



BESTWAY INTERNATIONAL HOLDINGS LIMITED
百威國際控股有限公司

Stock Code : 718



INTERIM REPORT 2006

Bestway

Bestway

Bestway

Bestway

The Board of Directors of Bestway International Holdings Limited (the "Company") announces the unaudited interim results of the Company and its subsidiaries (hereinafter the "Group") for the six months ended 30 September 2006 together with the comparative figures for the corresponding period in 2005. The unaudited results have not been audited by the Company's auditors, but have been reviewed by the Company's Audit Committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		(Unaudited) For the six months ended 30 September	
		2006 (unaudited) HK\$'000	2005 (Restated) HK\$'000
	Notes		
CONTINUING OPERATIONS			
Revenue	5	145,646	161,553
Cost of sales		(137,466)	(146,179)
Gross profit		8,180	15,374
Other revenue	5	331	298
Gain arising on write-off of indebtedness		–	11,100
Selling and distribution costs		(1,433)	(1,766)
Administrative expenses		(10,063)	(10,291)
Other net operating incomes		–	1,759
Finance costs	6	(1,748)	(1,890)
(LOSS)/PROFIT BEFORE TAX	7	(4,733)	14,584
Tax	8	–	–
(LOSS)/PROFIT FOR THE PERIOD		(4,733)	14,584
ATTRIBUTABLE TO:			
Equity holders of the Company		(4,544)	14,527
Minority Interests		(189)	57
		(4,733)	14,584
(LOSS)/EARNINGS PER SHARE			
ATTRIBUTABLE TO ORDINARY			
EQUITY HOLDERS OF THE COMPANY			
– basic	9	(0.088 cent)	0.293 cent
– diluted	10	N/A	N/A
Interim dividend per share		–	–

CONDENSED CONSOLIDATED BALANCE SHEET

		(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property plant and equipment		59,341	63,350
Prepaid land lease payments		4,082	4,082
Interests in jointly-controlled entities		–	4,002
Long term receivables/ long term investments		2,698	2,698
Prepaid rentals		878	2,098
		<hr/> 66,999 <hr/>	<hr/> 76,230 <hr/>
CURRENT ASSETS			
Inventories		26,574	21,674
Accounts and bills receivable	11	50,061	38,601
Prepayments, deposits and other receivables		12,783	9,808
Pledged deposits		8,536	5,688
Cash and bank balances		10,875	14,200
		<hr/> 108,829 <hr/>	<hr/> 89,971 <hr/>
CURRENT LIABILITIES			
Accounts and bills payables	12	39,213	17,230
Other payables and accruals		18,810	26,794
Tax payable		4,624	5,852
Interest-bearing bank and other borrowings	13	37,442	36,936
Provision		575	575
		<hr/> 100,664 <hr/>	<hr/> 87,387 <hr/>
NET CURRENT ASSETS		<hr/> 8,165 <hr/>	<hr/> 2,584 <hr/>

		(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		75,164	78,814
NON CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	<u>12,759</u>	<u>12,754</u>
		<u>12,759</u>	<u>12,754</u>
Net Assets		<u>62,405</u>	<u>66,060</u>
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital	15	51,453	51,453
Reserves	16	<u>6,579</u>	<u>10,045</u>
		58,032	61,498
Minority interests	16	<u>4,373</u>	<u>4,562</u>
		<u>62,405</u>	<u>66,060</u>

CONDENSED CONSOLIDATED SUMMARY STATEMENT OF CHANGES IN EQUITY

	(Unaudited) For the six months ended 30 September	
	2006	2005
	(Unaudited)	(Restated)
	HK\$'000	HK\$'000
Total equity at 1 April:	66,060	4,979
Changes in equity during the period:		
Exchange differences on translating foreign operations	1,038	3,343
Value of employee services	40	–
Conversion of Convertible Bonds	–	40,221
Issue of shares, including share premium, net	–	27,007
Net income recognized directly in equity (Loss)/Profit for the period	1,078 (4,733)	70,571 14,584
Total equity at 30 September	62,405	90,134

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	For the six months ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
NET CASH (OUTFLOW)/INFLOW FROM OPERATING ACTIVITIES	(7,297)	9,903
NET CASH INFLOW/(OUTFLOW) FROM INVESTING ACTIVITIES	3,461	(382)
NET CASH INFLOW/(OUTFLOW) FROM FINANCING ACTIVITIES	511	(12,853)
DECREASE IN CASH AND CASH EQUIVALENTS	(3,325)	(3,332)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	14,200	13,336
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	10,875	10,004
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	10,875	10,004
	10,875	10,004

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2006

1. Basis of Preparation

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard ("HKAS") 34, Interim financial reporting, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principle Accounting Policies

The accounting policies and methods used in the preparation of the condensed interim financial statements are consistent with those set out in the 2006 annual financial statements, except that the adoption of new/revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively referred to as "New HKFRSs") which are effective for accounting periods commencing on or after 1 January 2006.

3. Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards

The Company has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, to these financial statements. Unless, otherwise stated, these new HKFRSs are effective for annual periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	The Effects of Changes in Foreign Exchange Rates-Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 & HKFRS4 Amendments	Amendments Financial Instruments: Recognition and Measurement and Insurance Contracts-Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

3. Impact of Issued but not yet Effective Hong Kong Financial Reporting Standards (Continued)

The HKAS1 Amendment shall be applied for annual periods beginning on or after 1 April 2007. The revised standard will affect the disclosures about qualitative information about the Company's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 7 requires disclosures relating to financial instruments and incorporates many of the disclosure requirements of HKAS 32. This HKFRS shall be applied for annual periods beginning on or after 1 April 2007.

Except as stated above, the directors of the Company expect that the application of these standard, amendment or interpretations will have no materials impact on the results and financial position of the Group.

4. Segment Information

Segment information is presented by the Group's primary geographical segment.

Before the year ended 31 March 2006, the Group disclosed its segment reporting by business segments in term of PVC films and PVC floor coverings. The Group's operating business are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments. However the Group disposed of and discontinued its business of manufacturing and trading of PVC floor coverings in March 2005. As a result, it is inappropriate for the Group disclosed its segment information by business segments.

4. Segment Information (Continued)

Analysis of the Group's segment revenue and results by geographical location of customers is as follows:

	Sales revenue by geographical market		Contribution to profit before taxation	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
People's Republic of China	144,534	161,256	(3,409)	5,044
Japan	1,112	297	93	32
	<u>145,646</u>	<u>161,553</u>	<u>(3,316)</u>	<u>5,076</u>
Unallocated income			331	298
Gain on waiver of debt			–	11,100
Finance costs			(1,748)	(1,890)
(Loss)/Profit before taxation			(4,733)	14,584
Taxation			–	–
(Loss)/Profit for the period			<u>(4,733)</u>	<u>14,584</u>
Attributable to Equity holders of the Company			(4,544)	14,527
Minority interest			(189)	57
			<u>(4,733)</u>	<u>14,584</u>

5. Revenue

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, but excludes intra-group transactions.

An analysis of the group's revenue is as follows:–

	(Unaudited)	
	For the six months	
	ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Revenue		
Sale of goods:		
PVC sheets	145,646	161,553
Other revenue		
Interest income	88	31
Sub-contracting fee income	234	234
Others	9	33
Total	331	298

6. Finance Costs

	(Unaudited)	
	For the six months	
	ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Interest on bank loans, overdrafts and other loans:		
Wholly repayable within five years	1,726	1,890
Interest on finance leases	22	–
	1,748	1,890

7. (Loss)/profit before tax

The Group's (loss)/profit from operating activities is arrived at after charging:

	(Unaudited)	
	For the six months	
	ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Cost of inventories sold	137,466	146,179
Depreciation	4,586	5,434
Gain on disposal of long term investments	–	1,636
Gain on disposal of property, plant and equipment	–	123
	_____	_____

8. Tax

	(Unaudited)	
	For the six months	
	ended 30 September	
	2006	2005
	HK\$'000	HK\$'000
Tax charge for the current period	–	–
	_____	_____
	–	–
	_____	_____

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period.

The Group has tax losses arising in Hong Kong of HK\$150,623,000 as at 30 September 2006 (2005: HK\$154,335,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognized in respect of these losses as they have arisen in the companies that have been loss-making for some time.

9. Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share amount is based on the unaudited net (loss)/profit for the period attributable to ordinary equity holders of the company of HK\$4,544,000 (2005: Profit of HK\$14,527,000) and the weighted average number of 5,145,273,520 (2005: 4,952,682,798) ordinary shares in issue during the period.

