

Interim Report
2006

SEAPOW



SEAPOWER RESOURCES INTERNATIONAL LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 0269

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Fung Tsun Pong (*Chairman*)

Mr. Tsang Kam Ching, David
(*Chief Executive Officer*)

Independent Non-Executive Directors

Mr. Liu Ka Lim

Mr. Yip Tak On

Mr. Jing Baoli

Company Secretary

Miss Ngan Wai Kam, Sharon

Audit Committee

Mr. Liu Ka Lim

Mr. Yip Tak On

Mr. Jing Baoli

Auditors

CCIF CPA Limited

Principal Banker

The Bank of East Asia, Limited

Registered Office

The Office of Caledonian Bank & Trust Limited
Caledonian House
George Town
Grand Cayman
Cayman Islands

Principal Place of Business

Room 3308, Office Tower
Convention Plaza
Wanchai
Hong Kong

Share Registrars and Transfer Office in Hong Kong

Progressive Registration Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Central
Hong Kong

Stock Code at Hong Kong Stock Exchange

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Contact Details

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RESULTS

The Board of Directors (“Directors”) of Seapower Resources International Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (collectively called the “Group”) for the six months ended 30 September 2006 and the unaudited condensed consolidated balance sheet of the Group as at 30 September 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 September

		2006	2005
		HK\$'000	HK\$'000
	<i>Notes</i>	(Unaudited)	(Unaudited)
Turnover	3	1,754	2,805
Direct operating expenses		(2,683)	(2,412)
Other revenue	3	366	48
Selling and administrative expenses		(13,238)	(6,791)
Loss from operations	4	(13,801)	(6,350)
Finance costs		(201)	(193)
Loss before taxation		(14,002)	(6,543)
Taxation	5	—	—
Loss for the period		(14,002)	(6,543)
Attributable to:			
Equity holders of the Company		(14,002)	(6,543)
Minority interests		—	—
		(14,002)	(6,543)
Dividends	6	—	—
Loss per share	7		
Basic		(0.21 cents)	(0.16 cents)
Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2006 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	8	30,513	29,311
Prepaid lease payments		3,595	3,635
Goodwill on acquisition		152,896	—
Forest concession right	9	8,820	—
		<u>195,824</u>	<u>32,946</u>
CURRENT ASSETS			
Financial assets at fair value through profit or loss	10	1,498	1,683
Derivative financial instruments	11	1,490	—
Inventories		1,428	—
Trade and other receivables	12	3,689	955
Short-term fixed deposit		—	15,000
Cash and bank balances		14,497	16,966
		<u>22,602</u>	<u>34,604</u>
CURRENT LIABILITIES			
Bank overdrafts		—	171
Other payables and accruals		117,461	2,148
Amounts due to subsidiaries under liquidation		490	490
Bank loan — due within one year (secured)	13	—	555
		<u>117,951</u>	<u>3,364</u>
NET CURRENT (LIABILITIES)/ASSETS		<u>(95,349)</u>	<u>31,240</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>100,475</u>	<u>64,186</u>
NON-CURRENT LIABILITIES			
Bank loan — due after one year (secured)	13	5,295	3,528
Deferred tax liabilities		241	241
		<u>5,536</u>	<u>3,769</u>
		<u>94,939</u>	<u>60,417</u>
CAPITAL AND RESERVES			
Share capital	15	68,968	66,023
Reserves		24,198	(5,606)
Equity attributable to equity holders of the Company		<u>93,166</u>	<u>60,417</u>
Minority interests		1,773	—
TOTAL EQUITY		<u>94,939</u>	<u>60,417</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For The Six Months Ended 30 September 2006

