



中油資源控股有限公司
China Oil Resources Holdings Limited
(Incorporated in the Cayman Islands with limited liability) Stock Code: 850

Interim Report 2007

CARE

OPPORTUNITY

RESPONSIBILITY



UNAUDITED INTERIM RESULTS

The Board of Directors (the "Board") of China Oil Resources Holdings Limited (the "Company") is pleased to present the unaudited interim results for the six months ended 30 September 2007 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

For the six months ended 30 September 2007

	Note	(Unaudited) Six months ended 30 September	
		2007 HK\$'000	2006 HK\$'000
Turnover	3	169,703	152,591
Cost of sales		(137,146)	(123,880)
Gross profit		32,557	28,711
Other revenue		7,604	1,591
Distribution costs		(8,719)	(8,852)
Administrative expenses		(19,639)	(14,979)
Employee benefits recognised from share options granted		(13,452)	(10,257)
Other operating expenses, net		(1,855)	(415)
Operating loss	4	(3,504)	(4,201)
Finance costs		(2,337)	(2,522)
Loss before income tax		(5,841)	(6,723)
Income tax	5	(763)	(98)
Loss for the period		(6,604)	(6,821)
Attributable to:			
Equity holders of the Company		(7,626)	(6,926)
Minority interests		1,022	105
		(6,604)	(6,821)
Dividends	6	–	–
Loss per share attributable to the ordinary equity holders of the Company during the period			
– Basic	7	HK(0.80) cent	HK(1.0) cent
– Diluted	7	N/A	HK(1.0) cent

CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 September 2007

	Note	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Non-current assets			
Property, plant and equipment	8	133,346	126,363
Prepaid lease payments		27,954	28,290
Investment properties		15	15
Goodwill		14,856	10,424
Intangible Assets		3,860	–
Available-for-sale financial assets		400	400
Deposits for acquisition of a subsidiary and project development		69,972	4,500
		250,403	169,992
Current assets			
Properties held for sales		5,136	–
Inventories		24,726	23,215
Trade and other receivables	9	172,505	123,545
Investments held for trading		31,602	4,642
Derivative financial instruments		199	676
Prepaid tax		2,537	2,457
Cash and bank balances		140,677	40,575
		377,382	195,110
Current liabilities			
Trade and other payables	10	32,153	25,492
Derivative financial instruments		1,443	687
Taxation payable		381	54
Bills payable		8,649	29,241
Bank and other borrowings		41,916	58,042
		84,542	113,516
Net current assets		292,840	81,594
Total assets less current liabilities		543,243	251,586

	Note	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Non-current liabilities			
Bank and other borrowings		21,901	14,122
Convertible Bonds – Liabilities	11	42,790	–
Deferred tax liabilities		2,047	1,793
		<u>66,738</u>	<u>15,915</u>
Net assets		<u>476,505</u>	<u>235,671</u>
Capital and reserves			
Share capital	12	11,975	8,727
Reserves		460,045	226,944
		<u>472,020</u>	<u>235,671</u>
Total equity attributable to equity holders of the Company		<u>472,020</u>	<u>235,671</u>
Minority interests		4,485	–
		<u>476,505</u>	<u>235,671</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 September 2007

	(Unaudited) Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000
Net cash used in operating activities	(42,578)	(13,456)
Net cash used in investing activities	(162,507)	(5,207)
Net cash generated from financing activities	261,550	32,312
Net increase in cash and cash equivalents	56,465	13,649
Cash and cash equivalents as at 1 April	34,212	12,132
Cash and cash equivalents as at 30 September	90,677	25,781
Analysis of balances of cash and cash equivalents:		
Cash and bank balances, having maturity within three months (Note)	90,677	26,710
Bank overdrafts	–	(929)
	90,677	25,781

Note: The cash and bank balances as at 30 September 2007 exclude a deposit of HK\$50,000,000 with maturity over three months.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2007

