – | – | – | – | 3,795 | – | 3,935 |
| Placing of rights to warrants (Unaudited) | 1,830 | – | – | – | – | – | – | – | 1,830 |
| Expense in relation to issue of rights to warrants (Unaudited) | – | (24) | – | – | – | – | (24) | – | (24) |
| Share options expensed (Unaudited) | – | – | 120 | – | – | – | 120 | – | 120 |
| Loss for the period (Unaudited) | – | – | – | – | – | (5,492) | (5,492) | 159 | (5,333) |
| As at 30 September 2005 (Unaudited) | 11,120 | 63,251 | 5,183 | – | – | 65,545 | 133,979 | 159 | 145,258 |

Attributable to equity holders of the Company

| | Share Capital HK\$'000 | Share Premium HK\$'000 | Share Option Reserve HK\$'000 | Shareholder's Contribution HK\$'000 | Translation Reserve HK\$'000 | Retained Profits/(loss) HK\$'000 | Total Reserves HK\$'000 | Minority Interests HK\$'000 | Total Equity HK\$'000 |
|---|------------------------------|------------------------------|-------------------------------------|---|------------------------------------|--|-------------------------------|-----------------------------------|-----------------------------|
| As at 1 April 2006 (Audited) | 11,495 | 117,884 | 4,583 | 12,640 | (163) | 41,124 | 176,068 | 3,110 | 190,673 |
| Issue of shares upon exercise of share options (Unaudited) | 807 | 58,855 | 84,254 | - | - | - | 143,109 | - | 143,916 |
| Transfer of reserves upon exercise of shares (Unaudited) | - | 3,019 | (3,019) | - | - | - | - | - | - |
| Expense relating to issue of shares (Unaudited) | - | (20) | - | - | - | - | (20) | - | (20) |
| Loss for the period (Unaudited) | - | - | - | - | - | (95,747) | (95,747) | (907) | (96,654) |
| As at 30 September 2006 (Unaudited) | <u>12,302</u> | <u>179,738</u> | <u>85,818</u> | <u>12,640</u> | <u>(163)</u> | <u>(54,623)</u> | <u>223,410</u> | <u>2,203</u> | <u>237,915</u> |

Notes:

1. Basis of preparation and accounting policies

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

The accounting policies adopted 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.

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

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective as the Company anticipates that the application of these new HKFRSs will have no material impact on the results and financial position of the Group.

| | |
|--------------------|---|
| HKAS 1 (Amendment) | Capital disclosures ¹ |
| HKFRS 7 | Financial instruments: Disclosures ¹ |
| HK(IFRIC) – INT 8 | Scope of HKFRS 2 ⁴ |
| HK(IFRIC) – INT 9 | Reassessment of Embedded Derivatives ³ |
| HK(IFRIC) – INT 10 | Interim financial reporting and impairment ² |

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

² Effective for annual periods beginning on or after 1 November 2006.

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

⁴ Effective for annual periods beginning on or after 1 May 2006.

2. Turnover and segment information

There was no turnover for the six months ended 30 September 2006, as the Group's significant investment in the new energy and resources segment are at initial stages. Details are further described in "Major Projects and Prospects of the Group" section in this interim report. Turnover for the same corresponding period of 2005 represents sale of asphaltic rocks of HK\$1,867,000.

| Business segments | Energy and natural resources | | Property development and management | | Consolidated | |
|--------------------------------|------------------------------|--------------|-------------------------------------|-------------|------------------------------|----------------|
| | Six months ended | | Six months ended | | Six months ended | |
| | 30 September | | 30 September | | 30 September | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| TURNOVER | | | | | | |
| External sales | <u>-</u> | <u>1,867</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,867</u> |
| RESULTS | | | | | | |
| Segment results | (3,624) | 453 | (349) | (83) | (3,973) | 370 |
| Unallocated income | | | | | 54 | 7 |
| Unallocated corporate expenses | | | | | (92,735) | (5,710) |
| Finance costs | | | | | - | - |
| Loss before taxation | | | | | (96,654) | (5,333) |
| Taxation | | | | | - | - |
| Loss for the period | | | | | <u>(96,654)</u> | <u>(5,333)</u> |
| | | | | | | |
| Geographical segments | Hong Kong | | PRC | | Other Asia Pacific countries | |
| | Six months ended | | Six months ended | | Six months ended | |
| | 30 September | | 30 September | | 30 September | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue | <u>-</u> | <u>1,867</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |

3. Loss before taxation

| | Six months ended | |
|--|------------------|--------------|
| | 30 September | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss before taxation has been arrived at after charging the following: | | |
| Staff costs | | |
| - Directors' remuneration | 7,004 | 2,123 |
| - Other staff costs (excluding directors): | | |
| - Salaries and allowances | 972 | 619 |
| - Retirement benefit scheme contributions | 31 | 27 |
| - Share options granted to staff | 78,280 | 288 |
| | <u>86,287</u> | <u>3,057</u> |
| Auditors' remuneration | 200 | 150 |
| Depreciation of property, plant and equipment | 190 | 158 |
| Gain on disposal of property, plant and equipment | - | 9 |
| Share options granted to consultants | <u>1,010</u> | <u>278</u> |

4. Taxation

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries had no assessable profits derived from or arising in Hong Kong during the period.

Taxation on overseas profits are calculated on estimated assessable profits at the rates of taxation prevailing in the countries in which the Group operates. No provision for overseas taxation has been made as there were no assessable profits generated from the Group's overseas operation during the period ended 30 September 2006 (2005: Nil).

No deferred tax liabilities have been recognised in this unaudited condensed consolidated financial statements as the Group and the Company did not have material temporary differences as at 30 September 2006 and 2005.

5. Interim dividend

The directors do not recommend the payment of any interim dividend for the six months ended 30 September 2006 (six months ended 30 September 2005: Nil).

6. Loss per share for loss attributable to equity holders of the Company for the period

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

| | Six months ended 30 September | |
|---|----------------------------------|---------------|
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| Loss attributable to equity holders of the Company (HK\$) | (95,747,000) | (5,492,000) |
| Weighted average number of ordinary shares in issue | 1,204,788,611 | 965,066,667 |
| Basic and diluted loss per share (HK cents per share) | <u>(7.95)</u> | <u>(0.57)</u> |

The computation of diluted loss per share did not assume the exercise of the Company's potential ordinary shares granted under the Company's share option scheme since their exercise would have an anti-dilutive effect.

7. Share capital

| | Company | |
|---|--------------------|--------------------|
| | As at 30 September | As at 31 March |
| | 2006 | 2006 |
| | (Unaudited) | (Audited) |
| | HK\$ | HK\$ |
| Authorised: | | |
| 20,000,000,000 of ordinary shares of HK\$0.01 each: | <u>200,000,000</u> | <u>200,000,000</u> |
| Issued and fully paid: | | |
| Ordinary shares of HK\$0.01 each: | | |
| As at 31 March 2006/2005 | 11,495,000 | 9,150,000 |
| New issue of shares by way of placing (note) (a) | 497,632 | — |
| Issue of shares upon exercise of share options (note) (b) | 309,000 | 515,000 |
| Issue of shares upon exercise of warrants (note) (c) | — | 1,830,000 |
| As at 30 September 2006/31 March 2006 | <u>12,301,632</u> | <u>11,495,000</u> |

Notes:

- (a) On 3 February 2006, the Company announced that it had entered into a subscription agreement dated 24 January 2006 (the "Beijing CMIL Subscription Agreement") with Beijing China Metallurgy Investment Limited (北京中冶投資有限公司) ("Beijing CMIL"), pursuant to which Beijing CMIL has conditionally agreed to subscribe for and the Company has conditionally agreed to allot and issue an aggregate of 49,763,158 new shares at the subscription price of HK\$0.80 per subscription share.

On 4 May 2006, the Company further announced that completion of the Beijing CMIL Subscription Agreement took place on 27 April 2006 and an aggregate of 49,763,158 new shares subscribed by Beijing CMIL pursuant to the Beijing CMIL Subscription Agreement were allotted and issued to Beijing CMIL at the subscription price of HK\$0.80 per subscription share on 27 April 2006. The new shares were allotted and issued under the general mandate granted to the Company's directors by resolution of the Company's shareholders passed at the annual general meeting of the Company held on 22 August 2005.

