



# Hua Yi Copper Holdings Limited

(incorporated in Bermuda with limited liability)

Stock Code : 559



Interim Report  
2006/2007



## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

CHAU Lai Him

*(Chairman and Managing Director)*

CHU Yuk Kuen

LAU Man Tak

CHOW Kin Ming

#### Independent Non-Executive Directors

CHUNG Kam Kwong

LEE Kin Keung

### COMPANY SECRETARY

LAU Man Tak

### REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

No. 7, 2nd Floor

Kingsford Industrial Centre

13 Wang Hoi Road

Kowloon Bay

Kowloon

Hong Kong

### AUDITORS

Deloitte Touche Tohmatsu

35th Floor, One Pacific Place

88 Queensway

Hong Kong

### LEGAL ADVISOR

Herbert Smith

23/F, Gloucester Tower

15 Queen's Road Central

Hong Kong

### BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tengis Limited

26/F, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

### PRINCIPAL BANKS (in alphabetical order)

Banco de Oro-EPCI Inc., Hong Kong Branch

Bank of Communications Co., Ltd,

Hong Kong Branch

Bank SinoPac, Hong Kong Branch

CITIC Ka Wah Bank Limited

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China

(Asia) Limited

Standard Chartered Bank (Hong Kong) Limited

The Hong Kong and Shanghai Banking

Corporation Limited

Wing Hang Bank, Limited

The Board of Directors (the "Directors") of Hua Yi Copper Holdings Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2006, as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 December 2006

		<b>For the six months ended 31 December</b>	
	<i>NOTES</i>	<b>2006 HK\$'000 (Unaudited)</b>	2005 HK\$'000 (Unaudited)
Turnover	3	<b>1,205,464</b>	748,531
Cost of sales		<b>(1,155,029)</b>	(699,075)
Gross profit		<b>50,435</b>	49,456
Other income		<b>2,879</b>	7,105
Interest income		<b>2,005</b>	1,296
General and administrative expenses		<b>(17,141)</b>	(19,867)
Selling and distribution expenses		<b>(3,215)</b>	(4,133)
Change in fair value of derivative financial instruments		<b>3,207</b>	2,474
Finance costs		<b>(21,662)</b>	(12,442)
Share of result of a jointly controlled entity		<b>(42)</b>	–
Profit before taxation	4	<b>16,466</b>	23,889
Taxation	5	<b>(1,991)</b>	(2,710)
Profit for the period		<b>14,475</b>	21,179
Dividends paid	6	<b>16,741</b>	–
Earnings per share			
– basic	7	<b>2.17 cents</b>	3.19 cents
– diluted	7	<b>2.15 cents</b>	3.19 cents



## CONDENSED CONSOLIDATED BALANCE SHEET

At 31 December 2006

	NOTES	31.12.2006 HK\$'000 (Unaudited)	30.6.2006 HK\$'000 (Audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	162,044	152,381
Prepaid lease payments for land – non-current portion		71,655	67,652
Prepayment for acquisition of property, plant and equipment		76,613	79,733
Interest in a jointly controlled entity		17,914	17,485
		<u>328,226</u>	<u>317,251</u>
<b>Current assets</b>			
Inventories		180,230	195,157
Television programmes and sub-licensing rights		423	423
Debtors, deposits and prepayments	9	264,765	264,158
Bills receivable	10	25,689	1,251
Prepaid lease payments for land – current portion		1,568	1,774
Amounts due from fellow subsidiaries	17	193,010	160,716
Derivative financial assets	14	29,625	6,063
Pledged deposits		59,977	67,180
Bank balances and cash		191,206	120,236
		<u>946,493</u>	<u>816,958</u>