of the Company	Attributable to equity holders										
	Issued capital	Share premium	Share-based compensation reserve	Capital redemption reserve	Capital reserve	Asset revaluation reserve	Translation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2006	66,023	474,484	—	3,800	20,918	16,391	(820)	(520,379)	60,417	—	60,417
Issue of new ordinary shares	2,945	34,755	—	—	—	—	—	—	37,700	—	37,700
Issue of share warrants	—	4,000	—	—	—	—	—	—	4,000	—	4,000
Exchange differences	—	—	—	—	—	—	1,010	—	1,010	—	1,010
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	1,773	1,773
Recognition of equity-settled share-based compensation	—	—	4,041	—	—	—	—	—	4,041	—	4,041
Net loss for the period	—	—	—	—	—	—	—	(14,002)	(14,002)	—	(14,002)
At 30 September 2006	<u>68,968</u>	<u>513,239</u>	<u>4,041</u>	<u>3,800</u>	<u>20,918</u>	<u>16,391</u>	<u>190</u>	<u>(534,381)</u>	<u>93,166</u>	<u>1,773</u>	<u>94,939</u>
At 1 April 2005	62,466	432,722	—	3,800	20,918	7,965	(1,002)	(506,802)	20,067	—	20,067
Issue of new ordinary share	1,064	12,236	—	—	—	—	—	—	13,300	—	13,300
Exchange differences	—	—	—	—	—	—	19	—	19	—	19
Net loss for the period	—	—	—	—	—	—	—	(6,543)	(6,543)	—	(6,543)
At 30 September 2005	<u>63,530</u>	<u>444,958</u>	<u>—</u>	<u>3,800</u>	<u>20,918</u>	<u>7,965</u>	<u>(983)</u>	<u>(513,345)</u>	<u>26,843</u>	<u>—</u>	<u>26,843</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For The Six Months Ended 30 September 2006

	Six months ended 30 June	
	2006	2005
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH OUTFLOW FROM OPERATING ACTIVITIES	(9,282)	(5,444)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(20,058)	(1,348)
NET CASH INFLOW FROM FINANCING ACTIVITIES	<u>12,912</u>	<u>14,122</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(16,428)	7,330
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(870)	241
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	<u>31,795</u>	<u>6,820</u>
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	<u><u>14,497</u></u>	<u><u>14,391</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENT		
Cash and bank balances	<u><u>14,497</u></u>	<u><u>14,391</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Preparation and Significant Accounting Policies

a) *Basis of Preparation*

The interim financial statements are unaudited, condensed and have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and basis of preparation adopted in the preparation of these condensed consolidated interim financial statements are consistent with those used in the Group’s audited financial statements for the year ended 31 March 2006, except in relation to the following new/revised Hong Kong Financial Reporting Standards (“HKFRS”), HKASs and Interpretations (“hereinafter collectively referred to as the “new/revised HKFRSs”), which have become effective for accounting periods beginning on or after 1 January 2006, that are adopted for the first time for the current period’s financial statements:

HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Guarantee Contracts
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The adoption of the above new/revised HKFRSs has no material impact on the accounting policies of the Group and the methods of consumption in the Group’s condensed consolidated interim financial statements.

The following new/revised HKFRSs relevant to the Group's operations have been issued but are effective for periods beginning after 1 January 2006 and have not been early adopted:

HKAS 1 (Amendment)	Capital Disclosures (effective from 1 January 2007)
HKFRS 7	Financial Instruments: Disclosures (effective from 1 January 2007)
HK(IFRIC)-Int 8	Scope of HKFRS 2 (effective from 1 May 2006)
HK(IFRIC)-Int 9	Reassessment of Embedded (effective from 1 June 2006)
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment (effective from 1 November 2006)

2. Segment Information

(a) Business Segment

No separate analysis of segment information by business is presented as the Group has only one business segment which is cold storage warehousing and logistics management services.

(b) Geographical Segments

For the six months ended 30 September 2006

	Hong Kong and PRC HK\$'000	Australia HK\$'000	Consolidated HK\$'000
REVENUE			
External revenue	—	1,754	1,754
Other revenue	358	8	366
Total revenue	<u>358</u>	<u>1,762</u>	<u>2,120</u>
SEGMENT RESULTS	<u>(11,855)</u>	<u>(1,946)</u>	<u>(13,801)</u>

For the six months ended 30 September 2005

	Hong Kong and PRC <i>HK\$'000</i>	Australia <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE			
External revenue	—	2,805	2,805
Other revenue	42	6	48
Total revenue	<u>42</u>	<u>2,811</u>	<u>2,853</u>
SEGMENT RESULTS	<u>(3,763)</u>	<u>(2,587)</u>	<u>(6,350)</u>

3. Turnover and Other Revenue

The Company is an investment holding company. The Group is engaged in the provision of cold storage warehousing and logistics management services.