	Attributable to equity holders of the Company									
	Notes	Share Capital HK'000	Share Premium HK'000	Merger Reserve HK'000 (Note a)	Employee share-base compensation reserve HK'000	Retained Earnings HK'000	Convertible Bonds HK'000	Total HK'000	Minority Interest HK'000	Total Equity HK'000
Balance at 31 March 2006		6,111	53,033	3,248	3,641	64,198	-	130,231	554	130,785
Employee share option benefit		-	-	-	-	-	-	-	-	-
- value of services provided		-	-	-	10,257	-	-	10,257	-	10,257
- share option exercised		-	1,404	-	(1,404)	-	-	-	-	-
- proceeds from shares issued		323	7,539	-	-	-	-	7,862	-	7,862
Issue of new shares by Placing		860	23,331	-	-	-	-	24,191	-	24,191
Loss for the period		-	-	-	-	(6,926)	-	(6,926)	105	(6,821)
Balance at 30 September 2006		<u>7,294</u>	<u>85,307</u>	<u>3,248</u>	<u>12,494</u>	<u>57,272</u>	<u>-</u>	<u>165,615</u>	<u>659</u>	<u>166,274</u>
Balance at 31 March 2007		8,727	149,875	3,248	7,553	66,268	-	235,671	-	235,671
Employee share option benefit		-	-	-	-	-	-	-	-	-
- value of services provided	(b)	-	-	-	13,452	-	-	13,452	-	13,452
- share option exercised		-	8,460	-	(8,460)	-	-	-	-	-
- proceeds from shares issued	(c)	565	18,333	-	-	-	-	18,898	-	18,898
Shares issued for acquisition of subsidiaries	(d) & (e)	649	41,751	-	-	-	-	42,400	-	42,400
Shares issued for Convertible Bonds	(f)	1,778	132,326	-	-	-	-	134,104	-	134,104
Shares issued for Warrants	(g)	256	17,655	-	-	-	-	17,911	-	17,911
Convertible Bonds share portion at fair value	(f)	-	-	-	-	-	17,210	17,210	-	17,210
Acquisition of subsidiary		-	-	-	-	-	-	-	3,463	3,463
Loss for the period		-	-	-	-	(7,626)	-	(7,626)	1,022	(6,604)
Balance at 30 September 2007		<u>11,975</u>	<u>368,400</u>	<u>3,248</u>	<u>12,545</u>	<u>58,642</u>	<u>17,210</u>	<u>472,020</u>	<u>4,485</u>	<u>476,505</u>

Note:

- (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 under review, the Company granted 81,240,000 share options at the exercise prices between HK\$0.63 per share to HK\$1.08 per share to certain directors and employees. According to HKFRS2, the fair value of these options amounting to approximately HK\$13,452,000 is accounted for in the share based employee compensation reserve.
- (c) At 30 September 2007, certain directors and employees exercised share options granted and consequently, a total number of 56,484,000 new shares were issued. The difference between the par value of shares issued and the proceeds from the exercise of the options totaling approximately HK\$18,333,000 are recognized as share premium.
- (d) On 30 April 2007, the Company issued 4,301,332 new shares of HK\$0.558 each to Ms. Liu Yu Qin for the balance payment of the acquisition of 51% America Archi Colors Group Limited. The amount of approximately HK\$2,357,000 is recognized as share premium.
- (e) On 12 June 2007, the Company issued 60,606,060 new shares of HK\$0.66 each to Well Lead Group Limited for balance payment of the acquisition of 51% Northeast Oil (China) Development Company Limited. The amount of approximately HK\$39,394,000 is recognized as share premium.
- (f) On 4 July 2007, the Company issued a 0.5% coupon with 5 years listed HK\$200,000,000 convertible bonds to 3 institutional investors. As at 30 September 2007, a total amount of HK\$140,000,000 of the bonds had been converted into shares. The Company issued 177,822,937 new shares of HK\$0.7873 each to the bondholders. The amount of approximately 132,326,000 is recognized as share premium.
- (g) Warrants issued by the Company in November 2002 had been expired on 31 October 2007. As at 30 September 2007, a total number of 25,600,000 shares were issued upon exercise of the subscriptions rights attaching to the warrants. The amount of approximately HK\$17,655,000 is recognized as share premium.

NOTES TO THE CONDENSED UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1 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 Suite 1006, 10/F, Ocean Center, Harbour City, Tsim Sha Tsui, Kowloon, Hong Kong.

The principal activities of the Group are manufacture and sale of paints and blended solvents, manufacture and sale of plastic colorants, trading of chemical materials, contract work and natural resources exploitation. As the natural resources exploitation has not contributed revenue, 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 of the Group (“Interim Accounts”) 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 and the applicable disclosure requirements of Appendix 16 to the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This unaudited condensed consolidated interim financial statements should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2007. The accounting policies and methods of computation adopted are consistent with those followed in preparation of the Group’s annual financial statements for the year ended 31 March 2007.

During the period, the Group adopted the following new and revised Hong Kong Financial Reporting Standards (“HKFRSs”), Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK(IFRIC) – Ints”) (collectively the “new HKFRSs”) issued by the HKICPA.

HKAS 1 (Amendment)	Presentation of Financial Statements – Capital Disclosures
HKFRS 7	Financial Instruments – Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Restatement of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

2 BASIS OF PREPARATION *(Continued)*

The adoption of these HKFRSs did not result in substantial changes to the accounting policies and the methods of computation used in the condensed consolidated interim financial statements. As there is no material effect on the results for the current or prior accounting periods, no prior period adjustment is required.