10. Diluted Earnings per Share

No diluted earnings per share amounts for both the six months ended 30 September 2006 and 2005 presented, as the Company did not have dilutive potential shares.

11. Accounts and Bills Receivable

The Group's trading terms with its customers generally have credit terms of up to 60 days and non-interest bearing (except for certain well-established customers having strong financial strength, good repayment history and credit worthiness, where the credit terms are extended to 90 to 120 days). Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's account and bills receivable relate to a large number of diversified customers, there is no significant concentration of credit risk.

An aged analysis of the Group's accounts and bills receivable as at balance sheet date, based on the invoice date, is as follows:

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Within 30 days	28,488	22,184
Between 31 to 60 days	9,956	9,738
Between 61 to 90 days	9,305	4,321
Over 90 days	2,312	2,358
	50,061	38,601

12. Accounts and Bills Payable

An aged analysis of the accounts and bills payable at 30 September 2006, based on invoice date, is as follows:

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Within 30 days	19,354	5,803
Between 31 to 60 days	11,999	3,843
Between 61 to 90 days	2,174	4,058
Over 90 days	5,686	3,526
	39,213	17,230

13. Interest-bearing Bank and Other Borrowings

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	35,456	32,482
In the second year	–	–
In the third to fifth years, inclusive	–	–
	<u>35,456</u>	<u>32,482</u>
Other borrowings repayable:		
Within one year or on demand	1,833	4,301
In the second year	2,543	–
In the third to fifth years, inclusive	9,667	12,117
	<u>14,043</u>	<u>16,418</u>
Finance lease payables:		
Within one year or on demand	153	153
In the second year	167	167
In the third to fifth years, inclusive	382	470
	<u>702</u>	<u>790</u>
	<u>50,201</u>	<u>49,690</u>

14. Finance lease payables

The Group leases a motor vehicle for its business operations. The lease was classified as a finance lease and had a remaining lease term of five years. The total future minimum lease payments under finance leases and their present values were as follows:

Group

	Minimum lease payments (Unaudited) As at 30 September 2006 HK\$'000	Minimum lease payments Audited As at 31 March 2006 HK\$'000	Present value of minimum lease payments (Unaudited) As at 30 September 2006 HK\$'000	Present value of minimum lease payments Audited As at 31 March 2006 HK\$'000
Amounts payable:				
Within one year	219	219	153	153
In the second year	219	219	167	167
In the third to fifth years, inclusive	438	546	382	470
	<hr/> 876	<hr/> 984	<hr/> 702	<hr/> 790
Total minimum finance lease payments				
Future finance charges	(174)	(194)		
	<hr/> 702	<hr/> 790		
Total net finance lease payables				
Portion classified as current	(153)	(153)		
	<hr/> 549	<hr/> 637		
Non-current portion				

15. Share Capital

	(Unaudited) As at 30 September 2006 HK\$'000	(Audited) As at 31 March 2006 HK\$'000
Authorised:		
24,000,000,000 ordinary shares of HK\$0.01 each	<u>240,000</u>	<u>240,000</u>
Issued and fully paid:		
5,145,273,520 (31 Mar 2006:5,145,273,520) ordinary shares of HK\$0.01 each	<u>51,453</u>	<u>51,453</u>

16. Consolidated Statement of Changes in Equity

	(Unaudited)								
	For the six months ended 30 September 2006								
	Issued Share Capital HK\$'000	Share Premium account HK\$'000	Contributed surplus HK\$'000	Employee share-based compensation reserve HK\$'000	Assets revaluation reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Minority Interests HK\$'000	Total HK\$'000
At 1 April 2006	51,453	6,892	52,743	-	462	(14,132)	(35,920)	4,562	66,060
Recognition of equity-settled share-based payments	-	-	-	40	-	-	-	-	40
Exchange difference arising from translation of financial statement of PRC subsidiaries	-	-	-	-	-	1,038	-	-	1,038
Net loss for the period ended 30 September 2006	-	-	-	-	-	-	(4,544)	(189)	(4,733)
At 30 September 2006	<u>51,453</u>	<u>6,892</u>	<u>52,743</u>	<u>40</u>	<u>462</u>	<u>(13,094)</u>	<u>(40,464)</u>	<u>4,373</u>	<u>62,405</u>
Reserves retained by:									
Company and subsidiaries	51,453	6,892	52,743	40	462	(13,094)	(40,464)	4,373	62,405
Jointly-controlled entities	-	-	-	-	-	-	-	-	-
At 30 September 2006	<u>51,453</u>	<u>6,892</u>	<u>52,743</u>	<u>40</u>	<u>460</u>	<u>(13,094)</u>	<u>(40,464)</u>	<u>4,373</u>	<u>62,405</u>