- (b) 30,900,000 ordinary shares of HK\$0.01 were issued pursuant to the exercise of share options during the period by individuals according to terms of the share option scheme allocated to employees and consultants. An amount of HK\$19.00 was received from option holders for the right to subscribe for these options.
- (c) The audited amount for the year ended 31 March 2006 represented the gross proceeds from the warrant placing of 183,000,000 warrants at HK\$0.01 per warrant pursuant to a Warrant Placing Agreement entered on 27 July 2005 between an independent individual, Mr. Kan Che Kin, Billy Albert and the Company.

Each warrant carried the right to subscribe for one new share of the Company at an initial exercise price of HK\$0.19 per new share for a period of three years commencing from 19 August 2005. Mr. Kan Che Kin, Billy Albert had not exercised any subscription rights attaching to the warrants.

The holder of the warrants would not have any right to attend or vote at any meeting of the Company by virtue of him being the holder of the warrants. The holder of the warrants should not have the right to participate in any distributions and/or offers of further securities made by the Company.

8. Operating lease commitments

As at 30 September 2006, the Group had commitments for future minimum leases payments under non-cancelable operating leases in respect of land and buildings which fall due as follows:

| | As at 30 September 2006 (Unaudited) HK\$'000 | As at 31 March 2006 (Audited) HK\$'000 |
|--|---|---|
| Within one year | 1,036 | 734 |
| In the second to fifth years inclusive | 270 | 332 |
| | <u>1,306</u> | <u>1,066</u> |

9. Related Party Transactions

Save as disclosed elsewhere in this interim report, the Group had the following related party transactions during the period:

| | Six months ended | |
|--|------------------|-------------|
| | 30 September | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Share-based payments to key management personnel | <u>4,964</u> | <u>260</u> |

The above related party transactions do not constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

10. Subsequent events

(a) Cancellation of share option offer

Subsequent to period ended 30 September 2006, share options for 51,000,000 ordinary shares of HK\$0.01 of the Company, offered to staff and consultants during the period from 1 April 2006 to 30 September 2006, were cancelled upon resignation of staff and expiration of consultant services. None of the mentioned share options offered in whole or in part have ever been exercised by the individuals. The fair value of these options cancelled approximate to HK\$45,460,000.

(b) Joint venture between Sino Prosper Re-energy Investment Limited (“Sino Prosper Re-energy”) and “Guangxi Shenzhou Environmental Protection Company Limited (“Guangxi Shenzhou”) for biofuel production operation

On 15 December 2006, Sino Prosper Re-energy, a wholly-owned subsidiary of the Company, entered into the Framework Agreement with Guangxi Shenzhou in relation to the proposed formation of a joint venture company principally engaged in the operation of raw material production base of biological fuel for fuel ethanol. Details are further described in “Major Projects and Prospects of the Group” in this interim report. Up to the date of this interim report, there were no significant financial impact arising from the above co-operation.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended 30 September 2006, no turnover was generated. For the six months ended 30 September 2005, the Group's turnover of HK\$1,867,000 was from sale of asphaltic rocks under its new energy and natural resources business segment. Net loss attributable to shareholders was approximately HK\$95.7 million (six months ended 30 September 2005: net loss of approximately HK\$5.5 million). Such huge amount of loss for the period as compared with the last corresponding period mainly represents equity settled share-based payments amounting to HK\$84.3 million (six months ended 30 September 2005 HK\$0.80 million).

MAJOR PROJECTS AND PROSPECTS OF THE GROUP

The Group has been taking active steps to focus on the energy and resources sector. The following sets out briefly the progress of projects, which the Group has been working on.

1. Indonesia-Bitumen Joint Venture Extraction Project

The joint venture owned the right to carry out general exploration on mineral resources of a total of 22,076 hectares area of land, and the right has been extended for another year pursuant to the law and regulations of the Indonesian government, among which detailed exploration work regarding 1,150 hectares area of land has begun. According to the report completed by the exploration team in September 2006, Buton Bitumen reserve is estimated to be around 9,300,000 tones.

Conditioned upon the fully compliance with all relevant laws and regulations, the joint venture will be engaging in the exploration of mineral resources on 1,150 hectares area of land.

In addition, the Indonesia joint venture has successfully developed a new extraction technology. The new extraction technology achieved a speed enhancement of 50% as compared with the previous means of extraction. This helps to reduce the time required for the extraction of oil reserves, the energy used and the overall cost.