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

HKFRS 8	(Note a)	Operating Segments
HKAS 23 (revised)	(Note a)	Borrowing Costs
HK(IFRIC) – Int 12	(Note b)	Service Concession Arrangements
HK(IFRIC) – Int 13	(Note c)	Customer Loyalty Programme
HK(IFRIC) – Int 14	(Note b)	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Note (a): effective for annual periods beginning on or after 1 January 2009

Note (b): effective for annual periods beginning on or after 1 January 2008

Note (c): effective for annual periods beginning on or after 1 July 2008

The Group has commenced considering the potential impact of the above new and revised HKASs and 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 interim financial statements are presented in Hong Kong dollars (“HK\$”) unless otherwise stated.

3 SEGMENTAL INFORMATION

The following table presents revenue and results for the Group's business segments.

(a) Primary report format – business segments

	(Unaudited)					Total HK\$'000
	Six months ended 30 September 2007					
	Paints and solvents HK\$'000	Plastic colorants HK\$'000	Chemical materials HK\$'000	Contract work HK\$'000	Eliminations HK\$'000	
Segment revenues						
Turnover						
External Revenue	156,501	7,680	–	5,522	–	169,703
Inter segment revenue	26	–	–	–	(26)	–
Other revenue excluding interest income	4,140	1	–	–	–	4,141
	<u>160,667</u>	<u>7,681</u>	<u>–</u>	<u>5,522</u>	<u>(26)</u>	<u>173,844</u>
Segment results	<u>11,773</u>	<u>544</u>	<u>–</u>	<u>1,703</u>		<u>14,020</u>
Unallocated costs						(20,990)
Unallocated income						2,048
Interest income						<u>1,418</u>
Operating loss						(3,504)
Finance costs						<u>(2,337)</u>
Loss before income tax						<u><u>(5,841)</u></u>

3 SEGMENTAL INFORMATION (Continued)

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

(Unaudited)

Six months ended 30 September 2006

	Paints and blended solvents HK\$'000	Plastic colorants HK\$'000	Chemical materials HK\$'000	Contract work 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>–</u>	<u>(1,312)</u>	<u>154,104</u>
Segment results	<u>5,838</u>	<u>887</u>	<u>501</u>	<u>–</u>		<u>7,226</u>
Unallocated costs						(11,505)
Unallocated income						–
Interest income						<u>78</u>
Operating loss						(4,201)
Finance costs						<u>(2,522)</u>
Loss before income tax						<u><u>(6,723)</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

Operating loss is stated after charging the following items:

	(Unaudited) Six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Auditors' remuneration	110	105
Share-based employee share options	13,452	10,257
Amortisation	336	362
Depreciation	5,334	4,838

5 INCOME TAX

		(Unaudited) Six months ended 30 September	
	Note	2007	2006
		HK\$'000	HK\$'000
Hong Kong profits tax	(a)	316	6
PRC income tax	(b)	447	92
		763	98

Note:

- (a) Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the period. (2006: Nil)
- (b) PRC income tax has been calculated on the estimated assessable profit of subsidiaries for the year at the rates of income tax prevailing in the PRC and has been provided at the rate of 15% (2006: 27%) on the estimated assessable profit.

The Group had no significant unprovided deferred taxation during the period and at 30 September 2007 (2006: Nil).

6 DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2007 (2006: Nil).

7 LOSS PER SHARE

The calculation of basic and diluted loss per share for the six months ended 30 September 2007 are based on the consolidated loss attributable to equity holders of approximately HK\$7,626,000 (2006: loss of HK\$ 6,926,000).

The basic loss per share is based on the weighted average number of 950,765,048 shares in issue (2006: 662,315,700 shares) during the period.

Diluted loss per share for the six months ended 30 September 2007 is not presented as the exercise of the outstanding options, warrants and convertible bonds of the Company would have an anti-dilutive effect. The amount of diluted loss per share for the six months ended 30 September 2006 is the same as the basic loss per share as the effects of all potential ordinary shares are anti-dilutive.

8 PROPERTY, PLANT AND EQUIPMENT

During the period, the Group has spent approximately HK\$12,006,000 (2006: HK\$10,144,000) on acquisition of property, plant and equipment.

9 TRADE AND OTHER RECEIVABLES

	(Unaudited)	(Audited)
	30 September	31 March
	2007	2007
	HK\$'000	HK\$'000
Trade receivables	126,919	107,012
Other receivables, prepayments and deposits	45,586	16,533
	172,505	123,545

9 TRADE AND OTHER RECEIVABLES (Continued)

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 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
0-30 days	37,239	39,228
31-60 days	28,035	22,730
61-90 days	29,702	17,453
91-120 days	8,886	8,969
Over 120 days	26,814	22,352
	130,676	110,732
Less: Provision for impairment losses	(3,757)	(3,720)
	126,919	107,012

10 TRADE AND OTHER PAYABLES

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Trade payables	21,804	12,799
Other payables and accruals	10,349	12,693
	32,153	25,492

10 TRADE AND OTHER PAYABLES (Continued)

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

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
0-30 days	9,707	5,922
31-60 days	5,363	2,299
61-90 days	2,675	2,992
Over 90 days	4,059	1,586
	21,804	12,799

11 CONVERTIBLE BONDS

The carrying values of the equity component and liability component of the convertible bonds as at 30 September 2007 are as follows:

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Liability component	42,790	–
Equity component	17,210	–
Carrying value of convertible bonds	60,000	–
Number of conversion shares at the issuance date (shares)	254,033	–

HK\$140,000,000 of the convertible bonds has converted to 177,829,939 shares up to 30 September 2007.

