



**WING SHING
INTERNATIONAL
HOLDINGS LIMITED**

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 850

pragmatic

INTERIM REPORT

06

INTERIM RESULTS

The Board of Directors (the "Board") of Wing Shing International Holdings Limited (the "Company") is pleased to present the unaudited interim results for the six months ended 30 September 2006 of the Company and its subsidiaries (collectively referred to as the "Group"), together with the comparative figures for the last corresponding period.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Note	(Unaudited) Six months ended 30 September	
		2006 HK\$'000	2005 HK\$'000
Revenue	3	152,591	126,635
Cost of sales		(123,880)	(103,406)
Gross profit		28,711	23,229
Other revenue		1,591	1,191
Distribution costs		(8,852)	(8,079)
Administrative expenses		(14,979)	(11,983)
Employee benefits recognised from share options granted		(10,257)	(844)
Other operating expenses, net		(415)	(4)
Operating (loss)/profit	4	(4,201)	3,510
Finance costs		(2,522)	(2,264)
(Loss)/Profit before income tax		(6,723)	1,246
Income tax	5	(98)	(92)
(Loss)/Profit for the period		(6,821)	1,154
Attributable to:			
Equity holders of the Company		(6,926)	1,099
Minority interests		105	55
		(6,821)	1,154
Dividends	6	—	—
(Loss)/Earnings per share attributable to the ordinary equity holders of the Company during the period			
— Basic	7	HK(1.0) cent	HK0.25 cent
— Diluted	7	HK(1.0) cent	HK0.25 cent

Certain comparative amounts have been reclassified to conform with the current period's presentation.

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Non-current assets			
Property, plant and equipment	8	114,151	108,853
Prepaid lease payments		30,242	30,604
Investment properties		16	16
Goodwill		10,424	10,424
Available-for-sale financial assets		400	400
		155,233	150,297
Current assets			
Inventories		25,206	23,408
Trade and other receivables	9	101,710	80,134
Prepaid tax		2,902	2,742
Cash and bank balances		26,710	17,632
		156,528	123,916
Current liabilities			
Trade and other payables	10	36,153	27,317
Bills payable		32,913	28,552
Financial liabilities at fair value through profit or loss		1,472	730
Taxation payable		521	984
Bank and other borrowings		66,412	72,824
		137,471	130,407
Net current assets/(liabilities)		19,057	(6,491)
Total assets less current liabilities		174,290	143,806
Non-current liabilities			
Bank and other borrowings		6,846	11,851
Deferred tax liabilities		1,170	1,170
		8,016	13,021
Net assets		166,274	130,785
Capital and reserves			
Share capital	11	7,294	6,111
Reserves		158,321	124,120
Total equity attributable to equity holders of the Company		165,615	130,231
Minority interests		659	554
Total equity		166,274	130,785

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited) Six months ended 30 September	
	2006 HK\$'000	2005 HK\$'000
Net cash (used in)/generated from operating activities	(13,456)	3,294
Net cash (used in) investing activities	(5,207)	(6,975)
Net cash generated from/(used in) financing activities	32,312	(5,286)
Increase/(decrease) in cash and cash equivalents	13,649	(8,967)
Cash and cash equivalents as at 1 April	12,132	11,197
Cash and cash equivalents as at 30 September	25,781	2,230
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	26,710	14,948
Bank overdrafts	(929)	(12,718)
	25,781	2,230

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 (unaudited)

	Attributable to equity shareholders of the Company							Total equity
	Share capital	Share premium	Merger reserve (Note a)	Share-based employee	Retained earnings	Total	Minority interests	
				Compensation reserve				
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2005	4,205	22,496	3,248	3,641	52,662	86,252	736	86,988
Exercise of share options	60	1,008	—	—	—	1,068	—	1,068
Issue of new shares by placing	820	9,209	—	—	—	10,029	—	10,029
Share options granted for the period	—	193	—	651	—	844	—	844
Disposal of a subsidiary	—	—	—	—	—	—	186	186
Profit for the period	—	—	—	—	1,099	1,099	55	1,154
	5,085	32,906	3,248	4,292	53,761	99,292	977	100,269
Balance at 1 April 2006	6,111	53,033	3,248	3,641	64,198	130,231	554	130,785
Exercise of share options (Note b)	323	8,943	—	(1,404)	—	7,862	—	7,862
Issue of new shares by placing (Note c)	860	23,331	—	—	—	24,191	—	24,191
Share options granted for the period (Note d)	—	—	—	10,257	—	10,257	—	10,257
Profit/(Loss) for the period	—	—	—	—	(6,926)	(6,926)	105	(6,821)
	7,294	85,307	3,248	12,494	57,272	165,615	659	166,274