**CONDENSED CONSOLIDATED BALANCE SHEET (Continued)**

At 31 December 2006

	NOTES	31.12.2006 HK\$'000 (Unaudited)	30.6.2006 HK\$'000 (Audited)
<b>Current liabilities</b>			
Creditors and accrued charges	11	72,557	94,979
Bills payable	12	99,701	66,797
Taxation		9,011	8,779
Obligations under finance leases		462	211
Borrowings	13	538,432	445,731
Bank overdrafts		–	70
Derivative financial liabilities	14	9,447	1,478
Amounts due to fellow subsidiaries	17	21,521	–
		<b>751,131</b>	618,045
<b>Net current assets</b>			
		<b>195,362</b>	198,913
<b>Total assets less current liabilities</b>			
		<b>523,588</b>	516,164
<b>Non-current liabilities</b>			
Obligations under finance leases		234	218
Deferred tax liabilities		15,155	14,937
		<b>15,389</b>	15,155
		<b>508,199</b>	501,009
<b>Capital and reserves</b>			
Share capital	15	133,928	133,428
Reserves		374,271	367,581
		<b>508,199</b>	501,009



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 December 2006

	Share capital <i>HK\$'000</i> <i>(Note 15)</i>	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Special reserve <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 July 2005	111,095	190,496	-	-	(43,246)	-	57,603	315,948
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	2,839	-	-	-	2,839
Profit for the period	-	-	-	-	-	-	21,179	21,179
Total recognised income for the period	-	-	-	2,839	-	-	21,179	24,018
Placement of new shares	22,200	75,480	-	-	-	-	-	97,680
Expenses incurred in relation to the issue of new shares	-	(5,095)	-	-	-	-	-	(5,095)
Capital reorganisation	-	(260,881)	172,724	-	-	-	88,157	-
At 31 December 2005	133,295	-	172,724	2,839	(43,246)	-	166,939	432,551

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

For the six months ended 31 December 2006

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus HK\$'000	Exchange reserve HK\$'000	Special reserve HK\$'000	Share option reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 July 2006	133,428	93	172,724	5,052	(43,246)	3,565	229,393	501,009
Exchange differences arising on translation of foreign operations recognised directly in equity	-	-	-	7,669	-	-	-	7,669
Profit for the period	-	-	-	-	-	-	14,475	14,475
Total recognised income for the period	-	-	-	7,669	-	-	14,475	22,144
Issue of shares upon exercise of share options	500	187	-	-	-	-	-	687
Transfer upon exercise of share options	-	-	-	-	-	(162)	162	-
Recognition of equity- settled share-based payments	-	-	-	-	-	1,100	-	1,100
Dividends paid	-	-	-	-	-	-	(16,741)	(16,741)
At 31 December 2006	133,928	280	172,724	12,721	(43,246)	4,503	227,289	508,199



## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 December 2006

	For the six months ended 31 December	
	2006 HK\$'000 (Unaudited)	2005 HK\$'000 (Unaudited)
Net cash from operating activities	<u>30,294</u>	<u>35,225</u>
Net cash from (used in) investing activities:		
Additions to property, plant and equipment	(9,661)	(81,181)
Other investing cash flows	(6,156)	(2,934)
	<u>(15,817)</u>	<u>(84,115)</u>
Net cash from financing activities:		
New borrowings raised	897,595	603,880
Repayments of borrowings	(806,251)	(547,025)
Net proceeds from placement of shares	–	92,584
Dividends paid	(16,741)	–
Other financing cash flows	(18,957)	(11,948)
	<u>55,646</u>	<u>137,491</u>
Net increase in cash and cash equivalents	70,123	88,601
Cash and cash equivalents at beginning of the period	120,166	60,868
Effect of foreign exchange rate changes	917	371
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>191,206</u>	<u>149,840</u>



## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 31 December 2006*

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements of the Company and its subsidiaries (the "Group") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 (HKAS 34), "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors consider Solartech International Holdings Limited ("Solartech"), also incorporated in Bermuda as an exempted company with limited liability and its shares being listed on the Stock Exchange, to be its ultimate holding company.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value, as appropriate.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2006 except as described below.

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (new "HKFRSs") issued by the HKICPA, which are either effective for accounting periods beginning on or after 1 December 2005, 1 January 2006, 1 March 2006, 1 May 2006 and 1 June 2006. The adoption of these new HKFRSs has had no material effect on how the results for the current and prior accounting periods are prepared and presented. Accordingly, no prior period adjustment has been required.



