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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>

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	As at
	2006	31 March
	(unaudited)	2006
	HK\$'000	(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	As at
	2006	31 March
	(Unaudited)	2006
	HK\$'000	(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.