Notes:

- (a) Merger reserve represents the difference between the nominal value of the share capital of subsidiaries acquired and the nominal value of shares issued by Wing Shing Group Limited, the then holding company of the subsidiaries in exchange thereof.
- (b) During the period, certain employees exercised share options granted and consequently, 32,308,000 new shares of the Company were issued. The difference between the par value of the shares issued and the proceeds from the exercise of the options totalling HK\$7,539,000, together with the transfer of HK\$1,404,000 from the share-based employee compensation reserve associated with the exercise, is accounted for in share premium account.
- (c) On 27 June 2006, the Company issued 86,000,000 new placing shares of HK\$0.01 each to the subscribers at HK\$0.285, totalling HK\$24,510,000. The difference between the par value of shares issued and the net proceeds from the exercise of the options totalling HK\$23,331,000 are recognized as share premium.
- (d) During the period, the Company granted 117,800,000 share options at the exercise prices ranging between HK\$0.197 and HK\$0.58 to certain directors and employees. The fair value of those options amounting to HK\$10,257,000 is accounted for in the share-based employee compensation reserve.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

I CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands with limited liability. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The principal place of business of the Company is located at Units 9-10, 4/F, Kinglet Industrial Building, 21-23 Shing Wan Road, Tai Wai, Shatin, New Territories, Hong Kong.

The principal activities of the Group are manufacture and sale of paints and blended solvents, manufacture and sale of plastic colorants and trading of chemical materials. There were no significant changes in the nature of the Group's principal activities during the period.

2 BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretation, the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure requirements of Appendix I 6 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 March 2006. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 March 2006 except for the adoption of new and revised HKASs and HKFRSs which are effective for accounting periods beginning on or after 1 December 2005, 1 January 2006 or 1 March 2006 as set out below:

HKAS 19 (Amendment)	Employee benefits — Actuarial gains and losses, group plans and disclosures
HKAS 21 (Amendment)	The effect of changes in foreign exchange rates — Net investment in a foreign operation
HKAS 39 (Amendment)	Cash flow hedges of forecast intragroup transactions
HKAS 39 (Amendment)	The fair value option
HKAS 39 and HKFRS 4 (Amendments)	Financial instruments: Recognition and measurement and insurance contracts — Financial guarantee contracts
HKFRS 6	Exploration for and evaluation of mineral resources
HK(IFRIC) — Int 4	Determining whether an arrangement contains a lease
HK(IFRIC) — Int 5	Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds
HK(IFRIC) — Int 6	Liabilities arising from participating in a specific market — Waste electrical and electronic equipment
HK(IFRIC) — Int 7	Applying the restatement approach under HKAS 29 — Financial reporting in hyperinflationary economies

The adoption of the above new and revised accounting standards has no material impact on the accounting policies of the Group and the methods of computation in the Group's condensed consolidated financial statements.

2 BASIS OF PREPARATION (Continued)

As at the date of this report, the following standards and interpretations were in issue but not yet effective:

HKAS 1 (Amendment)	Note a	Capital disclosures
HKFRS 7	Note a	Financial Instruments: Disclosures
HK(IFRIC) — Int 8	Note b	Scope of HKFRS 2
HK(IFRIC) — Int 9	Note c	Reassessment of embedded derivatives
HK(IFRIC) — Int 10	Note d	Interim financial reporting and impairment

Note a: effective for annual periods beginning on or after 1 January 2007

Note b: effective for annual periods beginning on or after 1 May 2006

Note c: effective for annual periods beginning on or after 1 June 2006

Note d: effective for annual periods beginning on or after 1 November 2006

The Group has commenced considering the potential impact of the above new HKFRSs but is not yet in a position to determine whether these HKFRSs would have a significant impact on how its result of operations and financial position are prepared and presented. These HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") unless otherwise stated.

3 SEGMENTAL INFORMATION

The Group is principally engaged in the manufacture and trading of paints, blended solvents, plastic colorants and chemical materials.

(a) Primary report format — business segments

	(Unaudited)				
	Six months ended 30 September 2006				
	Paints and blended solvents HK\$'000	Plastic colorants HK\$'000	Chemical materials HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenues					
Turnover					
External Revenue	137,096	9,044	6,451	—	152,591
Inter segment revenue	—	—	1,312	(1,312)	—
Other revenue excluding interest income	1,443	26	44	—	1,513
	<u>138,539</u>	<u>9,070</u>	<u>7,807</u>	<u>(1,312)</u>	<u>154,104</u>
Segment profit	<u>5,838</u>	<u>887</u>	<u>501</u>		7,226
Unallocated costs					(11,505)
Interest income					<u>78</u>
Operating loss					(4,201)
Finance costs					<u>(2,522)</u>
Loss before income tax					<u>(6,723)</u>