## 2. PRINCIPAL ACCOUNTING POLICIES (Continued)

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective. The directors of the Company is still not yet in the position to reasonably estimate the impact that may arise on the Group's results and financial position from the application of these standard, amendment or interpretations.

HKAS 1 (Amendment)	Capital Disclosures <sup>1</sup>
HKFRS 7	Financial Instruments: Disclosures <sup>1</sup>
HKFRS 8	Operating Segments <sup>4</sup>
HK(IFRIC) – INT 10	Interim Financial Reporting and Impairment <sup>2</sup>
HK(IFRIC) – INT 11	HKFRS 2: Group and Treasury Share Transactions <sup>3</sup>
HK(IFRIC) – INT 12	Service Concession Arrangements <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2007.

<sup>2</sup> Effective for annual periods beginning on or after 1 November 2006.

<sup>3</sup> Effective for annual periods beginning on or after 1 March 2007.

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2009.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2008.

### 3. SEGMENT INFORMATION

The Group reports its primary segment information based on product categories. Turnover and profit before taxation for the six months ended 31 December 2006 and 2005, analysed by product categories, are as follows:

	For the six months ended 31 December			
	2006		2005	
	Turnover <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>	Turnover <i>HK\$'000</i>	Profit before taxation <i>HK\$'000</i>
Copper products	1,143,377	30,646	677,761	35,228
Life like plants	61,964	7,698	69,722	120
Television programmes production, distribution and licensing	123	457	1,048	617
	<u>1,205,464</u>	<u>38,801</u>	<u>748,531</u>	<u>35,965</u>
Unallocated corporate income		2,444		2,537
Unallocated corporate expenses		(3,075)		(2,171)
Finance costs		(21,662)		(12,442)
Share of result of a jointly controlled entity		(42)		–
Profit before taxation		<u>16,466</u>		<u>23,889</u>



### 3. SEGMENT INFORMATION (Continued)

The Group's turnover for the six months ended 31 December 2006 and 2005, analysed by geographical market, is as follows:

	For the six months ended 31 December	
	2006 Turnover HK\$'000	2005 Turnover HK\$'000
Mainland China	1,143,500	678,814
North America	59,792	67,169
Europe	1,031	1,474
Hong Kong	980	896
Other Asian regions	161	178
	<b>1,205,464</b>	<b>748,531</b>

### 4. PROFIT BEFORE TAXATION

	For the six months ended 31 December	
	2006 HK\$'000	2005 HK\$'000
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	5,479	5,400
Charge of prepaid lease premium for land	610	722
	<b>6,089</b>	<b>6,122</b>

## 5. TAXATION

	<b>For the six months ended 31 December</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Hong Kong Profits Tax	<b>1,731</b>	730
Taxation in Mainland China	<b>292</b>	655
Deferred tax	<b>(32)</b>	1,325
	<b>1,991</b>	2,710

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for both periods.

Enterprise Income tax in Mainland China is calculated at 12% for both periods.

Dongguan Hua Yi Brass Products Company Limited ("Dongguan Hua Yi"), a wholly owned subsidiary is a foreign enterprise and was regarded as an export-oriented enterprise with annual exports exceeding 70% of the total production value. Accordingly, Dongguan Hua Yi had applied for special tax treatments and provided for the PRC Foreign Enterprise Income tax at the reduced rate of 12%.

## 6. DIVIDENDS PAID

The directors have determined that an interim dividend of HK\$0.01 (2005/2006: HK\$0.01) per share should be paid to the shareholders of the Company whose names appear in the Register of Members on 9 May 2007.

	<b>For the six months ended 31 December</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Final dividend in respect of 2005/2006 at HK\$0.025 per share (2004/2005: Nil)	<b>16,741</b>	–



## 7. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is based on the following data:

	<b>For the six months ended 31 December</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Results for the period and results for the purpose of basic and diluted earnings per share	<b>14,475</b>	21,179
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings per share	<b>667,695,565</b>	664,664,717
Effect of dilutive potential ordinary shares: share options	<b>7,061,132</b>	–
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<b>674,756,697</b>	664,664,717

The effect of share options was excluded from the calculation of diluted earnings per share in prior period because the exercise price of the Company's share options was higher than the average market price of ordinary shares.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the period ended 31 December 2006, the Group spent HK\$12,781,000 on acquisition of property, plant and equipment.