11 CONVERTIBLE BONDS (Continued)

On 4 July 2007, the Company issued a 0.5% coupon with 5 years listed HK\$200,000,000 convertible bonds to 3 institutional investors. The bondholder has the option to convert the Convertible Bonds into shares of the Company with a par value of HK\$0.10 each at a conversion price of HK\$0.7873 per share subject to adjustment for, among other matters, consolidation, subdivision or reclassification of shares, capitalisation of profits or reserves, right issues and other events, which have diluting and discounting effects on the issued share capital of the Company.

12 SHARE CAPITAL

	(Unaudited)		Audited	
	30 September 2007		31 March 2007	
	Number of	Nominal	Number of	Nominal
	shares	value	shares	value
	'000	HK\$'000	'000	HK\$'000
Authorised:				
Beginning and end of the period/year	2,000,000	20,000	2,000,000	20,000
Issued and fully paid:				
Beginning of the period/year	872,656	8,727	611,136	6,111
Employee share option scheme				
– Proceeds from shares issued	56,484	565	108,520	1,086
Shares converted from Bonds	177,823	1,778	–	–
Shares issued for acquisition of a subsidiary	64,907	649	–	–
Shares issued for Warrants	25,587	256	–	–
Subscription of shares	–	–	153,000	1,530
End of the period/year	1,197,457	11,975	872,656	8,727

13 COMMITMENTS

The Group had capital expenditure commitments in respect of investment in subsidiaries, properties under development and properties held for investment as shown below:

	(Unaudited) 30 September 2007 HK\$'000	(Audited) 31 March 2007 HK\$'000
Contracted but not provided for		
– acquisition in subsidiaries	–	6,500
– investment in subsidiaries	27,842	–
– properties under development	2,337	5,870
– property, plant and equipment	4,973	1,790
	35,152	14,160

14 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 30 September 2007 HK\$'000	2006 HK\$'000
Rental expenses for directors' quarters paid to Luen Yat Enterprises Company Limited, a related company of the Group	498	498
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.

15 POST BALANCE SHEET EVENTS

At the extraordinary general meeting of the Company held on 16 October 2007, an ordinary resolution relating to the grant of 48,000,000 share options to Mr. Poon Sum, the chairman of the Group, was passed by the shareholders.

On 31 October 2007, the warrants issued in November 2002 had been expired. Subsequent to the period end, a total number of 51,338,716 warrants which conferred rights to subscribe for shares at an initial subscription price of HK\$0.7 per share had been converted into shares. The Group enhanced its working capital for approximately HK\$35,937,000.

On 14 November 2007, the Company signed a memorandum of understanding (“MOU”), pursuant to which the Group has intention to acquire Fu 718. Under the MOU, it is proposed that the Company will acquire from 長興盛源石油開發投資服務有限公司 (“Vendor”) the exclusive right under the exploitation license to carry out exploitation activities in the Joint Development Zone. On such basis, the Company and the Vendor will proceed to the negotiation for a legally-binding Formal Agreement within 60 days from the date of the MOU (or such later date as may be agreed by the parties). During the aforesaid 60 day period, the Group shall have the right to commence necessary due diligence on the Joint Development Zone. It is also provided that the Vendor shall not, during the aforesaid 60 day period, negotiate with any other party in relation to the Proposed Acquisition.

The consideration for the Proposed Acquisition (including the method of payment) shall be subject to further negotiation between the Group and the Vendor which may be satisfied by the internal resources of the Group.

On 27 November 2007, the Group had been notified by a convertible bondholder to further convert the amount of HK\$ 20,000,000 of the convertible bond into shares. The outstanding amount of the convertible bond as at the latest practicable date is HK\$40,000,000 (equivalent to 50,806,554 shares @HK\$0.7873 each).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW


For the six months ended 30 September 2007, the Group's turnover was approximately HK\$169,703,000, an increase of 11.21% as compared to the corresponding period of last year. This was mainly due to the consolidation of the newly acquired of America Archi Colors Group Limited and Beijing Archi Technology Co. Limited ("Archi Group") and the newly developed product of Nano Viscosity Reducer (Formerly called "Nano Oil Solvent") contributing revenue over the period.