16. Consolidated Statement of Changes in Equity (Continued)

	(Unaudited)										
	For the six months ended 30 September 2005										
	Issued Share Capital HK\$'000	Share Premium account HK\$'000	Contributed surplus HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Equity component of convertible bonds HK\$'000	General reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Accumulated losses HK\$'000	Minority Interests HK\$'000	Total HK\$'000
At 1 April 2005	42,112	186,340	52,743	4,581	4,180	-	188	(17,367)	(282,423)	4,431	(5,215)
Derecognition of negative goodwill	-	-	-	(4,581)	-	-	-	-	4,581	-	-
HKAS 32 Convertible bonds	-	-	-	-	-	10,194	-	-	-	-	10,194
Balance as at 1 April 2005, as restated	42,112	186,340	52,743	-	4,180	10,194	188	(17,367)	(277,842)	4,431	4,979
Issue of new shares	6,820	20,460	-	-	-	-	-	-	-	-	27,280
Share issue expenses	-	(273)	-	-	-	-	-	-	-	-	(273)
Conversion of convertible bonds	2,521	47,894	-	-	-	(10,194)	-	-	-	-	40,221
Reduction of share premium offset accumulated Losses	-	(254,421)	-	-	-	-	-	-	254,421	-	-
Exchange difference arising from translation of financial statement of PRC subsidiaries	-	-	-	-	-	-	-	3,343	-	-	3,343
Net profit for the period ended 30 September 2005	-	-	-	-	-	-	-	-	14,527	57	14,584
At 30 September 2005	51,453	-	52,743	-	4,180	-	188	(14,024)	(8,894)	4,488	90,134
Reserves retained by:											
Company and subsidiaries	51,453	-	52,743	-	2,817	-	-	(13,853)	(10,806)	4,488	86,842
Jointly-controlled entities	-	-	-	-	1,363	-	188	(171)	1,912	-	3,292
At 30 September 2005	51,453	-	52,743	-	4,180	-	188	(14,024)	(8,894)	4,488	90,134

17. Related Party Transactions

- (a) In addition to those transactions and balances disclosed elsewhere in these financial statements, the Group also had the following significant transactions with related parties during the year:
- (i) Certain of the Group's loan facilities were supported/pledged by personal guarantees executed by certain directors of the Company and the spouse of one of the directors of the Company to the extent of HK\$15,298,403, for a bank loan granted to the Group in the amount of HK\$15,298,403 as at 30 September 2006 (as at 31 March 2006:HK\$13,251,000)
- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 September 2006	
	2006	2005
	HK\$'000	HK\$'000
Short term employee benefits	1,442	1,315
Post-employment benefits	12	12
Total compensation paid to key management	<u>1,454</u>	<u>1,327</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Results

During the period, the Group continues its principal business activities in the manufacturing and trading of PVC films in the PRC and recorded a turnover of HK\$145,646,000 (2005: HK\$161,553,000) which represented a decrease in turnover of approximately 9.8% over that achieved for the corresponding period last year. Gross profit margin had decreased to 5.6% as compared with last year of 9.5%. The decreased in turnover and gross profit margin was mainly due to the higher crude oil price which had adverse effects to the Group in term of sales volume and costs of materials for production. During the period, our customers were cautious in placing their orders resulted from competitive in the market. The sales volume and average selling price per ton for the period was 15,043 tones and HK\$9,682 as compared with 17,500 tones and HK\$9,232 for the corresponding period last year which had a decrease of 2,457 tones and increase in the price of HK\$450 per ton respectively. Costs of raw materials to revenue had been risen by 3.3% as compared with the corresponding period last year. The net loss attributable to ordinary equity holders of the Company was HK\$4,544,000, compared with the net profit of HK\$14,527,000 incurred for the corresponding period last year. The Group's basic loss per share for the period was HK\$0.088 cent when compared with earnings per share of HK\$0.293 cent for the corresponding period last year.