## 9. DEBTORS, DEPOSITS AND PREPAYMENTS

At 31 December 2006, included in the balance are trade debtors of HK\$189,295,000 (30.6.2006: HK\$157,537,000). The Group allows a credit period of 30 days to 90 days to its trade customers.

The aged analysis of trade debtors is as follows:

	<b>31.12.2006</b> <i>HK\$'000</i>	30.6.2006 <i>HK\$'000</i>
Within 30 days	<b>102,500</b>	103,509
31 – 60 days	<b>45,385</b>	33,812
61 – 90 days	<b>23,186</b>	11,561
Over 90 days	<b>18,224</b>	8,655
	<hr/> <b>189,295</b> <hr/>	<hr/> 157,537 <hr/>

## 10. BILLS RECEIVABLE

The aged analysis of bills receivable as at 31 December 2006 and 30 June 2006 are within 60 days.

## 11. CREDITORS AND ACCRUED CHARGES

At 31 December 2006, included in the balance are trade creditors of HK\$18,398,000 (30.6.2006: HK\$18,573,000).

The aged analysis of trade creditors is as follows:

	<b>31.12.2006</b> <i>HK\$'000</i>	30.6.2006 <i>HK\$'000</i>
Within 30 days	<b>10,255</b>	9,903
31 – 60 days	<b>2,365</b>	4,770
61 – 90 days	<b>652</b>	711
Over 90 days	<b>5,126</b>	3,189
	<hr/> <b>18,398</b> <hr/>	<hr/> 18,573 <hr/>



## 12. **BILLS PAYABLE**

The aged analysis of bills payable as at 31 December 2006 and 30 June 2006 are within 90 days.

## 13. **BORROWINGS**

During the period, the Group raised new borrowings of HK\$897,595,000 to provide for additional working capital and repaid borrowings of HK\$806,251,000.

## 14. **DERIVATIVE FINANCIAL INSTRUMENTS**

The Group entered into future contracts, foreign exchange forward contracts and interest rates swaps contracts to manage the price risk of raw materials, interest rate risk and foreign exchange risk.

The net fair value of the derivative financial instruments at 31 December 2006 as provided by the banks are HK\$20,178,000 (30.6.2006: HK\$4,585,000). All of these derivative financial instruments do not qualify for hedge accounting and fair value gain of HK\$3,207,000 has been recognised in the condensed consolidated income statement.

## 15. **SHARE CAPITAL**

	<b>THE COMPANY</b>	
	<b>Number of shares</b>	<b>Amount HK\$'000</b>
As at 1 July 2006	667,138,500	133,428
Exercise of share options	2,500,000	500
As at 31 December 2006	669,638,500	133,928



**16. SHARE OPTIONS**

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	<b>Number of share options</b>
Outstanding at the beginning of the period	65,336,000
Exercised during the period	<u>(2,500,000)</u>
Outstanding at the end of the period	<u>62,836,000</u>

**17. RELATED PARTY TRANSACTIONS**

The amounts due from and due to fellow subsidiaries at 31 December 2006 were HK\$193,010,000 (30.6.2006: HK\$160,716,000) and HK\$21,521,000 (30.6.2006: Nil) respectively.

During the period, the Group entered into the following transactions with fellow subsidiaries:

	<b>For the six months ended 31 December</b>	
	<b>2006 HK\$'000</b>	2005 HK\$'000
Sales of goods	<b>165,632</b>	95,114
Rental of office premises	<b>90</b>	90

The amounts due from fellow subsidiaries are trade in nature, unsecured, non-interest bearing and repayable within a credit period of 45 days.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Results

The Directors are pleased to announce that for the six months ended 31 December 2006 (the “period under review”), the Group recorded a turnover of approximately HK\$1,205,464,000, representing an increase of 61% over the approximately HK\$748,531,000 for the corresponding period last year. Profit attributable to shareholders was approximately HK\$14,475,000, 32% less than the approximately HK\$21,179,000 for the same period last year. Basic earnings per share were about HK2.17 cents (2005/06 interim: HK3.19 cents).