The Group's operation contributed approximately HK\$7,626,000 loss for the period (Loss for the six months ended 30 September 2006: HK\$6,926,000). Basic loss per share was HK0.80 cent (Loss per share for the six months ended 30 September 2006: HK1.0 cent).

However, the non-cash expenses arise from the grant of the share options amounting to approximately HK\$13,452,000 during the period. According to the Hong Kong Accounting Standards, these expenses should be charged to profit and loss account. If this non-cash item is excluded, the profit for the period was recorded at approximately HK\$ 5,826,000 (30 September 2006: HK\$3,331,000).

For the period under review, the Group was pleased to change the English name of the Company from "Wing Shing International Holdings Limited" to "China Oil Resources Holdings Limited" and the Chinese name of the Company from "永成國際控股有限公司" to "中油資源控股有限公司". The purpose of changing the company name is to better describe the Group's future operation and also would like to establish a clear corporate position as an integrated energy and chemical group.

For the business, the revenue kept a steady growth in the period under review. However, the market was still in a hard time being continuously affected by the fluctuation of the crude-oil price and the tough market competition. In terms of costs, raw material price and operating expenses continuously increased over the year. Furthermore, due to the US wholesalers' retrieved China toys during the year, customers were reluctant to place the orders. This situation was improved quickly when the Group was successful to become the qualified approved paint supplier. As a result, the effect on the Group is minimal.



During the first half year, the increased turnover was mainly due to the newly acquired Archi Group and the newly developed Nano Viscosity Reducer.

Acquisition of Archi Group was completed on 1 April 2007. During the period under review, the Group grew steadily and achieved the budget recording a turnover of approximately HK\$ 9,468,000 with gross profit of approximately HK\$ 3,906,000.

To further seize the growth share of the paint business along the opportunity of China's economic boom, Archi Group will focus on broadening the market channel of the paints business in both construction and household market. With the strong sales network in North East China Region, Archi Group is opening up Hainan province and Central China Region via both internet and agency relationship. Internally, Archi Group will continue to improve quality control through scrupulous project management.

The Nano Viscosity Reducer business also contributed a good performance during the period. However, the business unit is now under re-structuring and the headquarters will be re-located to Beijing for further development. It may affect the unit performance in short period of time.

At the same time, the Group also considers to merge the production plants in southern China to centralize the operation. The Group believed that the market is still great, therefore planned to expand the production plant in Zhongshan to cater for the new products and orders from the new market. The management of paint business will concentrate on the related businesses and look for a steady growth in the foreseeable future.

To meet the tough challenges and future investments, the Group continuously premised on the reinforcement of operating cash flow and looking for any potential investment.

OUTLOOK

During the first half of 2007, the Group has completed its acquisition of 51% equity interests in Northeast Oil (China) Development Co., Ltd. (“Northeast Oil”), which has been developing with Qiqihar Oil an oil exploitation business in certain parts of the Fu 710 and Meilisi 723 districts in the Fulaerjiqu Oilfield in Qiqihar City, Heilongjiang Province, the PRC, with a total area of approximately 34 km².

In May 2007, the corporative joint venture 齊齊哈爾市東北石油開發有限公司 (“Qiqihar Northeast”) had been formed. The subsidiary of the Group has 95% equity interest of the joint venture and the remaining 5% owned by the local government. Qiqihar Northeast bears the oil field of 32.9 km² with (i) Undeveloped Explorative Reserve (「未開發探明儲量」) approximately 9,018,000 tons; or (ii) Technical Exploitable Reserve (「技術可採儲量」) approximately 3,607,000 tons; or (iii) Economical Exploitable Reserve (「經濟可採儲量」) approximately 3,157,000 tons. All the above figures are the correct description of the area storage. In practice, Economical Exploitable Reserve mostly represents the economic benefit for the Group. At the latest practicable date, the Group has extracted from 10 oil wells successfully. Qiqihar Northeast signed a sales contract with a local refinery in November 2007 for oil selling. In the beginning of December 2007 Qiqihar Northeast has extracted around 250 tons of oil and ready for sales.

The oil production scale is expanding on schedule. Additional 20 to 30 wells drilling are progressing within next few months. Peripheral facilities and floor constructions are being put in the place for the new wells drilling and exploitation. The business will be consolidated into the Group during the next half year.

Following the issue of the HK\$ 200 million convertible bonds (“the Bonds”) on 4 July 2007, the Group further improved the cash position. The Bonds bear interest at 0.5% per annum payable semi-annually and will mature on 3 July 2012. Subject to and in accordance with the terms and conditions of the Bonds, the holders of the Bonds can convert the Bonds into new shares of the Company on or after 18 July 2007 up to the close of business on 18 June 2012 at the initial conversion price of HK\$0.7873 per new share. The Company is required to redeem any outstanding bonds on the maturity date at 128.33% of the principal amount thereof. The purpose of the Bonds issue is to support the development of oil exploitation business in Qiqihar City, Helongjiang Province.