Events during the period

On 11 May 2006, the Group had disposed entire 25% of equity interest in Shenzhen Wuye Jifa Warehouse Co., Ltd ("SWJ") through the disposal of entire 100 % equity interest in Luen Fat Hong Investment Limited at a consideration of HK\$4,038,000. SWJ's major asset is the holding of a parcel of land located at Yantian Port, Yantian, Shenzhen, Guangdong Province of the PRC (the "Yantian Land").

On 13 December 2005, Fullson, a wholly-owned subsidiary of the Company, entered into a condition sale and purchase agreement (Agreement) with Hebei Cangzhou Chemical Group (Vendor) in PRC to acquire 12% (50,470,400 stated-owned shares) of the existing issued share capital of Cangzhou Chemical Industrial Co Ltd., at a maximum cash consideration of HK\$120 million. Since some of the conditions set forth in the Agreement have not been fulfilled as at 13 July 2006. The vendor is till in the course of obtaining approvals from the relevant PRC authorities. Upon receiving a notice of request extension of Condition Fulfillment Date from the Vendor, the directors of the Company have agreed to further extend the Original Condition Fulfillment Date to 13 January 2007.

On 8 September 2006, the Company had terminated the subscription agreement which was entered with Forex Investment Development Limited on 9 June 2006 in relation to the subscription of 2-year, 4% guaranteed convertible notes and convertible into ordinary shares of the company up to a principal amount of HK\$46.5 million. The termination was due to one of the conditions had not been fulfilled in respect of the collateral to be given by the Company in favour of the Subscriber.

Prospects

Within the intense competition in the market and continually fluctuating in the price of raw materials, we promise to try our best to improve the profit margin in the future.

We endeavoured to divert more resources and explore overseas markets in developing high value added polymer products. In addition, the Group will streamline and restructure its manufacturing operation with a view to reducing the cost so as to improve the competitiveness of Group's product in the market place.

Financial Review

Liquidity and other Financial Resources

As at 30 September 2006, the Group's bank and other borrowings amounted to HK\$50,201,000 which is an increase of HK\$511,000 from its borrowings of HK\$49,690,000 at the year ended 31 March 2006.

Of the Group's total borrowings at 30 September 2006:

- (i) HK\$16,076,000 is at floating interest rates and HK\$34,125,000 is at fixed interest rates.
- (ii) 3.4% is denominated in Hong Kong Dollars and 64.6% is denominated in Renminbi and 32.0% in United States Dollars

As at 30 September 2006, the Group's cash and bank balances amounted to HK\$10,875,000 (as at 31 March 2006: HK\$14,200,000). The Group's net asset value amounted to approximately HK\$62.41 million (as at 31 March 2006: 66.06 million) with total assets approximately HK\$175.83 million (as at 31 March 2006: 166.20 million). Net current assets were approximately HK\$8.17 million (net current assets as at 31 March 2006: 2.58 million) and the current ratio was 1.08 times (as at 31 March 2006: 1.03 times).

The gearing ratio, expressed as the percentage of total borrowings to total net assets, was 80.4% as at 30 September 2006 (as at 31 March 2006: 75.2%).

Post balance sheet event

On 14 December 2006, the Company passed a resolution of Capital Reorganisation by the shareholders at the SGM involving (i) the issued share capital of the Company be reduced by cancelling paid up capital to the extent of HK\$0.005 on each of the shares of HK\$0.01 in the capital of the Company in issue and the nominal value of all the unissued shares in the Company be reduced from HK\$0.01 to HK\$0.005 each on 15 December 2006 (the "Capital Reduction") so that each issued and unissued share in the capital of the Company shall be treated as one share of HK\$0.005 each in the capital of the Company (the "Reduced Share") and the authorised share capital of the Company be reduced from HK\$240,000,000 to HK\$120,000,000; (ii) Every 20 issued and unissued Shares of HK\$0.005 each be consolidated into one consolidated Share of HK\$0.10 and (iii) the credit arising from the Capital Reduction be credited to the contributed surplus account and will offset part of the accumulated losses as at 15 December 2006.