3 SEGMENTAL INFORMATION (Continued)

(a) Primary report format — business segments (Continued)

	(Unaudited)				
	Six months ended 30 September 2005				
	Paints and blended solvents HK\$'000	Plastic colorants HK\$'000	Chemical materials HK\$'000	Eliminations HK\$'000	Total HK\$'000
Segment revenues					
Turnover					
External Revenue	119,007	4,858	2,770	—	126,635
Inter segment revenue	—	15	406	(421)	—
Other revenue excluding interest income	<u>1,496</u>	<u>235</u>	<u>220</u>	<u>(794)</u>	<u>1,157</u>
	<u>120,503</u>	<u>5,108</u>	<u>3,396</u>	<u>(1,215)</u>	<u>127,792</u>
Segment results	<u>4,650</u>	<u>498</u>	<u>(128)</u>		5,020
Unallocated costs					(1,511)
Interest income					<u>1</u>
Operating profit					3,510
Finance costs					<u>(2,264)</u>
Profit before income tax					<u><u>1,246</u></u>

(b) Secondary report format — geographical segments

No geographical segment analysis is presented as less than 10% of the Group's turnover and contribution to operating profit is attributable to customers located outside the People's Republic of China ("PRC").

4 OPERATING (LOSS)/PROFIT

Operating (loss)/profit is stated after charging the following items:

	(Unaudited)	
	Six months ended	
	30th September	
	2006	2005
	HK\$'000	HK\$'000
Auditors' remuneration	105	100
Share-based employee share options	10,257	844
Amortisation	362	10
Depreciation	4,838	3,233

5 INCOME TAX

		(Unaudited)	
		Six months ended	
		30th September	
		2006	2005
	Note	HK\$'000	HK\$'000
Hong Kong profits tax	(a)	6	—
PRC income tax	(b)	92	92
		98	92

Notes:

- (a) No provision for Hong Kong profits tax has been made, the profit tax for Hong Kong is an adjustment for the period. There are no estimated assessable profits for Hong Kong in the period.
- (b) The PRC income tax has been provided at the prevailing rate as the Company's subsidiaries operating in the PRC incurred taxable profits for the period.

The Group had no significant unprovided deferred taxation during the period and at 30 September 2006.

6 DIVIDEND

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

7 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted loss per share for the six months ended 30 September 2006 are based on the consolidated loss attributable to equity holders of approximately HK\$6,926,000 (2005: profit of HK\$1,099,000).

The basic (loss)/earnings per share is based on the weighted average number of 662,315,700 shares in issue (2005: 438,330,391 shares) during the period.

The amount of diluted loss per share is the same as the basic loss per share as the effects of all potential ordinary shares are anti-dilutive for the six months ended 30 September 2006. The diluted earnings per share for the six months ended 30 September 2005 is calculated based on the weighted average number of 438,822,119 shares after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme as detailed in this interim financial statements.

8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has spent approximately HK\$10,144,000 (2005: HK\$1,494,000) on acquisition of property, plant and equipment.

9 TRADE AND OTHER RECEIVABLES

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Trade receivables	80,018	61,443
Other receivables, prepayments and deposits	21,692	18,691
	101,710	80,134

The Group operates a controlled credit policy and allows an average credit period of 30-120 days to its trade customers who satisfy the credit evaluation. Trade receivables are stated at their nominal value as reduced by appropriate provision for irrecoverable amounts with their ageing analysis at the respective balance sheet dates as follows:

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
0-30 days	25,408	25,910
31-60 days	22,070	16,113
61-90 days	15,285	8,063
91-120 days	7,821	4,874
Over 120 days	9,434	6,483
	80,018	61,443

10 TRADE AND OTHER PAYABLES

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Trade payables	25,422	19,350
Other payables and accruals	10,731	7,967
	<u>36,153</u>	<u>27,317</u>

Trade payables are stated at their nominal value with their ageing analysis at the respective balance sheet dates as follows:

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
0-30 days	8,631	7,243
31-60 days	5,975	3,213
61-90 days	6,746	4,018
Over 90 days	4,070	4,876
	<u>25,422</u>	<u>19,350</u>

11 SHARE CAPITAL

	(Unaudited) 30 September 2006		(Audited) 31 March 2006	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Authorised:				
Beginning and end of the period/year	<u>2,000,000</u>	<u>20,000</u>	<u>2,000,000</u>	<u>20,000</u>
Issued and fully paid:				
Beginning of the period/year	611,136	6,111	420,495	4,205
Issue of new shares	86,000	860	142,000	1,420
Share issued for acquisition of a subsidiary	—	—	40,141	401
Exercise of share options	<u>32,308</u>	<u>323</u>	<u>8,500</u>	<u>85</u>
End of the period/year	<u>729,444</u>	<u>7,294</u>	<u>611,136</u>	<u>6,111</u>