	30 September 2006 <i>HK\$'000</i> (Unaudited)	30 September 2005 <i>HK\$'000</i> (Unaudited)
Turnover	1,754	2,805
Other revenue		
Bank interest income	345	48
Sundry income	21	—
	<u>366</u>	<u>48</u>
	<u>2,120</u>	<u>2,853</u>

4. Loss from Operations

	30 September 2006 HK\$'000 (Unaudited)	30 September 2005 HK\$'000 (Unaudited)
Amortisation of prepaid lease payment	40	40
Depreciation of property, plant and equipment	1,615	842
Staff costs (excluding directors' emoluments)		
— salaries and allowances	1,224	1,512
— equity-settled share-based compensation	4,041	—
— contributions to retirement benefits schemes	66	35
	<u>5,331</u>	<u>1,547</u>

5. Taxation

No provision for Hong Kong Profits Tax and taxation in overseas countries, in which the Group operates, have been made in the financial statement as the Group did not have any assessable profit derived in the respective jurisdictions for both years.

The Group and the Company did not have any other significant unprovided deferred taxation in respect of timing differences arising during the period or as at the balance sheet date.

6. Dividend

No dividend has been paid or declared by the Company for the six months ended 30 September 2006 and 2005.

7. Loss Per Share

The calculation of the basic loss per share is based on the net loss for the period of approximately HK\$14,002,000 (six months ended 30 September 2005: HK\$6,543,000) and on 6,655,171,058 shares (six months ended 30 September 2005: 6,300,659,215 shares).

Diluted loss per share is not presented as there were no dilutive potential ordinary shares in existence for the six months ended 30 September 2006 and 2005.

8. Property, Plant And Equipment

No impairment losses were recognised in respect of property, plant and equipment for both periods. During the period, additions to property, plant and equipment amounted to HK\$937,000 (six months ended 30 September 2005: HK\$1,396,000) and there is no disposal of any property, plant and equipment (six months ended 30 September 2005: HK\$123,000).

9. Forest Concession Right

The Forest Concession Right in Guyana is stated at cost less accumulated amortization and any accumulated impairment losses.

The costs of Forest Concession Right includes the acreage fees payable to Guyana Forestry Commission, costs or necessary exploratory, geological, geophysical and other research studies incurred prior to obtaining the right.

The Forest Concession Right is amortised on a straight line basis over the shorter of their useful lives estimated based on the total proven and probable reserves of the total forestry exploitation volume or contractual period from the date of commencement of commercial exploitation. In the opinion of the directors of the Company, no impairment is required on the carrying value of the right at the balance sheet date.

For the details of the Forest Concession Right, please also refer to note 1(b) to the financial information as set out in Appendix II of the Company's circular dated 1 September 2006.

10. Financial Asset at Fair Value through Profit or Loss

	30 September 2006 HK\$'000 (Unaudited)	31 March 2006 HK\$'000 (Audited)
Trading securities		
— Listed equity securities in Hong Kong	<u>1,498</u>	<u>1,683</u>
Market value of listed securities	<u>1,498</u>	<u>1,683</u>

11. Derivative Financial Instruments

	30 September 2006 <i>HK\$'000</i> (Unaudited)	31 March 2006 <i>HK\$'000</i> (Audited)
Held for trading		
— Hong Kong Hang Seng Index future contracts	<u>1,490</u>	<u>—</u>

The above derivatives are measured at fair value at each balance sheet date. Their fair values are determined based on the quoted market prices for equivalent instruments at the balance sheet date.

12. Trade and Other Receivables

	30 September 2006 <i>HK\$'000</i> (Unaudited)	31 March 2006 <i>HK\$'000</i> (Audited)
Trade receivables	103	299
Other receivables	2,177	40
Deposit paid	1,150	504
Prepayment	<u>259</u>	<u>112</u>
	<u>3,689</u>	<u>955</u>

The Group allows average credit period of 60 days to its trade customers.