First patch of joint venture's trade in Buton Bitumen has been delivered in December 2006.

2. Sino Prosper Re-Energy and Guangxi Shenzhou Biofuel Production Operation

In response to the invitation from the Investment Promotion Bureau of Guangxi Zhuang Autonomous Region, on 15 December 2006, Sino Prosper Re-energy entered into the Framework Agreement with Guangxi Shenzhou in relation to the proposed formation of a joint venture company which is principally engaged in the operation of a raw material production base of biological fuel for fuel ethanol.

Under the framework agreement, it is proposed that Guangxi Shenzhou and Sino Prosper Re-energy will set up a sino-foreign equity joint venture enterprise under the proposed name of 廣西神州能源作物建設開發總公司 (Guangxi Shenzhou Energy Product Development Company) in Nanning City, Guangxi Zhuang Autonomous Region, the PRC. Subject to the Formal Agreement, it is proposed that the joint venture enterprise will be principally engaged in (i) cultivation of raw materials for generation of biological fuel, (ii) applications of by-products produced in the course of generating biological fuel, (iii) production, purchase and sale of raw materials for generation of biological fuel, (iv) sifting and cultivation of raw materials for energy production resources and (v) development, consultancy and sales of the relevant application technology.

The proposed registered share capital of the joint venture enterprise will be RMB200 million of which Sino Prosper Re-energy will contribute RMB160 million in cash (representing 80% interests in the joint venture enterprise) and Guangxi Shenzhou will contribute technology, management and other resources amounting RMB40 million (representing 20% interests in the joint venture enterprise). The expected total investment amount of the proposed investment is estimated to be RMB1,000 million.

According to a letter from the Investment Promotion Bureau of Guangxi Zhuang Autonomous Region to the Company which recorded that PetroChina Company Limited Exploration and Production Branch (“PetroChina”) had already indicated its intention to invest in the joint venture enterprise with a purpose to establish a principal source of raw material base for further expansion of its fuel ethanol project in Guangxi Zhuang Autonomous Region.

The People’s Government of Laibin City, Guangxi Zhuang Autonomous Region has indicated that for investment of PetroChina, the joint venture enterprise and Guangxi Shenzhou to invest, construct and develop a bio-energy production base for production of tapioca in Laibin City, the People’s Government of Laibin City, Guangxi Zhuang Autonomous Region can provide an agricultural land of up to 600,000 mu for development purpose, and will provide the Group with the required support and co-ordination for the proposed investment.

The People’s Government of Hezhou Guangxi issued the Letter from the Hezhou Government [2006] No. 163 (賀政函[2006]163號) on 25 December 2006. As stated in the “Invitation Letter from the People’s Government of Hezhou regarding the establishment of the biological fuel exploration enterprise in the city” (賀州市人民政府關於邀請參與我市生物能源產業開發的函), the Company was officially invited to participate in the exploration of tapioca based biological fuel resource and the development of relevant by-products, according to which a production project concerning the fuel ethanol and its relevant by-products with annual capacity of 30 tons was proposed.

According to the development strategy of the fuel ethanol in Guangxi Zhuang Autonomous Region, it is targeted that the joint venture enterprise will initially set up the areas with 1 million mu for cultivation and processing of tapioca for the purpose of generation of biological fuel for fuel ethanol. It is also a medium-to-long-term goal for the joint venture enterprise to set up the production base with a site area of 5 million mu for cultivation and processing of raw materials for generation of biological fuel, such as tapioca, canes and corns depending on the market conditions.

OUTLOOK AND NEW DEVELOPMENTS

The Group will continue to take a prudent yet proactive approach to new investment opportunities, including exploration of potential energy projects both in China and overseas to capture the demands generated from China's rapid economic development.

Forward looking, pursuant to the China's newly established resource strategy and the primary development direction concerning biological fuel stipulated in the State's 11th-Five Plan, the nation should focus on the use of bio-energy raw materials such as tapioca and sweet potato for the production of fuel ethanol, and as under the integration of the estate policy of China, the nation's future demand on raw materials for generation of biological fuel, especially biological fuel sources like tapioca, will be huge. The Group will actively explore and invest in renewable energy projects and directors believe that the launch of biological fuel resource investment project is beneficial to the Group and prospects well.