Charges on group assets

The Group's bank deposits of HK\$8,536,000 as at 30 September 2006 (as at 31 March 2006: HK\$5,688,000) were pledged for trust receipt loans and other short term trade finance facilities of USD3,000,000 granted to the Group. Certain of the Group's medium term leasehold land and the building with net book value of HK\$11.0 million (as at 31 March 2006: 11.77 million) which was revalued by LCH (Asia Pacific) Surveyors Limited, independent professionally qualified valuer, on the open market, existing use basis, at 31 January 2006 at HK\$22,900,000 in aggregate, were pledged to secure a loan of RMB12.2 million granted to the Group.

Exposure foreign exchange fluctuation

The Group's monetary assets, liabilities and transactions were principally denominated in Hong Kong dollars ("HK\$") Renminbi ("RMB") and United States Dollars ("USD"). Inasmuch as the Hong Kong dollar is pegged to the U.S. dollar, the Group's exposure to USD currency exchange risk was minimal.

As all of the Group's production plants are based in the People's Republic of China, most wages and salaries and manufacturing overheads are mainly denominated in RMB. The continued appreciations of RMB has slightly increase our production costs. The Board considers the currency exposure to this currency is insignificant.

Contingent Liabilities

As at 30 September 2005, the Group gave a guarantee of banking facilities granted to independent third parties amounting to HK\$6.8 million (as at 31 March 2006: HK\$7.6 million).

Employees

As at 30 September 2005, the Group had approximately 315 employees full time managerial, administrative and manufacturing employees. The Group affords competitive remuneration packages to its employees based on prevailing and industry practice and provides most of its employees in the PRC with rent-free quarters and messings. Compensation policies are reviewed regularly and are designed to reward and motivate productivity and performance.

On 25 September 2006, the Company has granted an employee share options to executive /non-executive directors and employees to enhance their contributions and continue services to the Company. Approximately HK\$39,527 has been charged to the income statement as the cost of share option for the period ended 30 September 2006. The fair value of total share options is HK\$3,597,000 which was valued by LCH (Asia-Pacific) Surveyors Limited.

INTERIM DIVIDEND

The directors have resolved not to pay an interim dividend for the six months ended 30 September 2006.

DIRECTORS' INTERESTS IN SHARES

Directors' interests and short positions in shares, underlying shares and debentures

At 30 September 2006, the interests of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of the Listed Companies, were as follows:

Long positions in ordinary shares of the Company:

Number of shares held, capacity and nature of interest

Name of director	Directly beneficially owned	Through Shares of Share options	Through controlled corporation	Total	Percentage of the Company's issued share Capital
Tang Kuan Chien	18,014,000	2,800,000	788,135,092 [#]	808,949,092	15.72
Tang Wei Lun	30,000,000	2,800,000	-	32,800,000	0.64
Cheung Ming Leung Denver	84,000,000	2,800,000	-	86,800,000	1.69
Lam Chi Yin Henry	-	2,800,000	-	2,800,000	0.05
Andy Hsiao-An Yuan	-	2,800,000 ^{###}	1,052,073,520 ^{##}	1,054,873,520	20.50
Hung Shean-I	6,000,000	2,800,000	-	8,800,000	0.17
Wong Nai Ping	5,182,000	2,800,000	-	7,982,000	0.16
Au Kowk Yee Benjamin	-	2,800,000	-	2,800,000	0.05

[#] The corporate interest shares are held as to 265,965,000 by Bestway Development Limited, a company incorporated in the British Virgin Islands and wholly-owned by Mr. Tang Kuan Chien, and as to 522,170,092 shares by Best Online Limited, a company incorporated in the British Virgin Islands and wholly-owned by Ms. Wang Ya Chin, the spouse of Mr. Tang Kuan Chien.

^{##} The Corporate interest shares are held as to 1,052,073,520 by Wealthguard Investment Limited ("Wealthguard"), a company incorporated in the British Virgin Islands and wholly-owned by Mr. Andy Hsiao-An Yuan.

^{###} Mr. Andy Hsiao-An Yuan had rejected the employee share options granted by the Company on 24 October 2006.

In addition to the above, Mr. Tang Kuan Chien has non-beneficial personal equity interests in certain subsidiaries held in trust for the benefit of the Company solely for the purpose of complying with the minimum company membership requirements.