At last, the due diligence and negotiation for the formal agreement in relation to the possible acquisition of the certain exploitation right in Fu 718 area of Fulaerjiqu Oilfield District in Qiqihar, Heilongjiang, the PRC are under progressing. This 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.

The management of the Company considered the Proposed Acquisition is in line with the Group's business and investment strategies which would further increase its involvement and operation in the energy industry and reinforce its market position as an integrated energy and chemical group. Based on the positive development of the abovementioned venture with Qiqihar Oil, the Directors also consider that the Group can extend its operational experience in the region to the development of the Joint Development Zone as contemplated under the Proposed Acquisition.

Looking ahead, it is expected that the global oil market will maintain rapid growth. The persistently high and fast growing demand for oil gas will provide great opportunities for the business development. Further, this emerging business line not only furnished the Group with another source of 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 expected to contribute a positive result for the next half year.

FINANCIAL REVIEW

Working capital

As at 30 September 2007, the Group's net current assets were kept at approximately HK\$292,840,000 as compared to net current assets approximately HK\$81,594,000 as at 31 March 2007. The current ratio, being the proportion of total current assets against total current liabilities, was 4.46 (31 March 2007: 1.71). It is expected that the debt ratio will be further improved during the year as a short term loan amounting to HK\$10,000,000 of a subsidiary in Hong Kong and RMB5,000,000 of a subsidiary in PRC was settled in November 2007. 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 2007, the Group had total outstanding borrowings of approximately HK\$63,817,000 (31 March 2007: HK\$72,164,000), cash and bank balances of approximately HK\$140,677,000 (31 March 2007: HK\$40,575,000) and total assets of approximately HK\$627,785,000 (31 March 2007: HK\$365,102,000). Current assets of the Group on the same date amounted to approximately HK\$377,382,000 (31 March 2007: HK\$195,110,000) whilst current liabilities were approximately HK\$84,542,000 (31 March 2007: HK\$113,516,000). The gearing ratio, calculated by dividing the total borrowings by the total assets, was equal to 0.10 as at 30 September 2007 (31 March 2007: 0.20)

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 2007, certain of the Group's assets with a net book value of approximately HK\$41,210,727 (31 March 2007: HK\$41,893,000) were pledged to secure the banking facilities granted to the Group.

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.

On 27 November 2006, the Group has accepted the renewal of the Facilities by the Bank up to the aggregate amount of approximately HK\$47,900,000 together with the same conditions imposing specific performance obligations on the controlling shareholder as described above, save as the amendment to the condition, a simultaneous amendment of the shareholding undertaking and the net worth covenant to the following level is allowed:

Shareholding by the Poon Family	Consolidated Tangible Net Worth
35%	HK\$120,000,000
30%	HK\$140,000,000

On 5 September 2007, the Group has accepted the renewal of the Facilities by the Bank up to the aggregate amount of approximately HK\$45,883,000 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 23% of the issued share capital of the holding company.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2007, the Group had an aggregate of 517 employees (30 September 2006: 532) of which about 500 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 2007, 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)	68,934,265	51,814,037	372,611,341	31.12%
	Founder of a Discretionary Trust	Other Interest (Note 1 & 3)	241,898,799	9,964,240		
Mr. Wong Kwok Leung	Beneficial Owner	Personal Interest (Notes 1 & 4)	–	110,857	110,857	0.01%
Mr. Poon Wai Kong	Beneficial Owner	Personal Interest (Note 1 & 5)	800,000	3,500,000	4,300,000	0.36%
Mr. Chen Lizhong	Beneficial Owner	Personal Interest (Notes 1 & 6)	2,500,000	1,096,000	3,596,000	0.30%
Ms. Chew Lye Yin	Beneficial Owner	Personal Interest (Note 1)	17,840,000	–	17,840,000	1.49%
Mr. Chan Shu Kin	Beneficial Owner	Personal Interest (Notes 1 & 7)	700,000	680,000	1,380,000	0.12%
Mr. Chan Kam Ching, Paul	Beneficial Owner	Personal Interest (Notes 1 & 7)	348,000	680,000	1,028,000	0.09%
Mr. Cheung Kwan Hung	Beneficial Owner	Personal Interest (Notes 1 & 7)	700,000	680,000	1,380,000	0.12%

Notes:

1. All interests in shares and underlying shares of equity derivatives of the Company are long positions.
2. All interests 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 (the "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 14 September 2007 to 13 September 2009 to subscribe for 48,000,000 shares at an exercise price of HK\$1.08 per share. The grant of the share options was approved by the shareholders at the extraordinary general meeting held on 16 October 2007.
3. All interests in underlying shares of equity derivatives of the Company are interests in the 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, each of Mr. Poon Sum and Mr. Poon Sau Tin will be deemed to be interested in 241,898,799 shares, representing approximately 20.20% of the Company's shares in issue as at 30 September 2007, because each of them is the respective founder of the aforesaid two discretionary trusts which indirectly own 50% beneficial interest in Ever Source respectively.
4. All interests in underlying shares of equity derivatives of the Company are interests in the Warrants which conferred rights to subscribe for 10,857 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 100,000 shares at an exercise price of HK\$0.29 per share.