### Interim Dividend

The Directors have resolved to declare an interim dividend of HK1 cent per ordinary share (2005/06 interim: HK1 cent) for the year ending 30 June 2007 to shareholders whose names appear on the register of members on 9 May 2007. The interim dividend will be paid on or around 17 May 2007.

### Business Review

Copper rod business remained as the Group’s major income source, bringing in a turnover of approximately HK\$1,143,377,000 and accounting for 95% of the Group’s total turnover. The remaining 5% of turnover came from life-like plants and other businesses. By market locations, the PRC accounted for 95% of the Group’s total turnover. The rest was mainly derived from North America market.

#### *Copper Rod Business*

The copper rod business includes manufacturing and trading of copper rods and copper wires. Such products are primarily sold as raw materials for cables and wires used in the production of home electrical appliances and electronic products. The booming Chinese economy and the country’s growing scale as the “World Factory” have rocketed demand for copper products. In addition to the Group’s corresponding effort to expand its customer network have braced the healthy growth of the copper rod and related businesses. During the period under review, turnover from copper rods and related products increased by approximately 69% to HK\$1,143,377,000 when compared with the same period last year (2005/06 interim: HK\$677,761,000). Operating profit before taxation decreased by approximately 31% to HK\$16,466,000 (2005/06 interim: HK\$23,889,000). After construction of its downstream production base in Kunshan was completed last year, the Group was able to gradually increase sales of high value-added downstream products. High value-added downstream products accounted for approximately 40% of its total turnover for the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

#### *Copper Rod Business (Continued)*

During the period under review, the copper stocks of the two major metal futures exchanges of the world, namely the London Metal Exchange ("LME") and the New York Commodities Exchange rebounded. As a result, the average cash settlement price of LME copper price came down gradually from June 2006 to February 2007 and zig-zagged between US\$5,600 and US\$7,500 per tonne. During the period under review, the average cash settlement price of LME copper was approximately US\$7,369 per tonne, 8% lower against US\$8,046 per tonne for May 2006. Yet, LME copper price was still 83% higher compared with US\$4,029 per tonne for the same period last year. Trade-related finance costs of the Group thus rose and affected its profitability.

Nevertheless, as the Group uses letters of credit and trust receipt loans to settle copper cathode purchases for the Group's copper rods manufacturing and trading business, the lower copper price in the period under review, compared with the copper price in May 2006, had helped to alleviate finance cost pressure. That favoured growth of the business. During the period under review, the Group's Dongguan plant achieved an average utilization rate of approximately 60% for products manufactured for and sold by the Group. The remaining 40% capacity was consumed by copper rod processing service orders from other manufacturers.

In the past two years, the Group had strived to expand production scale to satisfy the huge demand for copper products as well as to support business development. Currently, in addition to the production facilities located in Dongguan of Guangdong Province, the Group has set up two new production plants under the Kunshan Hua Yi Copper Products Co. Ltd. ("Kunshan Hua Yi") in Jiangsu Province and Fujian Jinyi Copper Products Co. Ltd. ("Fujian Jinyi"), a joint venture with Zijin Mining Group Co., Ltd. ("Zijin Mining"), in Shang Hang County of Fujian Province. Besides, the Group also runs two copper recycling plants in Dongguan and Jingjiang respectively so as to develop copper recycling business. As at 31 December 2006, the Group could produce approximately 76,000 tonnes of copper rods and copper wires a year. When all the new factories are fully operational, the Group's total annual production capacity will increase to 164,000 tonnes, which will be sufficient to support its development needs.

#### Kunshan Hua Yi

The factory of Kunshan Hua Yi, which commenced operation in late July 2006, manufactures mainly high value-added downstream products including annealed copper wires, tin-coated copper wires, stranded copper wires and enameled copper wires and has a designed output capacity of 10,000 tonnes per annum. The Yangtze River Delta Region is today a major manufacturing base for many local and international enterprises. The Group expects continual orders from manufacturers of electrical appliances, electronic products and wires in the region, thus assuring stable growth of its business.



## MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

### Business Review (Continued)

#### *Copper Rod Business (Continued)*

##### Fujian Jinyi

In 2005, the Group signed an agreement with Zijin Mining to establish Fujian Jinyi in Shang Hang County, Fujian Province. The joint venture company, 45% held by the Group will mainly manufacture and distribute copper pipes in the region. Construction of factory was completed in late 2006. It is in the process of testing and adjusting the machinery. When fully operational, the factory will have an annual production capacity of around 10,000 tonnes of copper pipes for use in refrigerators and air-conditioners. As Shang Hang County has rich copper mine resources, Fujian Jinyi is set to enjoy lower production costs and higher price competitiveness than its peers.

##### Copper Recycling Business

The Group's copper recycling plant in Changling, Jingjiang ("靖江長凌銅業有限公司") commenced commercial production in late August 2006. It has an annual production capacity of around 48,000 tonnes of 8 mm copper rods. As for the copper recycling plant in Dongguan, installation of machinery was completed last September. The factory has an annual production capacity of approximately 30,000 tonnes of 2.6 mm, 3 mm and 8 mm copper rods. With copper prices kept on dropping during the period under review, so did the price of scrap copper. The whole scrap copper recycling industry was accordingly retarded, which led to a decline in supply of scrap copper. With limited raw material supply, development of the Group's copper recycling business slowed down.

##### *Life-like plant and other businesses*

Turnover from life-like plants and other businesses amounted to HK\$61,964,000 and HK\$123,000 respectively. The Group is seeking to divest these operations so as to focus resources on its main stream business.

### Prospects

Stepping into 2007, with the PRC economy continuing to record strong growth, market demand for copper and related products will also increase. In light of the increasing copper stock level around the world, the international price of copper is expected to remain stable. The Group's profit derived from copper forward contracts would be significantly lower in the second half year than that in the corresponding period last year. However, the more stable copper price will alleviate financing costs, which will be favourable to our copper rod business.

## **MANAGEMENT DISCUSSION AND ANALYSIS (Continued)**

### **Prospects (Continued)**

The Group expects its copper rod and related product businesses to continue to develop steadily in the second half year. With the falling copper price helping to lower financing costs in relation to copper cathode purchases, the Group will be able to procure more quality copper to meet increasing orders. The Group will increase the proportion of products manufactured for and sold by the Group itself and also increase the production volume of high value-added downstream products, with the aim of maximising its profit margin. Regarding the copper recycling business, with copper price stabilizing, the market will regain vigor manifests in line with increasing scrap copper supply. That plus the Central Government's support to and promotion of copper recycling industry, the Group expects its copper recycling operation to restore to its planned development track.

Looking forward, capitalizing on its abundant industry experience, quality products, solid customer relationship and expanded production scale, the Group will continue to develop its core copper rod business and generate satisfactory returns for shareholders.

### **INTERIM DIVIDEND**

The Directors have declared an interim dividend of HK1 cent per ordinary share (31 December 2005: HK1 cent) in respect of the financial year ending 30 June 2007. The interim dividend will be paid on or about 17 May 2007 to those shareholders as registered at the close of business on 9 May 2007.

### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from Thursday, 10 May 2007 to Friday, 11 May 2007, both days inclusive, during which no transfer of shares of the Company will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Branch Share Registrar in Hong Kong, Tengis Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 9 May 2007.

### **EMPLOYEES AND REMUNERATION POLICIES**

As at 31 December 2006, the Group had approximately 700 employees in Hong Kong and the PRC. Remuneration policies are reviewed periodically and determined by reference to market terms, company performance, and individual qualifications and performance. Staff benefits include medical schemes, Mandatory Provident Fund scheme for Hong Kong employees, and state-sponsored retirement plans for employees in the PRC.



## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2006, the Group had cash and bank balances (including pledged bank deposits) amounted to approximately HK\$251 million (30 June 2006: HK\$187 million) and net current assets value being over HK\$195 million (30 June 2006: HK\$199 million restated). The Group's gearing ratios as at 31 December 2006 was 1.06 (30 June 2006: 0.89), being a ratio of total bank borrowings of approximately HK\$539 million (30 June 2006: HK\$446 million) to shareholders' funds of approximately HK\$508 million (30 June 2006: HK\$501 million).