An ageing analysis of trade receivables are as follows:

	30 September 2006 <i>HK\$'000</i> (Unaudited)	31 March 2006 <i>HK\$'000</i> (Audited)
0 — 30 days	43	40
31 — 60 days	60	259
61 — 180 days	—	—
More than 180 days	<u>—</u>	<u>—</u>
	<u>103</u>	<u>299</u>

13. Interest Bearing Borrowings — Current Portion

	30 September	31 March
	2006	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Bank loan — secured	5,295	4,083
The bank loan is repayable as follows:		
Within one year or on demand	—	555
More than one year, but not exceeding two years	—	555
More than two years, but not exceeding five years	5,295	1,664
Over five years	—	1,309
	5,295	4,083
Less: Amount due within one year or on demand and Shown under current liabilities	—	(555)
	<u>5,295</u>	<u>3,528</u>

14. Business Combinations

On 21 September 2006, the Group acquired 51% of the issued share capital of Jaling Forest Industries Inc., a company that engaged in felling and processing of timber for export, for a cash and share consideration of HK\$154,000,000, which give rise of a goodwill amounted to HK\$152,896,000.

The acquired business did not contribute any revenue or net profit to the Group for the period from acquisition to 30 September 2006. If the acquisition had occurred on 1 April 2006, the acquired business would contribute revenue of HK\$2,744,000 and net profit of HK\$425,000 to the Group.

Set forth below is a preliminary calculation of goodwill:

	HK\$'000 (Unaudited)
Cash paid	17,700
Issue of new ordinary shares	30,000
Other payables	<u>106,300</u>
Total purchase consideration	154,000
Less: Fair value of net assets acquired	<u>(1,104)</u>
Goodwill	<u><u>152,896</u></u>

The goodwill is attributable to the anticipated profitability of the forestry business.

The major components of assets and liabilities arising from the acquisition are as follows:

	HK\$'000 (Unaudited)
Fair value of net assets acquired:	
Cash and cash equivalents	12
Forest concession right	8,820
Other receivables	2,177
Other payables	<u>(8,132)</u>
	2,877
Minority interest	<u>(1,773)</u>
Net assets acquired	<u><u>1,104</u></u>

15. Share Capital

	<i>Note</i>	No. of shares	Amount <i>HK\$'000</i>
Authorised:			
At 31 March 2005 and at 30 September 2006 ordinary shares of HK\$0.01 each		<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:			
At 1 April 2005		6,246,587,084	62,466
Issue of shares	<i>(a)</i>	<u>355,706,583</u>	<u>3,557</u>
At 31 March 2006		6,602,293,667	66,023
Issue of shares	<i>(b), (c)</i>	<u>294,531,250</u>	<u>2,945</u>
At 30 September 2006		<u>6,896,824,917</u>	<u>68,968</u>

Note:

- (a) On 29 June 2005, 106,400,000 ordinary shares of HK\$0.01 each were issued at HK\$0.125 per share. The proceeds were intended to be used as additional working for the Group and investment in clean energy project.

On 3 November 2005, 53,994,083 ordinary shares of HK\$0.01 each were issued at HK\$0.13 per share as settlement of consideration for the acquisition of land and buildings in the PRC under a sales and purchase agreement dated 19 August 2005. Details of which were disclosed in the announcement of the Company dated 22 August 2005.

On 24 March 2006, 195,312,500 ordinary shares of HK\$0.01 each were issued at HK\$0.128 per share. The proceeds will be used for the acquisition of 51% equity interest in 河南卓源石油化工有限公司. Details of which were disclosed in the announcement of the Company dated 11 January 2006.

- (b) On 5 June 2006, 60,156,250 new ordinary shares of HK\$0.01 each were issued at HK\$0.128 each per the subscription agreements dated 16 May 2006 to an independent third parties. The reason for the increase in issued share capital was to provide additional general working capital of the Company for its daily operations.
- (c) On 21 September 2006, 234,375,000 new ordinary shares of HK\$0.01 each were issued at HK\$0.128 per share as settlement of consideration for the acquisition of 51% equity interest in Forestry Company. Details of which were disclosed in the circular of the Company dated 1 September 2006

All these new ordinary shares rank *pari passu* in all respects with the existing shares of the Company.