12 COMMITMENTS

(a) Capital expenditure commitments:

The Group had capital expenditure commitments in respect of properties under development and plant and equipment as follows:

	(Unaudited) 30 September 2006 HK\$'000	(Audited) 31 March 2006 HK\$'000
Contracted but not provided for		
— properties under development	4,298	127
— property, plant and equipment	2,380	753
	6,678	880

13 RELATED PARTY TRANSACTIONS

Save as disclosed in other notes to the financial statements, related party transactions, which were carried out in the normal course of the Group's businesses are as follows:

	(Unaudited) Six months ended 30th September 2006 HK\$'000	2005 HK\$'000
Rental expenses for directors' quarters paid to Luen Yat Enterprises Company Limited, a related company of the Group	498	432
Rental expenses charged by Mr. Poon Sau Tin and Mr. Poon Sum	192	192

The respective rental expenses were charged at fixed monthly rate in accordance with the underlying tenancy agreement.

14 POST BALANCE SHEET EVENTS

On 19 September 2006, the Board announced that the Company had entered into the conditional placing agreement with the placing agent on a best endeavor basis for the placing of up to 67,000,000 new shares to not fewer than six places at the placing price of HK\$0.50 per placing share. On 3 October 2006, 67,000,000 ordinary shares were issued with a total net proceed of HK\$33,100,000.

On 9 October 2006, the Company entered into the acquisition agreement, pursuant to which the Group has conditionally agreed to acquire 51% of the entire issued share capital of America Archi Colours Group Limited, which is incorporated in the British Virgin Islands and is the sole beneficial owner of Beijing Archi Technology Co., Ltd (collectively referred to as the "Archi Group"). The Archi Group is engaged in the sales and distribution of the paint products and is the authorized dealer in the PRC for a number of world's leading companies in the paint manufacturing business to sell the paint products. The consideration for the proposed acquisition is HK\$8,000,000 and the proposed acquisition constitutes a share transaction under the Listing Rules. The completion of the proposed acquisition will take place on 1 April 2007 if the conditions precedent and the guarantees as indicated in the acquisition agreement are satisfied.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 September 2006, the Group's revenue was approximately HK\$152,591,000, an increase of 20.50% as compared to the corresponding period of last year. This was mainly due to the consolidation of the newly acquired of Zhongshan Wing Shing Ling Feng Chemical Company Limited and Dongguan City Changan Xinyimei Paint Company Limited contributing a full period of revenue during the period.

The Group's operation contributed approximately HK\$3,331,000 profit for the period. However, expenses arise from the grant of the share options amounted to HK\$10,257,000 during the period. According to the Hong Kong Accounting Standards, these expenses should be charged to profit and loss account. As a result, loss attributable to equity holders of the Group for the period was approximately HK\$6,926,000 (Profit for the six months ended 30 September 2005: HK\$1,099,000). Basic loss per share was HK\$1.0 cent (Earnings per share for the six months ended 30 September 2005: HK0.25 cent).

For the period under review, the Group had an encouraging result in generating the higher revenue. However, the market was still a hard time for the operations and this has been characterized by intense competition together with the prevailing high international crude-oil prices, resulting in the moderately tough gross profit margin. Signs of the sustained high single-digit economic growth in China and the continued appreciation of Renminbi improved overall results. However, the customers were cautious about accepting and placing orders at the relatively high costs. To balance off the negative impact of the increases in raw material costs, the Group continued to exert a flexible procurement approach to manage the material sourcing.

To meet the tough challenges, the Group continuously premised on the reinforcement of operating cash flow by means of consolidating customer base and stringent control over costs. As a result of the full implementation of the enterprise resource planning system this year, the Group re-designed the core operating processes. The overall expenses were well managed particularly by way of strictly daily controls over the cost within the Group's operations.

At the same time, the Group also actively developed the new marketing network in the northern China. As management expected there would be a continuous growth in future business, the Group would further expand the production plant in Zhongshan to cater for the new products and orders from the new market. It is expected that the Group's revenue will have a high growth in the foreseeable future.

OUTLOOK

Following the completion of the proposed acquisition of 51% equity interest in America Archi Colours Group Limited (the "Archi Group") as expected by April 2007, the business line of the Group will be further broadened into both construction projects and household markets. Besides, it will provide a distribution platform in the northern China on the top of the present sales network in Yangtze and Pearl River Deltas. The Archi Group has already solidified its presence in the northern China as being the authorised dealer for a number of the paint products of the world's leading brand names. The strategic alliance with the Archi Group will benefit the Group with both the sales synergy and marketing competence.