- 
5. All interests 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 20 April 2007 to 31 March 2008 to subscribe for 3,500,000 shares at an exercise price of HK\$0.632 per share.
 6. All interests 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 1,096,000 shares at an exercise price of HK\$0.197 per share.
 7. All interests 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 14 September 2007 to 13 September 2009 to subscribe for 680,000 shares at an exercise price of HK\$1.08 per share.

Save as disclosed above, at 30 September 2007, 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 options outstanding as at 30 September 2007 were as follows:

Participants	Date of grant	Exercise price per share HK\$	Exercise period	Number of options				Outstand- ing at 30 September 2007	Price of Company's shares	
				Outstand- ing at 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period		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	18,000,000	-	18,000,000	-	-	-	0.1824
Mr. Wong Kwok Leung	13/08/2004	0.290	13/8/2004 to 12/8/2014	100,000	-	-	-	100,000	-	-
Mr. Poon Wai Kong	20/04/2007	0.632	20/04/2007 to 31/03/2008	-	3,500,000	-	-	3,500,000	0.63	-
Non-executive Director										
Mr. Chen Lizhong	03/04/2006	0.197	03/04/2006 to 02/04/2008	6,000,000	-	4,904,000	-	1,096,000	-	0.765
Independent Non-executive Directors										
Mr. Chan Shu Kin	21/09/2006	0.580	21/09/2006 to 20/09/2007	700,000	-	700,000	-	-	-	0.74
	14/09/2007	1.080	14/09/2007 to 13/09/2009	-	680,000	-	-	680,000	1.02	-
Mr. Chan Kam Ching, Paul	21/09/2006	0.580	21/09/2006 to 20/09/2007	700,000	-	700,000	-	-	-	1.08
	14/09/2007	1.080	14/09/2007 to 13/09/2009	-	680,000	-	-	680,000	1.02	-

Participants	Date of grant	Exercise price per share HK\$	Exercise period	Number of options					Price of Company's shares	
				Outstanding at 1 April 2007	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding at 30 September 2007	For options granted HK\$ (Note 1)	For options exercised HK\$ (Note 2)
Mr. Cheung Kwan Hung	21/09/2006	0.580	21/09/2006 to 20/09/2007	700,000	-	700,000	-	-	-	1.02
	14/09/2007	1.080	14/09/2007 to 13/09/2009	-	680,000	-	-	680,000	1.02	-
Employees in Aggregate	24/11/2003	0.301	24/11/2003 to 23/11/2008	4,500,000	-	3,500,000	-	1,000,000	-	0.975
	13/08/2004	0.290	13/08/2004 to 12/8/2014	3,000,000	-	3,000,000	-	-	-	0.717
	03/04/2006	0.197	03/04/2006 to 02/04/2008	5,000,000	-	5,000,000	-	-	-	0.58
	18/04/2006	0.232	18/04/2006 to 17/04/2008	1,080,000	-	1,080,000	-	-	-	0.65
	26/04/2006	0.275	26/04/2006 to 25/04/2007	2,000,000	-	2,000,000	-	-	-	0.62
	09/03/2007	0.510	09/03/2007 to 08/03/2008	10,000,000	-	10,000,000	-	-	-	0.814
	03/04/2007	0.630	03/04/2007 to 31/03/2008	-	51,000,000	6,500,000	-	44,500,000	0.62	0.956
	19/04/2007	0.642	19/04/2007 to 31/03/2008	-	2,000,000	-	-	2,000,000	0.63	-
	21/05/2007	0.700	21/05/2007 to 31/03/2008	-	12,000,000	-	4,000,000	8,000,000	0.57	-
	21/05/2007	0.660	21/05/2007 to 31/03/2008	-	5,000,000	400,000	-	4,600,000	0.57	0.85
	15/08/2007	0.862	15/08/2007 to 31/03/2008	-	4,000,000	-	-	4,000,000	0.85	-
	30/08/2007	0.890	30/08/2007 to 31/03/2008	-	1,700,000	-	-	1,700,000	0.87	-
Total				<u>51,780,000</u>	<u>81,240,000</u>	<u>56,484,000</u>	<u>4,000,000</u>	<u>72,536,000</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 2007, 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)	241,898,799	9,964,240	251,863,039	21.03%
Ground Point Limited ("Ground Point")	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	241,898,799	9,964,240	251,863,039	21.03%
Red Tiles Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1, 2 & 3)	241,898,799	9,964,240	251,863,039	21.03%
Guidance	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	241,898,799	9,964,240	251,863,039	21.03%