16. Share Options Scheme

The Share Option Scheme adopted on 30 September 1999 was terminated and replaced by a New Share Option Scheme on 16 July 2004. The New Share Option Scheme shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

The exercise price of the options shall be determined by the Directors of the Company of the Company, but may at least the highest of (i) the Stock Exchange closing price of the Company's share on the date of the grant of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the grant of the share options; and (iii) the nominal value of an ordinary share. The maximum number of shares in respect of which options may be granted under the New Share Option Scheme shall not exceed 10% of the issued share capital of the Company from time to time.

The following table shows the movement of the Company's share options during the six months period ended 30 September 2006.

Employee

Date of share options granted	Outstanding at the beginning of the period	Number of share options			Exercise price (HK\$)	Exercise period
		granted and fully accepted during the period	Number of share options exercised during the period	Number of share options outstanding at the end of the period		
9 June 2006	—	128,286,948	—	128,286,948	0.078	9 June 2006 to 8 June 2009

In assessing the theoretical aggregate value of the share options granted and fully accepted during the period, the Black-Scholes option pricing model which was performed by an independent valuer, Greater China Appraisal Limited, has been used. In current period, an amount of share option expenses of HK\$4,041,000 has been recognized.

Share options granted and fully accepted during the period ended 30 September 2006:

Date of Granted	:	9 June 2006
Vesting Period	:	N/A
Exercise Period	:	9 June 2006 to 8 June 2009
Exercise Price	:	HK\$0.078 per share

	Number of share options granted 9 June 2006	Share Options value at 9 June 2006 (Note (2)) HK\$	Number of share options at 30 September 2006
Grantee:			
Employee	<u>128,286,948</u>	<u>4,014,000</u>	<u>128,286,948</u>

Notes:

- (1) The closing price of the Ordinary Shares of the Company immediately before the date on which the options were granted was HK\$0.08
- (2) According to the Black-Scholes model, the theoretical aggregate value of the options was estimated at HK\$4,014,000 as at 9 June 2006 (when the options were granted) with the following variables and assumptions:

Risk Free Rate : 4.445%, being the approximate yield of the 4-year Exchange Fund Note traded on 6 June 2006

Expected Volatility : 68.836%, being the annualized standard deviations of the continuously compounded rates of return on the share prices of three other comparable listed Hong Kong companies with similar business operations

Expected Life of the Options : 3 years from the date of granting

- (3) Options forfeited, if any, before the expiry of the options will be treated as lapsed options which will be added back to the number of Ordinary Shares available to issued under the relevant share option scheme.

17. Operating Lease Commitments

The Group leases its office and staff quarter under non-cancelled operating lease arrangements with remaining lease terms ranging from one to two years.

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

	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within one year	1,431	882
In the second to fifth years, inclusive	138	130
	1,569	1,012

18. Capital Commitment

	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Contracted but not provided for	26,500	26,500

This represents capital commitment for capital contribution for 51% equity interest on the enlarged paid-up capital of the Henan Fu Yuan Petroleum and Chemical Engineering Company Limited (河南阜源石油化工有限公司) ("Fuyuan"), a private company incorporated in PRC, under the acquisition agreement signed on 7 January 2006. Further details are set out in the Company's circular dated 26 May 2006.

19. Charges on Assets

At the balance sheet date, the following assets of the Group have been pledged to secure credit facilities granted to and utilised by the Group:

	30 September	31 March
	2006	2006
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Property, plant and equipment	<u>22,998</u>	<u>24,075</u>

20. Subsequent Events

On 17 November 2006, the Company entered into a subscription agreement with the subscriber, Mr. Lau Yat Wah who is an independent third party to the Company, pursuant to which the Company conditionally agreed to issue and allot to the subscriber and the subscriber conditionally agreed to subscribe for 34,000,000 new Shares at a subscription price of approximately HK\$0.0882 per subscription share.

Further details are set out in the Company's announcement dated 17 November 2006.

BUSINESS REVIEW

Review of the Business Development

For the six months ended 30 September 2006, the Group was mainly engaged in the operation of its core business of cold storage warehousing and logistics management services.

For the six months ended 30 September 2006, the turnover of the Group dropped by approximately HK\$1 million (37%) compared with the last corresponding period to approximately HK\$1.75 million. This figure shows that the core business of the Group experienced a continuous shrink, which was mainly due to a decrease in demand for its warehousing facilities. The Group also recorded a considerable increase in operating loss from approximately HK\$6.35 million for the last corresponding period to approximately HK\$13.8 million for the period ended 30 September 2006. The substantial increase in operating expenses of the Group was primarily contributed by the staff costs of HK\$4.04 million arising from the grant of share options to employees of the Company and the expenses generated in the course of completing the acquisitions of a forestry company carrying out timber logging and processing business and a PRC company engaging in wholesale and retail of oil and gas products.