Regarding to the new business in mainland China, the Group co-operated with a business partner, Yangjiang No.1 Construction Group Company Limited (the "Construction Group") (陽江市第一建築集團有限公司) in November 2006 to develop the potential construction market. This co-operation will accelerate the growth of the Group's sales of the paints for construction projects in Guangdong, PRC. At the moment, the Construction Group is principally engaged in the industrial and residential construction projects, municipal projects as well as both exterior and interior wall decorative works. Over the years, the Construction Group has accomplished a number of construction projects within both private and public sectors in Guangdong, the PRC with good reputation. The development of such a strategic business relationship will have signified the growing momentum of the Group's market penetration into the construction projects in the mainland China.

In striving for the market position as an integrated energy and chemical group, the Group, partnering with the technical experts, has been developing a variety of the chemicals with custom-made application techniques for depressing the viscosity of thickened oil reserve, helping increase the overall outputs of oil fields. Recently, the innovative chemicals, specifically termed as "納米型驅油劑" or "High Efficient Viscosity Depressor for Oil Exploitation", have been developed successfully and already sold to certain oilfields in Shandong, the PRC. The Group is now applying a global patent for these products unique.

Further, the business negotiations with some other oilfields in the northeast China have been in the pipeline. This emerging business line not only furnished the Group with another source of operating income, but also presented a good opportunity for the Group to tap the oil exploitation industry in the mainland China. The management has confidence that this business line will have a good prospect and expects to contribute a positive result for the next half year.

At last, the due diligence and negotiation for the formal agreement in relation to the possible acquisition of certain equity interests in Northeast Oil (China) Development Company Limited are progressing. To the best information, knowledge and belief of the Directors, the proposed acquisition will lead the Group to be engaged in the energy industry in terms of the possible joint development of the oil exploitation business with 勝利油田大明油氣勘探開發科技有限責任公司 over certain areas of Fulaerjiqu Oilfield District in Qiqihar, Heilongjiang, the PRC. Hence, the proposed acquisition is in line with the Group's business goal as an integrated energy and chemical group to broaden its earning base. In the foreseeable future, the Group will continue to explore investment opportunity in the high growing energy related projects so as to increase the shareholders' value and returns.

FINANCIAL REVIEW

Working capital

As at 30 September 2006, the Group's working capital was kept at approximately HK\$19,057,000 as compared to net current liabilities HK\$6,491,000 as at 31 March 2006. The current ratio, being the proportion of total current assets against total current liabilities, was 1.14 (31 March 2006: 0.95). It is expected that the current ratio will be further improved during the year as the short term loan amounting to RMB12,000,000 of a subsidiary in PRC will be renewed as a 5 year long term loan. The Directors consider that the present working capital level is sufficient to meet the upcoming operating needs.

Liquidity and Financial Resources

As at 30 September 2006, the Group had total outstanding borrowings of approximately HK\$73,258,000 (31 March 2006: HK\$84,675,000), cash and bank balances of approximately HK\$26,710,000 (31 March 2006: HK\$17,632,000) and total assets of approximately HK\$311,761,000 (31 March 2006: HK\$274,213,000). Current assets of the Group on the same date amounted to approximately HK\$156,528,000 (31 March 2006: HK\$123,916,000) whilst current liabilities were HK\$139,471,000 (31 March 2006: HK\$130,407,000). The gearing ratio, calculated by dividing the total borrowings by the total assets, was equal to 0.23 as at 30 September 2006 (31 March 2006: 0.31).

The Group generally financed its operations with internally generated cash flow and general banking facilities. Through proper management of its treasury functions, the Group will continue to maintain sufficient funds to meet its operational requirements as well as future development needs.

Pledge of assets

As at 30 September 2006, certain of the Group's assets with a net book value of approximately HK\$41,608,000 were pledged to secure the banking facilities granted to the Group. As at 31 March 2006, the same amount of the assets of the Group were pledged.

Exposure to foreign exchange risk and interest rate risk

The Group's business transactions are mainly denominated in Hong Kong dollars and Renminbi. Most interest bearing bank borrowings of the Group are on floating rate basis. Foreign currency exposure is monitored closely by management and hedged by forward foreign currency contracts. The Group also uses derivative financial instruments to manage interest rate exposures for hedging purpose only.