FINANCIAL REVIEW

The Group generally finances its operations with internally generated cash flows. As at 30 September 2006, the Group had bank balances and cash of approximately HK\$229.2 million (31 March 2006: approximately HK\$135.1 million). Its gearing ratio calculated as a ratio of debt to equity was nil (31 March 2006: nil). Net current assets totalled HK\$237.5 million (31 March 2006: HK\$190.2 million) and the current ratio was maintained at the strong level of approximately 19.2 (31 March 2006: approximately 16.1).

CAPITAL COMMITMENTS

The Group had the following capital commitments as at 30 September 2006 and 31 March 2006:

| | As at 30 September 2006 (Unaudited) HK\$'000 | As at 31 March 2006 (Audited) HK\$'000 |
|--|---|---|
| Authorised and contracted for in respect of investment in a joint venture company | <u>44,811</u> | <u>44,811</u> |

SEASONAL OR CYCLICAL FACTORS

The Group's business operations are not significantly affected by any seasonal or cyclical factors.

FOREIGN EXCHANGE EXPOSURE

The Group mainly earns revenue and incurs costs in Renminbi, United States dollar, Indonesian Rupiah and Hong Kong dollar. The Group's foreign exchange exposure is therefore minimal as long as the policy of the Government of Hong Kong Special Administrative Region to link the Hong Kong dollar to the United States dollar remains in effect. For the Group's investment in a subsidiary in Indonesia, purchases and sales are quoted in United States dollar, foreign exchange transaction exposure is therefore minimal.

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2006, the Group employed approximately 20 full time staff in the PRC and Hong Kong. The Group remunerated its employees based on their performance, qualifications, work experience and prevailing market prices. Performance related bonuses are granted on a discretionary basis. Other employee benefits include mandatory provident fund, insurance and medical coverage, training programs and share option scheme.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 September 2006, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers, were as follows:—

(i) Interests and short positions in shares of the Company

| | Number of ordinary shares (Note 1) | Approximate percentage of total issued shares |
|----------------------|---|--|
| Executive Directors: | | |
| Leung Ngai Man | 300,000,000 (L) 80,000,000 (S) (Note 2) | 24.39 6.50 |
| Wong Wa Tak | 1,600,000 (L) (Note 3) | 0.13 |

Notes:

1. The letters "L" and "S" represent the entity's long and short positions in the shares of the Company, respectively.
2. These shares were held and beneficially owned by Climax Park Limited, a company incorporated in the British Virgin Islands and wholly owned by Leung Ngai Man. Climax Park Limited also has a short position for 80,000,000 shares. Under the SFO, Leung Ngai Man was deemed to be interested in these 300,000,000 shares and deemed to have a short position of 80,000,000 shares.
3. These 1,600,000 shares were held and beneficially owned by Master Hill Development Ltd., a company incorporated in Hong Kong with 50% of its shareholdings held and beneficially owned by Wong Wa Tak.

(ii) Interest in options to subscribe for shares in the Company outstanding under the share option scheme of the Company adopted on 25 April 2002

Save as disclosed under the heading “Share option scheme” below and other than certain nominee shares in subsidiaries held by certain directors in trust for the Group, as at 30 September 2006, none of the directors nor chief executive of the Company had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the directors and the chief executive of the Company were deemed or taken to have under such provisions of the SFO) or which were required to be and were recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES

Save as disclosed under the heading “Directors’ interests and short positions in shares” above, and “Share option scheme” below, at no time during the period were rights to acquire benefits by means of the acquisition of shares in the Company granted to any director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, as at 30 September 2006, no person other than directors whose interests are set out in the section headed “Directors’ interests and short position in shares” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

| Name of Shareholder | Number of ordinary share/ underlying share (Note 1) | Capacity and nature of interest | Approximate percentage of interests (Note 2) |
|--|--|---|---|
| Climax Park Limited | 300,000,000 (L) 80,000,000 (S) | Beneficial owner (Notes 3 and 4) | 24.39 |
| Chance Partner Investments Limited | 300,000,000 (L) | Person having a security interest in shares | 24.39 |
| CMEC International Trading Import & Export Co., Ltd. | 80,000,000 (L) | Beneficial owner (Note 3) | 6.50 |