Liquidity and Financial Review

The Group finances its daily operations mainly from internally generated cash flows. The Group's cash flow position remained at a low level and as at 30 September 2006, the Group had cash and cash equivalent balance of approximately HK\$14.5 million, representing a decrease of 15% from the 2006 financial year-end level. As at 30 September 2006, the net current liabilities of the Company was approximately HK\$95 million and the current ratio of the Group, measured as total current assets to total current liabilities, was 0.19, both reflecting the substantial liabilities in respect of the consideration payable for the acquisition of the forestry company.

The Group conducts its business transactions mainly in Hong Kong dollars and Australian dollars. The bank borrowings of the Group as at 30 September 2006 amounted to approximately HK\$5.3 million. The bank borrowings were for a term exceeding two years and denominated in Australian dollars and subject to floating interest rate. The Board considered foreign exchange risk being minimal. The management will review from time to time the potential foreign exchange exposure and will take appropriate actions to minimize any potential foreign exchange exposure risk to arise in the future.

As at 30 September 2006, the Group held financial assets of a fair value of approximately HK\$1.5 million and derivative financial instruments of approximately HK\$1.5 million. However, the Group did not arrange any forward currency contract for hedging purposes and did not have foreign currency net investments being hedged by foreign currency borrowings and other hedging instruments.

Capital Structure and Gearing

As at 30 September 2006, there were 6,896,824,917 shares in issue and the equity of the Group attributable to shareholders amounted to approximately HK\$93 million. The completion of the acquisition of the forestry company and the issue of equity securities during the period as set out in the section captioned "Issue of Equity Securities" below have broadened the equity and the shareholder base of the Company.

The gearing ratio of the Group, measured as total liabilities to total assets, was 56% as at 30 September 2006 (31 March 2006: 11%). The substantial increase in the gearing ratio was primarily due to the consideration payable under the agreement for the acquisition of the forestry company which amounted to approximately HK\$117 million as at 30 September 2006.

Material Acquisition

On 21 September 2006, the Company completed the acquisition of a 51% equity interest in Jaling Forest Industries Inc. ("Jaling"), a forestry company incorporated in Guyana, South America, in an aggregate consideration of HK\$154 million, of which HK\$39 million should be settled by way of cash and the balance of HK\$115 million by way of issue of new shares by stages. As at 30 September 2006, only part of the cash consideration and share consideration was settled. Jaling is principally engaged in timber logging and forest exploitation, operation and management and is in possession of an exclusive timber concession right to fell timbers for a period of 25 years in respect of an aggregate area of approximately 164,800 hectares (407,000 acres) state forest in Guyana, South America. According to a valuation report dated 1 September 2006 issued by a firm of independent chartered surveyors, the said forest was valued at US\$310 million (approximately HK\$2,418 million).

Jaling granted an exclusive timber concession right to harvest timbers to its subsidiary, W & J Forest Resources Development Limited ("WJ Forest") which already commenced timber logging, harvesting and processing activities in April 2006. WJ Forest is responsible for the operation and management of Jaling's forest and it distributes timbers logged through its processing and distribution network in the PRC. For details of the acquisition, please refer to the circular of the Company dated 1 September 2006.

Apart from the acquisition of Jaling, on 7 January 2006, the Company entered into a capital injection agreement to acquire a 51% equity interest of the enlarged registered capital of 河南阜源石油化工有限公司(Henan Fu Yuan Petroleum and Chemical Engineering Company Limited) ("Fuyuan") for a consideration of approximately HK\$26.5 million. Fuyuan, a private company incorporated in the PRC, is principally engaged in wholesale and retail of oil and gas products including gasoline, petroleum, diesel oil and lubricating oil. This acquisition was approved by the shareholders on 12 June 2006 pending completion which is subject to the satisfaction or, as the case may be, waiver of other conditions precedent. The Directors expect that the said acquisition would be completed in around September 2007 upon transformation of Fuyuan into a sino-foreign joint venture.