DISCLOSURES PURSUANT TO RULES 13.21 OF THE LISTING RULES

In accordance with the disclosure requirements of rule 13.21 of the Listing Rules, the Company makes the following disclosures in relation to the details of the Facility Letter (as defined below), which includes conditions relating to specific performance of the controlling shareholder of the Company:—

On 7 May 2004, the Group has accepted a facility letter dated 6 May 2004 (the “Facility Letter”) issued by a bank in Hong Kong (the “Bank”) in relation to various working capital facilities up to the aggregate amount of HK\$68,000,000 including a term loan facility up to HK\$40,000,000 (collectively, the “Facilities”). The Facilities are subject to periodic review by the Bank at its sole discretion.

Under the provisions of the Facility Letter, there are conditions, among other things, that (1) Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall collectively maintain at least 50% of the issued share capital of the Company and (2) Mr. Poon Sum shall remain as Chairman or Chief Executive Officer of the Group and shall be actively involved in the management and business of the Group. Should there be any breach of such conditions, the Bank shall have the right to demand for repayment of all outstanding amounts due by the Group under the Facilities.

On 30 November 2004, the Group has accepted the renewal of the Facilities by the Bank together with the same conditions imposing specific performance obligations on the controlling shareholder as described above. The aggregate facilities amount has been revised to approximately HK\$66,708,000 following the reducing balance of the term loan facility made by the Group's instalment repayment as scheduled.

On 19 October 2005, the Group has accepted the further renewal of the Facilities by the Bank up to the aggregate amount of approximately HK\$48,389,000 together with the same conditions imposing specific performance obligations on the controlling shareholder as described above, save as the amendment to the condition, “that Mr. Poon Sum, Mr. Poon Sau Tin and their family members shall collectively maintain at least 40% of the issued share capital of the Company is allowed subject to the maintenance of the consolidated tangible net worth by the Group at no less than HK\$100,000,000 throughout the life of all the Facilities” as duly renewed by the Bank. Consolidated net worth is defined as shareholders' equity less any intangible assets, deferred expenditure, loan due from directors and loan due from third party companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2006, the Group had 532 employees (30 September 2005: 556). Total 514 employees located in mainland China while the rest were based in Hong Kong and Macau. Employees' remuneration package includes salary, bonus and share options. Under the Group's remuneration policy, employees are rewarded on the basis of merits and market conditions and in accordance with the statutory requirements of the respective jurisdiction where the employees are engaged.

DIRECTORS' INTERESTS

At 30 September 2006, the interests of the directors and their associates in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Name	Capacity	Nature of Interest	Number of Shares held	Equity Derivative	Total Interest	Total % of Issued Shares
Mr. Poon Sum	Beneficial Owner	Personal Interest (Notes 1 & 2)	33,294,265	38,814,037	323,971,341	44.41%
	Founder of a Discretionary Trust	Other Interest (Note 1 & 3)	220,898,799	30,964,240		
Mr. Wong Kwok Leung	Beneficial Owner	Personal Interest (Notes 1 & 4)	1,652,000	2,990,857	4,642,857	0.64%
Mr. Poon Wai Kong	Beneficial Owner	Personal Interest (Note 1)	2,600,000	—	2,600,000	0.36%
Mr. Chen Lizhong	Beneficial Owner	Personal Interest (Notes 1 & 5)	—	6,000,000	6,000,000	0.82%
Ms. Chew Lye Yin	Beneficial Owner	Personal Interest (Note 1)	16,000,000	—	16,000,000	2.19%
Mr. Chan Shu Kin	Beneficial Owner	Personal Interest (Notes 1 & 6)	—	700,000	700,000	0.10%
Mr. Chan Kam Ching, Paul	Beneficial Owner	Personal Interest (Notes 1 & 6)	—	700,000	700,000	0.10%
Mr. Cheung Kwan Hung	Beneficial Owner	Personal Interest (Notes 1 & 6)	—	700,000	700,000	0.10%

Notes:

- (1) All interests in shares and underlying shares of equity derivatives of the Company are long positions.
- (2) All interest in underlying shares of equity derivatives of the Company are interests in warrants of the Company which conferred rights to subscribe for shares at an initial subscription price of HK\$0.70 per share (subject to adjustment) exercisable during the period from 13 November 2002 to 31 October 2007 ("warrants") and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 5 June 2006 to 4 June 2009 to subscribe for 35,000,000 shares at an exercise price of HK\$0.197 per share.
- (3) All interest in underlying shares of equity derivatives of the Company are interests in warrants. These shares and warrants are held by Ever Source Enterprises Limited ("Ever Source"). The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord Limited ("Time Concord"), a company incorporated in the British Virgin Islands ("BVI") and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance Investments Limited ("Guidance"), a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin, the elder brother of Mr. Poon Sum. Accordingly, Mr. Poon Sum will be deemed to be interested in 220,898,799 shares, representing approximately 30.28% of the Company's shares in issue as at 30 September 2006, through his shareholding in Ever Source.
- (4) All interests in underlying shares of equity derivatives of the Company are interests in warrants which conferred rights to subscribe for 990,857 shares and interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 13 August 2004 to 12 August 2014 to subscribe for 2,000,000 shares at an exercise price of HK\$0.29 per share.
- (5) All interest in underlying shares of equity derivatives of the Company are interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 3 April 2006 to 2 April 2008 to subscribe for 6,000,000 shares at an exercise price of HK\$0.197 per share.
- (6) All interest in underlying shares of equity derivatives of the Company are interests in share options of the Company granted under the share option scheme of the Company which may be exercised during the period from 21 September 2006 to 20 September 2007 to subscribe for 700,000 shares at an exercise price of HK\$0.58 per share.