Save as disclosed above, none of the directors had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

At 30 September 2006, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO:

Name	<i>Notes</i>	Number of ordinary shares held Long position	Percentage of the Company's issued share capital
Ms. Wang Ya Chin	(a)	854,949,092	16.62
Best Online Limited	(b)	522,170,092	10.15
Bestway Development Limited	(b)	265,965,000	5.17
Wealthguard Investment Limited	(c)	1,052,073,520	20.45
Jayhawk China Fund (Cayman) Ltd	(d)	786,164,000	15.28
Kent C. McCarthy	(d)	786,164,000	15.28
PMA Capital Management Limited		<u>271,526,000</u>	<u>5.28</u>

Notes:

- (a) The interests of Ms. Wang Ya Chin include the 522,170,092 shares held by Best Online Limited, being the personal and corporate interests of Mr. Tang Kuan Chien as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above.
- (b) These interests are also included as a corporate interest of Mr. Tang Kuan Chien as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above.
- (c) These interests are also included as a corporate interest of Mr. Andy Hsiao-An as disclosed under the heading "Directors' interests and short positions in shares, underlying shares and debentures" above.
- (d) The controlling shareholder of Jayhawk China Fund (Cayman) Ltd is Kent C McCarthy.

Save as disclosed above, no person, other than the directors of the Company, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest or short position in the shares, underlying shares or debentures of the Company that was required to be recorded pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

The share option scheme for the employees and executive directors of the Company and its subsidiaries which was adopted at a special general meeting of the shareholders of the Company held on 13 September 1995 was terminated at the annual general meeting of the Company held on 19 August 2003. At the same annual general meeting, a new share option scheme, details of which appeared in a Circular to shareholders of 25 July 2003, was approved.

On 25 September 2006, the Company has granted an employee share options to executive/non-executive directors and employees at subscription price of HK\$0.035 per share at a total of 281,000,000 shares options, represent 5.46% of the existing issued share capital of the Company and approximately 5.18% of the issued share capital of the Company as enlarged by the exercise of all options by the executive/non-executive directors and employees, which was determined by the Board of Directors of the Company pursuant to the Share Option Scheme adopted by the shareholders of the Company on 19 August 2003 and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, exercisable at any time during the period from 25 September 2006 to 24 March 2008 (the "Option Period"), both days inclusive, on the following conditions:

Option Period	Conditions
25 September 2006 to 24 June 2007	<ul style="list-style-type: none"> <li data-bbox="430 671 994 722">– 50% of the Option ("First Exercisable Option") can be exercised within this period <li data-bbox="430 759 994 810">– no transfer of the exercised Shares can be effected until after 24 June 2007 <li data-bbox="430 847 994 900">– any outstanding portion of the First Exercisable Option will lapse after 24 June 2007
25 June 2007 to 24 March 2008	<ul style="list-style-type: none"> <li data-bbox="430 936 994 987">– Remaining 50% of the Option ("Second Exercisable Option") can be exercised <li data-bbox="430 1024 994 1107">– exercised Shares in respect of 50% of the Second Exercisable Option cannot be transferred until after 24 October 2007 <li data-bbox="430 1144 994 1227">– exercised Shares in respect of the remaining 50% of the Second Exercisable Option cannot be transferred until after 24 March 2008. <li data-bbox="430 1264 994 1339">– any outstanding portion of the Second Exercisable Option will lapse after 24 March 2008.

	Number of Share Options to be Offered	Subscription Price per Share	Option Period Commencing Expiring	
<i>Executive Director</i>				
Tang Kuan Chien	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Lam Chi Yin, Henry	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Tang Wei Lun	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Cheung Ming Leung, Denver	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
<i>Non-executive Director</i>				
Hung Shean-I	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Wong Nai Ping	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Au Kwok Yee Benjamin	2,800,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Other employees	261,400,000	HK\$0.035	25 Sept 2006	24 Mar 2008
Sub-total (B)	<u>281,000,000</u>			

Notes:

- (i) The closing price of the Share immediately before the date on which the share options were granted was HK\$0.035 and the average closing price of the latest five trading days before the granted date was HK\$0.0344.
- (ii) The Company adopts the Black-Scholes OPM model to estimate the value of a share option. The fair value of share options was valued by an independent valuer namely as LCH (Asia-Pacific) Surveyors Limited.