As at 31 December 2006, the Group pledged certain property, plant and machinery and fixed deposits with an aggregate net book value of approximately HK\$105 million (30 June 2006: HK\$111 million) to secure general banking facilities granted to the Group.

As at 31 December 2006, the Company has issued guarantees to the extent of approximately HK\$618 million (30 June 2006: HK\$423 million) to banks to secure general banking facilities granted to certain subsidiaries, of which, approximately HK\$490 million (30 June 2006: HK\$354 million) was utilised.

For the six months ended 31 December 2006, the Group entered into copper forward contracts, foreign exchange forward contracts and interest rates swap contracts (collectively referred as "derivative financial instruments" thereafter) to manage the copper price risks, foreign exchange risks and interest rate risks. These derivative financial instruments were entered into in accordance with the Group's hedging policies, but they were not qualified for hedge accounting under the new HKFRS which was effective from 1 January 2006. Therefore, the outstanding derivative financial instruments have to be revalued and stated at their fair value at the balance sheet date and the changes in fair value were charged to current year's income statement.

The Group's overall financial risk management focused on the unpredictability of the financial markets, controlled level of financial risks the Group can bear and minimised potential adverse effects on the financial performance of the Group. The purpose of which is to ensure that transactions undertaken are in accordance with the Group's policies and not for speculative purpose. The net fair value of the derivative financial instruments at 31 December 2006 were approximately HK\$20,178,000 (30 June 2006: of HK\$4,585,000). The change in fair value of HK\$3,207,000 (30 June 2006: HK\$2,474,000) has been recognised in income statement.

## DIRECTORS' INTERESTS IN SECURITIES

As at 31 December 2006, the interests of the directors and chief executives of the Company in the shares, underlying shares and debentures 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 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 Listed Companies contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### Long position in the shares of the Company

Name of director	Number of issued ordinary shares beneficially held	Percentage of the issued share capital of the Company
Mr. Chau Lai Him	2,894,000	0.43%
Mr. Lau Man Tak	970,000	0.14%

Other than as disclosed above, as at 31 December 2006, none of the directors, chief executives of the Company, nor their associates had any interests or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

Other than as disclosed above, none of the directors, chief executives of the Company or their associates had any right to subscribe for securities of the Company, or had exercised any such right during the period under review, and at no time during the period was the Company or any of its subsidiaries a party to any arrangement to enable the directors of the Company or any of their spouses or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.



## SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2006, the following persons had (other than directors or chief executives of the Company as disclosed under the section headed "Directors' Interests in Securities" above) interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register kept by the Company under section 336 of the SFO:

### Long position in the shares of the Company

Name	Number of issued ordinary shares held	
	Corporate interest	Percentage of holding
Solartech International Holdings Limited ("Solartech")	402,131,875 <i>(Note)</i>	60.05%
Skywalk Assets Management Limited ("Skywalk")	402,131,875 <i>(Note)</i>	60.05%

Note: Given Skywalk is a wholly owned subsidiary of Solartech, Solartech was deemed to be interested in the shares of the Company held directly by Skywalk by virtue of the SFO.



## SHARE OPTIONS

On 4 December 2003, the Company adopted a new share option scheme (the “New Share Option Scheme”) which replaced the Company’s old share option scheme adopted in 1996.

The following table sets out the changes in the Company’s outstanding share options under the New Share Option Scheme during the six months ended 31 December 2006:

Capacity	Date of grant	Exercisable period	Exercise price HK\$	Number of share options			Exercisable period	Number of share options exercisable for the period
				Outstanding at 1.7.2006	Exercised during the period	Outstanding at 31.12.2006		
Employees	9 December 2005	1 January 2006 to 31 December 2008	0.275	2,336,000	–	2,336,000	1.1.2006 to 31.12.2006	336,000
							1.1.2007 to 31.12.2007	1,000,000
							1.1.2008 to 31.12.2008	1,000,000
Others	9 December 2005	1 January 2006 to 31 December 2008	0.275	12,000,000	(2,500,000)	9,500,000	1.1.2006 to 31.12.2006	1,500,000
							1.1.2007 to 31.12.2007	4,000,000
							1.1.2008 to 31.12.2008	4,000,000
Others	6 April 2006	1 May 2006 to 30 April 2011	0.495	51,000,000	–	51,000,000	1.5.2006 to 30.4.2007	10,200,000
							1.5.2007 to 30.4.2008	10,200,000
							1.5.2008 to 30.4.2009	10,200,000
							1.5.2009 to 30.4.2010	10,200,000
							1.5.2010 to 30.4.2011	10,200,000
Total				65,336,000	(2,500,000)	62,836,000		



## **DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE**

No contract of significance to which the Company, its ultimate holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the six months ended 31 December 2006.

## **DISCLOSURE PURSUANT TO RULE 13.13 OF THE LISTING RULES**

As at 31 December 2006, the circumstances giving rise to the disclosure obligations under Rule 13.13 of the Listing Rules continued to exist and in accordance with Rule 13.20 of the Listing Rules, details of the relevant advance to the two entities are as follows:

The aggregate trade receivables balance due from Chau's Electrical Company Limited and Dongguan Qiaozhi Chau's Electrical Company Limited was approximately HK\$129,014,000, representing approximately 10.1% of the total assets of the Company as at 31 December 2006.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2006.

## **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

During the six months ended 31 December 2006, the Company had complied with the code provisions set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules, save and except that there has not been separation between the roles of the chairman and chief executive officer as required under code provision A.2.1 of the CG Code.

Mr. Chau Lai Him acts as the Chairman and Managing Director of the Company. Mr. Chau is the founder of the Group and has extensive industry experience. Mr. Chau is responsible for effective running of the board and for formulating business strategies. The Directors believe that it is the best interests of the Group for Mr. Chau to continue to be the executive chairman and that the current management structure has been effective in the development of the Group and implementation of business strategies under the leadership of Mr. Chau.

The Directors will continue to review the effectiveness of the Group's corporate governance structure to assess whether changes, including the separation of the roles of the chairman and the chief executive officer, are necessary in the future.

## INDEPENDENT NON-EXECUTIVE DIRECTOR

With effect from 1 March 2007, Mr. Chow Kin Ming ("Mr. Chow"), a then independent non-executive director of the Company, was re-designated as an executive director of the Company. On the same day, Mr. Chow also has resigned as a member of the Audit Committee and the Remuneration Committee of the Company.

Upon the redesignation of Mr. Chow on 1 March 2007 and as the date of this report, the Board includes two independent non-executive directors and the number of independent non-executive directors of the Company falls below the minimum number of three as required under rule 3.10(1) of the Listing Rules. Furthermore, the number of members of the Audit Committee of the Company also falls below the minimum number of three as required under rule 3.21 of the Listing Rules. The Company will, as soon as practicable (as required under rules 3.11 and 3.23 of the Listing Rules) appoint a suitable candidate to fill the vacancies as required under rules 3.10 and 3.21 the Listing Rules.

## AUDIT COMMITTEE

The Audit Committee currently comprises Mr. Chung Kam Kwong and Mr. Lee Kin Keung, all of whom are independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the CG Code. The unaudited interim results for the six months ended 31 December 2006 have been reviewed by the Audit Committee and external auditors.

## REMUNERATION COMMITTEE

The Remuneration Committee currently comprises Mr. Chung Kam Kwong and Mr. Lee Kin Keung, all of whom are independent non-executive directors of the Company. It has adopted terms of reference which are in line with the code provisions of the CG Code. The duties of the Remuneration Committee include reviewing and evaluating the remuneration packages of executive directors and senior management and making recommendations to the Board from time to time.

## COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules as the code of conduct regarding Directors' securities transactions. The Company has confirmed with all directors that they had complied with the required standard set out in the Model Code throughout the six months ended 31 December 2006.

**Chau Lai Him**

*Chairman and Managing Director*

Hong Kong SAR, 23 March 2007