Save as disclosed above, at 30 September 2006, none of the directors of the Company had held any interests or short positions in the shares and underlying shares of the Company or any of its associated corporations (as defined in Part XV of the 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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

SHARE OPTIONS

Pursuant to the Company's Share Option Scheme, whereby employees, executive and non-executive directors, officers, advisers and consultants of the Group may be granted options to subscribe for the shares of the Company, details of the share option outstanding as at 30 September 2006 were as follows:

Participants	Date of grant	Exercise price per share HK\$	Exercise period	Outstanding at 1 April 2006	Number of options			Price of Company's shares		
					Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 Sept 2006	For options granted HK\$ (Note 1)	For options exercised HK\$ (Note 2)
Directors										
Mr. Poon Sum	05/06/2006	0.197	05/06/2006 to 04/06/2009	—	35,000,000	—	—	35,000,000	0.315	—
Mr. Wong Kwok Leung	13/08/2004	0.29	13/08/2004 to 12/08/2014	2,000,000	—	—	—	2,000,000	—	—
Mr. Poon Wai Kong	03/04/2006	0.197	03/04/2006 to 29/09/2006	—	5,000,000	(5,000,000)	—	—	0.195	0.6112
Non-executive Director										
Mr. Chen Lizhong	03/04/2006	0.197	03/04/2006 to 02/04/2008	—	6,000,000	—	—	6,000,000	0.195	—
Independent Non-executive Directors										
Mr. Chan Shu Kin	21/09/2006	0.58	21/09/2006 to 20/09/2007	—	700,000	—	—	700,000	0.580	—
Chan Kam Ching, Paul	21/09/2006	0.58	21/09/2006 to 20/09/2007	—	700,000	—	—	700,000	0.580	—
Cheung Kwan Hung	21/09/2006	0.58	21/09/2006 to 20/09/2007	—	700,000	—	—	700,000	0.580	—

Participants	Date of grant	Exercise price per share HK\$	Exercise period	Outstanding at 1 April 2006	Number of options			Outstanding at 30 Sept 2006	Price of Company's shares	
					Granted during the period	Exercised during the period	Lapsed during the period		For options granted HK\$ (Note 1)	For options exercised HK\$ (Note 2)
Employees in aggregate	24/11/2003	0.301	24/11/2003 to 23/11/2008	9,500,000	—	—	—	9,500,000	0.301	—
	13/08/2004	0.290	13/08/2004 to 12/08/2014	7,000,000	—	(208,000)	—	6,792,000	—	0.6700
	03/04/2006	0.197	03/04/2006 to 02/04/2008	—	5,000,000	—	—	5,000,000	0.195	—
	03/04/2006	0.197	03/04/2006 to 29/09/2006	—	14,500,000	(14,500,000)	—	—	0.195	0.4388
	18/04/2006	0.232	03/04/2006 to 17/04/2008	—	8,000,000	—	—	8,000,000	0.214	—
	26/04/2006	0.275	26/04/2006 to 25/04/2007	—	3,000,000	—	—	3,000,000	0.265	—
	27/07/2006	0.315	27/07/2006 to 26/03/2007	—	24,200,000	(12,200,000)	—	12,000,000	0.310	0.2150
	02/08/2006	0.284	02/08/2006 to 26/03/2007	—	15,000,000	(400,000)	—	14,600,000	0.280	0.6700
Total				<u>18,500,000</u>	<u>117,800,000</u>	<u>(32,308,000)</u>	<u>—</u>	<u>103,992,000</u>		

Notes:

- (1) The price of the Company's shares disclosed for options granted is the closing price of the shares immediately before the date on which the options were granted.
- (2) The price of the Company's shares disclosed for options exercised is the weighted average closing price of the shares immediately before the dates on which the options were exercised.