- (iii) The fair value of the share options granted on 25 September 2006 was approximately HK\$3,597,000 according to the Black-Scholes OPM model with the following parameters, and is expenses over the respective vesting periods,
- (a) Risk free interest rate per annum is 3.56% for the First Exercisable Option, 3.6% for 50% of the Second Exercisable Option and 3.62% for the remaining 50% of the Second Exercisable Option respectively (being the yield of 1 and 2 years HKMA exchange fund note/bill quoted at the date of valuation).
 - (b) Expected volatility is 100.45% per annum (being the Company's 180 days historical share prices before the date of valuation generated from Bloomberg).
 - (c) Indicated Option Value (HK\$ per share) is 0.0113 for the First Exercisable Option, 0.0133 for 50% of the Second Exercisable Option and 0.0153 for the remaining 50% of the Second Exercisable Option respectively.
 - (d) Share Options will be exercised once transfer of shares is permitted.
 - (e) Dividend yield: assume no dividend in the valuation (according to the past 3 year's financial data for equity securities of the Company).
- (iv) No share options was exercisable during the period ended 30 September 2006.
- (v) On 14 December 2006, the Company passed a resolution of Capital Reorganisation by the shareholders at the SGM involving (i) the capital reduction involves a reduction in the nominal value of each existing Share in issue of HK\$0.01 to HK\$0.005 to HK\$0.005; (ii) the share consolidation will be implemented whereby 20 Existing Shares of HK\$0.005 each in the issued or unissued share capital of the Company resulting from the capital reduction will be consolidated into one consolidated Share of HK\$0.10. As a result, the share options subscription price need to be consolidated at HK\$0.70 per share at 15 December 2006.

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S SHARE

There was no purchase, sale or redemption by the Company or any of its subsidiaries of the Company's listed securities during the period.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Main Board Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. The audit committee comprises the three independent non-executive directors namely, Mr. Hung Shean-I, Mr. Wong Nai Ping and Mr. Au Kwok Yee, Benjamin, of the Company. They discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the period ended 30 September 2006.

CODE OF CORPORATE GOVERNANCE PRACTICE

In the opinion of the directors, the Company complied with the Code on Corporate Governance Practices (the "CG Codes") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the Listing Rules") throughout the accounting period covered by the interim report, except that for the deviations mentioned herewith (i) Code Provision A.2.1, under this code provision, the roles of the chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Tang Kuan Chien is the Chairman of the Board and the managing director of the Company. In the opinion of the Board, the role of the managing director and the chief executive officer is the same. The Board considers that the present structure provides the Group with strong and consistent leadership and allows for efficient and effective business planning and execution. Hence, the Board believes that it is in the best interest of the shareholders of the Company that Mr. Tang Kuan Chien will continue to assume the roles of the Chairman of the Board and the managing director of the Company. However, the Board will review the current structure and propose any amendments when it becomes appropriate in future.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

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

REMUNERATION COMMITTEE

The Company established a remuneration committee (the “Remuneration Committee”) pursuant to a resolution of the Board passed on 25 July 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary role of the Remuneration Committee is to ensure that there is a formal and transparent procedure adopted by the Company for developing policies on, and for overseeing, the remuneration packages of all the directors of the Company.

The Remuneration Committee comprises Mr Wong Nai Ping, Mr Hung Shean-I, and Mr Tang Wei Lun. Mr Wong Nai Ping is the chairman of the Committee.

The Committee had approved and recommended to the Board of Directors of the Company to offer the share options to executive/non-executive directors and employees on 25 September 2006.

NOMINATION COMMITTEE

The Company established a nomination committee (the “Nomination Committee”) pursuant to a resolution of the Board passed on 25 July 2005 with written terms of reference in compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules. The primary role of the Nomination Committee is to ensure that there is a formal and transparent procedure adopted by the Company for the nomination of directors of the Company.

The Nomination Committee comprises Mr Wong Nai Ping, Mr Hung Shean-I, and Mr Tang Wei Lun. Mr Wong Nai Ping is the chairman of the Committee.

BOARD OF DIRECTORS

As at the date of this report, the Board comprises five executive directors, namely Mr. Tang Kuan Chien (Chairman), Mr. Cheung Ming Leung, Denver, Mr. Tang Wei Lun, Mr. Andy Hsiao-An Yuan and Mr. Lam Chi Yin, Henry and three independent non-executive directors, namely Mr. Hung Shean-I, Mr. Wong Nai Ping and Mr. Au Kwok Yee, Benjamin.

On behalf of the Board
Bestway International Holdings Limited
Tang Kuan Chien
Chairman

Hong Kong, 15 December 2006