Prospect of New Business and Future Plan

In view of a worldwide shortage in timber supply and increasing demand, the Directors believe that there are ample opportunities for the Company's timber trading business in the PRC. The Directors are confident that given the completion of the acquisition of Jaling, the turnover of the Group would be significantly improved in the future as WJ Forest commenced timber logging and processing business in April 2006 and started generating sales revenue from the second half of 2006.

The abovementioned acquisitions by the Company are in line with the Company's intention to advance its business in the energy industry and natural resources market in the PRC and other countries with a view to diversify its business scope and strengthen the Group's earning base and asset quality. However, the Directors have no intention to discontinue the Company's existing business and expect that this business will continue in the foreseeable future.

Looking forward, the Company will continue to seek investment projects in the PRC as well as other countries.

CAPITAL COMMITMENT

As at 30 September 2006, the Group has an investment commitment of approximately HK\$26.5 million in respect of the acquisition of a 51% enlarged equity interest in Fuyuan.

CHARGES ON ASSETS

As at 30 September 2006, the Group's cold warehousing property located in Australia with a carrying value of approximately HK\$30 million has been pledged to secure the credit facilities granted and utilized by the Group.

CONTINGENT LIABILITIES

As at 30 September 2006, the Group did not have any material contingent liabilities.

EMPLOYEES

The Group had approximately 10 employees in Hong Kong, PRC and Australia as at 30 September 2006. The Group ensures that the pay scales of its employees are rewarded on a performance rated basis within the general framework of the Group's remuneration policy.

SHARE OPTION SCHEME

The Share Option Scheme of the Company was adopted on 16 July 2004 and shall remain in force for 10 years from the adoption date unless otherwise terminated or amended.

As at 30 September 2006, the number of shares in respect of which options was granted and not exercised under the Share Option Scheme was 128,286,948, representing 1.86% of the shares of the Company in issue. All the options were granted on 9 June 2006, exercisable within a period of 3 years.

SALE AND PURCHASE OF SHARES

There was no purchase, sale or redemption of shares in the Company made by the Company or any of its subsidiaries during the six months ended 30 September 2006.

ISSUE OF EQUITY SECURITIES

On 5 June 2006, the Company issued and allotted 60,156,250 new shares, under a general mandate granted to the Directors at the annual general meeting of the Company held on 28 July 2005, at an issue price of HK\$0.128 per Share, to Total Gain Investment Limited as full settlement of a consultancy fee owing by the Company under an agency agreement dated 19 December 2005.

On 1 August 2006, the Company issued a total of 960,000,000 unlisted warrants under a general mandate granted to the Directors at the annual general meeting of the Company held on 28 July 2005 for an aggregate cash consideration of HK\$4 million. Each of the warrant holders may exercise his rights to subscribe for an aggregate number of 240,000,000 new shares of the Company at the subscription price of HK\$0.09 per Share at any time during a period of three years. As at 30 September 2006, none of the warrants was exercised.

On 21 September 2006, the Company issued 234,375,000 Shares at HK\$0.128 per Share to Mr. Peter Chan under a special mandate granted to the Directors at a special general meeting of the Company held on 18 September 2006 as settlement of HK\$30,000,000.00, being part of the consideration for the purchase of a 51% shareholding in Jaling Forest Industries Inc. pursuant to an acquisition agreement dated 10 April 2006.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

At 30 September 2006, the beneficial interests and short positions of the Directors and Chief Executive of the Company in the shares and underlying shares and debentures of the Company, its holding company, subsidiaries and other associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register kept by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies (the "Model Code") are as follows:

Long positions in shares and underlying shares of the Company

Name of Director	Number of shares		Number of underlying shares (warrants)		Percentage of issued share capital	
	personal interest	corporate interests	personal interest	corporate interests	Total	capital
Mr. Fung Tsun Pong (note a)	NIL	1,055,500,000	6,662,449	NIL	1,061,162,449	15.3
Mr. Tsang Kam Ching, David (note b)	NIL	NIL	66,624,499	NIL	66,624,499	1

Notes:

- (a) As at 30 September 2006, Mr. Fung Tsun Pong wholly owns Ocean Gain Limited (“OGL”) which was interested in 1,055,500,000 shares in the Company, representing approximately 15.3% in the issued shares of the Company. In accordance with the SFO, the interests in OGL are deemed to be, and have therefore been included in the interests of Mr. Fung Tsun Pong. OGL is a substantial shareholder of the Company and its shareholding in the Company is set out in the section headed “Substantial Shareholders”. On 9 June 2006, Mr. Fung was granted a share option, pursuant to the Share Option Scheme of the Company adopted on 16 July 2004, to subscribe for 6,662,449 new shares, representing approximately 0.1% in the issued shares of the Company, exercisable for a period of three years and at a price of HK\$0.078 per share.
- (b) On 9 June 2006, Mr. Tsang Kam Ching David was granted a share option, pursuant to the Share Option Scheme of the Company adopted on 16 July 2004, to subscribe for 66,624,499 new shares, representing approximately 1% in the issued shares of the Company, exercisable for a period of three years and at a price of HK\$0.078 per share.

Except as disclosed above:—

- (i) there were no interests, both long and short positions, held as at 30 September 2006 by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), as recorded in the register required to be kept under Section 352 of the SFO; or notified to the Company and the Stock Exchange pursuant to the Model Code; and
- (ii) the Company or its subsidiaries did not grant to the Directors or Chief Executives or their spouse or children under 18 years of age any rights to subscribe for shares, underlying shares or debentures of the Company or any other body corporate nor had there been any exercises during the six months ended 30 September 2006 of any such rights by any of them.

SUBSTANTIAL SHAREHOLDERS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the Company's issued shares and/or underlying shares of the Company as recorded in the register kept by the Company under section 336 of the SFO as at 30 September 2006:

Long Position in shares of the Company

Name of shareholders	Capacity	Number of Shares	Percentage of issued shares
Richest Billion Limited (<i>note a</i>)	Beneficial owner	1,045,000,000	15.15
Ocean Gain Limited (<i>note b</i>)	Beneficial owner	1,055,500,000	15.3
Allkeen Investments Limited (<i>note c</i>)	Beneficial owner	1,000,000,000	14.5
Huang Wailing	Beneficial owner	895,064,514	12.98

Notes:

- Richest Billion Limited is wholly-owned by Ms. Li Shi Miao.
- Ocean Gain Limited is wholly-owned by Mr. Fung Tsun Pong, an executive director of the Company.
- Allkeen Investments Limited is wholly-owned by Miss Wong Yat Ping.

Save as disclosed above, as at 30 September 2006, no other persons had any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations as recorded in the register required to be kept by the Company under Section 336 of the SFO.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

Save for the deviations as reported and discussed in the Corporate Governance Report as set forth in the Company's 2006 Annual Report, none of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not throughout the period, in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

A special resolution was passed at the annual general meeting of the Company held on 31 August 2006 to amend the Articles of Association of the Company, to the effect that every Director appointed during the year shall retire at the next general meeting and every Director may be removed by ordinary resolution passed at a general meeting.

The Board will review the corporate governance practice of the Company regularly and effect changes if necessary.

THE MODEL CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less than the required standard set out in the Model Code in Appendix 10 of the Listing Rules and the Directors of the Company has confirmed that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The audit committee of the Company has reviewed and discussed with management the internal controls, financial reporting matters and the unaudited interim financial report for the six months ended 30 September 2006.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company was established with terms of reference in compliance with Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules and is responsible for the formulation and review of the remuneration policy of the Company, determine the specific remuneration packages of all executive directors and senior management, and approve compensation and performance-based remuneration.

OTHER DISCLOSURE

Save as disclosed, the Group either has had no material changes from the information disclosed in the latest annual report of the Company or are considered not significant to the Group's operations, thus no additional disclosure has been made in this announcement.

PUBLICATION OF RESULTS ON THE STOCK EXCHANGE'S WEBSITE

All the information required by paragraphs 46 of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited in due course.

As at the date of this Announcement, the Board comprises of two Executive Directors, namely, Mr. Fung Tsun Pong and Mr. Tsang Kam Ching, David; and three Independent Non-Executive Directors, namely Mr. Yip Tak On, Mr. Liu Ka Lim and Mr. Jing Baoli.