Save as disclosed above, none of the directors, or their spouse or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

At 30 September 2006, the interests of the shareholders, not being a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as
						Percentage Of Issued Shares
BNP Paribas Jersey Trust Corporation Limited ("BNP Paribas Jersey")	Trustee	Other Interest (Notes 1, 2 & 3)	220,898,799	30,964,240	251,863,039	34.53%
Ground Point Limited ("Ground Point")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	220,898,799	30,964,240	251,863,039	34.53%
Red Tiles Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	220,898,799	30,964,240	251,863,039	34.53%
Guidance	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	34.53%
Time Concord	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	34.53%
Ever Source	Beneficial Owner	Corporate Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240	251,863,039	34.53%
Mr. Poon Sau Tin	Beneficial Owner	Personal Interest (Notes 1)	27,002,265	3,814,037	282,679,341	38.75%
	Founder of a Discretionary Trust	Other Interest (Notes 1, 2, 3 & 4)	220,898,799	30,964,240		

Notes:

- (1) All interests in shares and underlying shares of equity derivatives of the Company are long position. All interest in underlying shares of equity derivatives of the Company are interests in warrants.
- (2) All interests of BNP Paribas Jersey, Ground Point, Red Tiles, Guidance, Time Concord and Ever Source and the other interest of Mr. Poon Sau Tin were duplicated.
- (3) BNP Paribas Jersey is deemed to be interested in the shares and warrants in the capacity of a trust through interests of corporations controlled by it as follows:—

Name of Controlled Corporation	Name of Controlling Shareholders	Percentage Control
Ground Point	BNP Paribas Jersey	100%
Red Tiles	BNP Paribas Jersey	100%
Guidance	Ground Point	100%
Time Concord	Red Tiles	100%
Ever Source	Guidance	50%
Ever Source	Time Concord	50%

- (4) These shares and warrants are held by Ever Source. The issued share capital of Ever Source is beneficially owned as to 50% by Time Concord, a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance, a company incorporated in the BVI and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin, the elder brother of Mr. Poon Sum. Accordingly, each of Mr. Poon Sum and Mr. Poon Sau Tin will be deemed to be interested in 220,898,799 shares, representing approximately 30.28% of the Company's shares in issue as at 30 September 2006, through his shareholding in Ever Source.

Save as disclosed above, there was no person known to the directors of the Company, other than a director of the Company, who as at 30 September 2006 had an interest or short position in the shares or underlying shares of the Company as recorded in the register kept under section 336 of the SFO.

DIRECTORS' INTEREST IN COMPETING BUSINESS

None of the Directors has an interest in a business which competes or many compete with the business of the Group.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the period.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30 September 2006.

CORPORATE GOVERNANCE

The Group has adopted the Code on Corporate Governance Practices ("Code") as set out in Appendix 14 of the Listing Rules which came into effect on 1 January 2005. During the period, the Code had been duly complied with except for the deviations as follows:

Code Provision A2.1 requires the role of Chairman and Chief Executive Officer (CEO) should not be performed by the same individual. At the moment, the Company does not have a separate Chairman and CEO and Mr. Poon Sum currently holds both positions. The Board believes that vesting the roles of Chairman and CEO in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.

Code Provision A4.1 requires that the non-executive directors should be appointed for a specific term and subject to re-election. The Company does not fully comply with the code that the Non-executive Director and the Independent Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Articles of Association.

Mr. Poon Wai Kong was appointed as Executive Director of the Company on 21 March 2006 to fill the casual vacancy pursuant to the resignation of Mr. Mok Yu Kong. Mr. Poon Wai Kong has not been elected by shareholders at the extraordinary general meeting of the Company held on 5 June 2006 in accordance with the requirement of the Code. Mr. Poon Wai Kong's re-appointment has been approved by the shareholders at the annual general meeting held on 25 August 2006.

AUDIT COMMITTEE

The Audit Committee comprises of Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul, and Mr. Cheung Kwan Hung, the Independent Non-executive Directors of the Company. The objectives of the Audit Committee are to review and oversee the Group's financial reporting and internal control systems.

During the period of review, the Audit Committee has decided to appoint an independent party to execute an internal control review project to the Company and also has reviewed with the Company's management this unaudited interim report before it was approved by the Board.

COMPLIANCE WITH THE MODEL CODE

The Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed, following specific enquiry by the Group, that they have fully complied with the required standard set out in the Model Code throughout the review period.

On behalf of the Board

Poon Sum

Chairman

Hong Kong, 22 December 2006

As at the date of this report, the board comprises Mr. Poon Sum, Mr. Wong Kwok Leung and Mr. Poon Wai Kong as executive Directors; Mr. Chen Lizhong and Ms. Chew, Lye Yin, Ruth as non-executive Directors; Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul and Mr. Cheung Kwan Hung as independent non-executive Directors.