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as Percentage of Issued Shares
Time Concord	Interest of Controlled Corporation	Corporate Interest (Notes 1,2,3&4)	241,898,799	9,964,240	251,863,039	21.03%
Ever Source	Beneficial Owner	Corporate Interest (Notes 1,2,3&4)	241,898,799	9,964,240	251,863,039	21.03%
Mr. Poon Sau Tin	Beneficial Owner	Personal Interest (Notes 1)	30,816,302	–	282,679,341	23.61%
	Founder of a Discretionary Trust	Other Interest (Notes 1,2,3&4)	241,898,799	9,964,240		
Well Lead Group Limited	Beneficial Owner	Corporate Interest (Note 5)	68,130,060	–	68,130,060	5.69%
Yin Jiancai	Interest of Controlled Corporation	Corporate Interest (Note 5)	68,130,060	–	68,130,060	5.69%
Au Kin Keung	Interest of Controlled Corporation	Corporate Interest (Note 5)	68,130,060	–	68,130,060	5.69%
Evolution Capital Management LLC	Investment Manager	Other Interest (Notes 1 & 6)	23,563,277	76,209,831	99,773,108	8.33%
Evolution Master Fund Ltd SPC, Segregated Portfolio M	Beneficial Owner	Beneficial Interest (Notes 1 & 6)	23,563,277	76,209,831	99,773,108	8.33%
Ralph Woodford	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%

Name of Substantial Shareholders	Capacity	Nature of Interests	Number of Shares held	Equity Derivative	Total Interest	Total Interest as Percentage of Issued Shares
Andrew Galloway	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Ronan Daly	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	–	101,613,108	101,613,108	8.49%
Daniele Hendry	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Philippe Lette	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
James Lieber	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Cheyne General Partner Inc.	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	–	101,613,108	101,613,108	8.49%
Novatrust Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Jalner International Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Cheyne Capital Holdings Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%
Cheyne Capital Management (HK) Limited	Interest of Controlled Corporation	Corporate Interest (Notes 1 & 7)	14,720,000	101,613,108	116,333,108	9.72%

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 241,898,799 shares, representing approximately 20.20 % of the Company's shares in issue as at 30 September 2007, because each of them is the respective founder of the aforesaid two discretionary trusts which indirectly own 50% beneficial interest in Ever Source respectively.
5. All interests of Well Lead Group Limited, Yin Jiancai and Au Kin Keung were duplicated. Well Lead Group Limited was owned as to 40% by Yin Jiancai and 60% by Au Kin Keung.
6. All interests of Evolution Master Fund Ltd SPC, Segregated Portfolio M and Evolution Capital Management LLC were duplicated. Evolution Capital Management LLC was the investment manager of Evolution Master Fund Ltd SPC, Segregated Portfolio M.

7. (i) All interests of Cheyne Capital Management (HK) Limited, Cheyne Capital Holdings Limited, Jalner International Limited, Novatrust Limited, Cheyne General Partner Inc., Ralph Woodford, Andrew Galloway, Ronan Daly, Daniele Hendry, Philippe Lette and James Lieber were duplicated.
- (ii) Cheyne Capital Management (HK) Limited was wholly owned by Cheyne Capital Holdings Limited, which was in turn owned as to 80% by Jalner International Limited, which was in turn wholly owned by Novatrust Limited. Novatrust Limited was the trustee of the Galilee Trust.
- (iii) Each of Cheyne Fund L.P. and Cheyne Leverage Fund L.P. beneficially held 50,805,554 derivatives, both of which were wholly owned by Cheyne General Partner Inc., which was in turn wholly owned by Jalner International Limited.
- (iv) Cheyne Pan Asia Long/Short Fund L.P. beneficially held 14,720,000 shares which was wholly owned by Cheyne General Partner II Inc., which was in turn wholly owned by Cheyne Capital Holdings Limited.
- (v) Cheyne General Partner Inc was controlled by James Lieber, Ronan Daly, Daniele Hendry, Philippe Lette, Andrew Galloway and Ralph Woodford. Cheyne General Partner II Inc. was controlled by James Lieber, Daniele Hendry, Philippe Lette, Andrew Galloway, Ralph Woodford and Declan Quilligan.

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 2007 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 may 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 2007.

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 Directors and the Independent Non-executive Directors ("INEDs") 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.

AUDIT COMMITTEE

The Audit Committee comprises Mr. Chan Shu Kin, Mr. Chan Kam Ching, Paul, and Mr. Cheung Kwan Hung, the INED 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 under review, the Audit Committee has reviewed with the Company's management the 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.

By Order of the Board

Poon Sum

Chairman

Hong Kong, 21 December 2007

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.