| Name of Shareholder | Number of ordinary share/ underlying share (Note 1) | Capacity and nature of interest | Approximate percentage of interests (Note 2) |
|--|--|---|---|
| China National Machinery & Equipment Import & Export Corporation | 80,000,000 (L) | Interest of a controlled corporation (Note 3) | 6.50 |
| Kan Che Kin, Billy Albert | 516,240,000 (L) | Interest of a controlled corporation and beneficial owner (Note 5) | 41.97 |
| Kan Kung Chuen Lai | 516,240,000 (L) | Interest of spouse (Note 6) | 41.97 |
| Deutsche Bank Aktiengesellschaft | 113,920,000 (L) 113,920,000 (S) | Beneficial owner | 9.26 |

Notes:

- The letters "L" and "S" represent the entity's long and short positions in the shares and underlying shares of the Company respectively.
- This percentage is calculated on the basis of 1,230,163,158 shares of the Company in issue as at 30 September 2006 but does not take into account of any shares which may fall to be allotted and issued upon the exercise of any options or warrants which remained outstanding as at 30 September 2006.
- Climax Park Limited granted a call option to CMEC International Trading Import & Export Co., Ltd. on 19 July 2005, pursuant to which CMEC International Trading Import & Export Co., Ltd. may require Climax Park Limited to sell to it up to 80,000,000 shares. CMEC International Trading Import & Export Co., Ltd. is a company incorporated in the People's Republic of China and wholly owned by China National Machinery & Equipment Import & Export Corporation. Under the SFO, China National Machinery & Equipment Import & Export Corporation was deemed to be interested in the underlying shares of the Company under the call option.
- Climax Park Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Leung Ngai Man.
- Chance Partner Investments Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by Kan Che Kin, Billy Albert, under the SFO, Mr. Kan Che Kin, Billy Albert was deemed to be interested in these 300,000,000 shares in which Chance Partner Investments Limited is interested.
- Kan Kung Chuen Lai is the spouse of Kan Che Kin, Billy Albert, she was deemed to be interested in these 516,240,000 shares in which Mr. Kan Che Kin, Billy Albert is interested under the SFO.

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 25 April 2002 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 14 May 2012. Under the Scheme, the Board of Directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties including consultants as incentives for their contributions to the development of the Group.

The total number of shares in respect of which options may be granted under the Scheme and any other share option scheme of the Company is not permitted to exceed 10% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital and with an aggregate value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within 21 days from the date of the offer of grant of the share option. Options may be exercised at any time not later than 10 years from the date of grant of the share option. The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares. A nominal consideration of HK\$1 is payable on acceptance of the grant of an option.

Movements in the share options during the six months ended 30 September 2006 are as follows:

| Category/ Name of directors | Date of grant | Exercisable period | Exercise price per share | Number of share options | | | Outstanding and exercisable as at 30 September 2006 |
|--|------------------|--|--------------------------------|--|---|---|--|
| | | | | Outstanding and exercisable as at 31 March 2006 | Granted during the six months ended 30 September 2006 | Exercised during the six months ended 30 September 2006 | |
| Mr. Leung Ngai Man | 3 January 2005 | 3 January 2005 to 2 January 2015 | HK\$0.410 | 8,000,000 | – | – | 8,000,000 |
| Mr. Yeung Kit | 1 November 2004 | 1 November 2004 to 31 October 2014 | HK\$0.475 | 1,400,000 | – | – | 1,400,000 |
| | 12 January 2005 | 12 January 2005 to 11 January 2015 | HK\$0.410 | 5,000,000 | – | – | 5,000,000 |
| Master Hill Development Limited (Note (i)) | 29 November 2004 | 29 November 2004 to 28 November 2014 | HK\$0.460 | 3,000,000 | – | – | 3,000,000 |
| Mr. Chan Sing Fai | 1 November 2004 | 1 November 2004 to 31 October 2014 | HK\$0.475 | 800,000 | – | – | 800,000 |
| Mr. Cai Wei Lun | 8 May 2006 | 8 May 2006 to 7 May 2016 | HK\$1.46 | – | 3,400,000 | – | 3,400,000 |
| Directors | | | | <u>18,200,000</u> | <u>3,400,000</u> | <u>–</u> | <u>21,600,000</u> |
| Employees | 7 October 2004 | 7 October 2004 to 6 October 2014 | HK\$0.450 | 1,000,000 | – | (1,000,000) | – |
| | 29 November 2004 | 29 November 2004 to 28 November 2014 | HK\$0.460 | 800,000 | – | (800,000) | – |
| | 8 May 2006 | 8 May 2006 to 7 May 2016 | HK\$1.460 | – | 54,000,000 | – | 54,000,000 |
| | 23 June 2006 | 23 June 2006 to 22 June 2016 | HK\$0.690 | – | 15,000,000 | (15,000,000) | – |
| | 1 September 2006 | 1 September 2006 to 31 August 2016 | HK\$0.710 | – | 26,000,000 | – | 26,000,000 |
| Consultants | 1 November 2004 | 1 November 2004 to 31 October 2014 | HK\$0.475 | 1,400,000 | – | (1,400,000) | – |
| | 23 March 2005 | 23 March 2005 to 22 March 2015 | HK\$0.340 | 6,700,000 | – | (2,700,000) | 4,000,000 |
| | 8 May 2006 | 8 May 2006 to 7 May 2016 | HK\$1.460 | – | 20,000,000 | – | 20,000,000 |
| | 1 September 2006 | 1 September 2006 to 31 August 2016 | HK\$0.710 | – | 10,000,000 | – | 10,000,000 |
| | 4 September 2006 | 4 September 2006 to 3 September 2016 | HK\$0.710 | – | 40,000,000 | (10,000,000) | 30,000,000 |
| Total | | | | <u>28,100,000</u> | <u>168,400,000</u> | <u>(30,900,000)</u> | <u>165,600,000</u> |

Note (i) Mr. Wong Wa Tak has beneficial interest in Master Hill Development Limited.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

MATERIAL ACQUISITIONS OR DISPOSALS

There were no material acquisitions or disposals of subsidiaries or associates during the six months ended 30 September 2006.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as the Company's code of conduct for dealings in securities of the Company by its directors. Based on specific enquiry of the directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period covered by this interim report.

CODE ON CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 September 2006, the Company was in compliance with the code provision of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules on the Stock Exchange except the following:

(i) CODE PROVISION A.4.1

Pursuant to code provision A.4.1 of the Code, non-executive directors should be appointed for a specific term, subject to re-election. However, the non-executive and independent non-executive directors are not appointed for specific terms as required, but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association ("Articles") of the Company. In order to ensure compliance with the Code, the Company will arrange to fix the terms of offices of each of the non-executive and independent non-executive directors, subject to earlier determination and the re-election and rotational requirements in accordance with the Articles.

(ii) CODE PROVISION A.4.2

Pursuant to code provision A.4.2 of the Code, all directors of a listed company appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their respective appointments. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. A special resolution was passed to amend the relevant provisions of the Articles on 23 August 2006 and the Articles was then consistent with code provision A.4.2 of the Code.

(iii) CODE PROVISION B.1.3(b)

Pursuant to code provision B.1.3(b) of the Code, the Remuneration Committee should have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management and make recommendations to the Board of the remuneration of non-executive directors. However, a salaried executive director was appointed and his remuneration was mutually agreed between the Chairman of the Board and that executive director. To ensure compliance with the Code, Remuneration Committee meeting will be held to determine remuneration packages of that executive director and any newly appointed directors in the future.

(iv) CODE PROVISION E.1.2

Pursuant to code provision E.1.2 of the Code, the Chairman of the board and the Chairman of the audit, remuneration and nomination committees should attend the annual general meeting. However, the Chairman of the board was absent from the annual general meeting held on 23 August 2006 due to business matters.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including the review of the unaudited interim financial statements for the six months ended 30 September 2006.

By Order of the Board
Tang Yan Tian
Chief Executive Officer

Hong Kong, 28 December 2006

As at the date of this report, the Board comprises Mr. Leung Ngai Man, Mr. Tang Yan Tian, Mr. Yeung Kit, and Mr. Wong Wa Tak as executive directors, Mr. Gao Shi Kui as non-executive director and Mr. Chan Sing Fai, Mr. Cai Wei Lun and Dr. Leung Wai Cheung as independent non-executive directors.