

Notes:

1. Basis of preparation

The interim financial statements are unaudited but have been reviewed by the Audit Committee.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim Financial Reporting" 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The accounting policies and basis of preparation used in the preparation of the interim financial statements are consistent with those followed in the Group's annual financial statements for the year ended 31 March 2004.

2. Segment information

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are classified as follows:

- (a) Electronic products segment engages in the subcontracting, manufacture and sale of electronic products; and
- (b) electronic components segment engages in the sale and manufacture of electronic components; and
- (c) city water supply and sewage treatment segment engages in the provision of water supply and water treatment service.

(a) *Business segments*

The following table presents revenue and result for the Group's business segments:

	Electronic products		Electronic components		City water supply and sewage treatment		Eliminations		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Segment revenue:										
Sales to external customers	21,880	28,175	-	-	7,566	-	-	-	29,446	28,175
Intersegment sales	-	-	-	1,720	-	-	-	(1,720)	-	-
Other revenue	99	4,453	-	-	-	-	-	-	99	4,453
Total	21,979	32,628	-	1,720	7,566	-	-	(1,720)	29,545	32,628
Segment result:	(1,258)	946	-	(980)	1,543	-	-	-	285	(34)
Interest income									-	-
Unallocated expenses									(3,255)	(2,911)
Loss from operations									(2,970)	(2,945)
Finance costs									(1,433)	(792)
Share of losses of associates									(3,793)	(863)
Loss from operations before taxation									(8,196)	(4,600)
Taxation									-	1,649
Loss from operations after taxation									(8,196)	(2,951)
Minority interests									7	(122)
Loss attributable to shareholders									(8,189)	(3,073)

(b) *Geographical segments*

The following table presents revenue for the Group's geographical segments:

	Asia		Europe		North and South Americas		Others		Consolidated	
	Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September		Six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000								
Segment revenue:										
Sales to external customers	14,434	14,075	6,805	2,951	8,207	10,997	-	152	29,446	28,175

3. **Loss from operations**

Loss from operations is arrived at after charging:

	Six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Cost of inventories sold	22,682	27,298
Depreciation	5,189	7,395
Amortisation of goodwill	-	2,066

4. **Finance costs**

	Six months ended 30 September	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	270	555
Interest on other loans	478	
Interest on finance leases	-	51
Interest on promissory notes and convertible note	685	186
	1,433	792

5. **Taxation**

No provision for Hong Kong profits tax has been made for the Group because it had no assessable profits during the current period (2003: nil). The Group did not have any assessable profits in respect of subsidiaries of the Company in the PRC and overseas during the period (2003: nil).

6. Loss per share

The calculation of basic loss per share is based on the net loss from ordinary activities attributable to shareholders for the period of HK\$8,189,000 (2003: HK\$ 3,073,000) and the weighted average of 320,430,504 (2003: 170,004,512) ordinary shares in issued during the period.

There were no dilutive potential ordinary shares at shares as at 30 September 2004 and 2003, and accordingly, the diluted loss per share was not applicable.

7. Plant and equipment

On 17 December 2003, a wholly owned subsidiary of the Company entered into two sale and purchase agreements pursuant to which the wholly owned subsidiary has agreed to acquire from an independent third party 55% equity interest in each of two companies incorporated in the PRC together with the attributable shareholders' loans. One of the companies is still in the process of seeking approval from the relevant PRC authorities to transform from domestic incorporated company into sino-foreign joint venture company. Another one of the companies has completed its sino-foreign joint venture company's approval on 20 July 2004. Hence, the company became a subsidiary of the Group with effect from 20 July 2004. As at 31 March 2004, the net asset value of that subsidiary, Xinle Shi Sheng Mei Water Purification Limited, included in the consolidated fixed assets of the Group amounted to approximately HK\$28.2 million.

8. Trade receivables

An analysis of the aging of the Group's trade receivables, based on invoice date, is as follows:

	As at	
	30 September 2004 (unaudited) HK\$'000	31 March 2004 (audited) HK\$'000
Current to 90 days	2,267	8
91 to 180 days	566	6
Over 181 days	-	-
	2,833	14

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Trade receivables, which generally have credit terms not exceeding 120 days, are recognised and carried at original invoiced amount less provision for doubtful debts which are recorded when collection of a receivable is no longer probable. Bad debts are written off as incurred.

9. Prepayment, deposits and other receivables

On 17 December 2003, a wholly owned subsidiary of the Company entered into two sale and purchase agreements pursuant to which the wholly owned subsidiary has agreed to acquire from an independent third party 55% equity interest in each of two companies incorporated in the PRC together with the attributable shareholders' loans. One of the companies is still in the process of seeking approval from the relevant PRC authorities to transform from domestic incorporated company into sino-foreign joint venture company. Another one of the companies has completed its sino-foreign joint venture company's approval on 20 July 2004. Hence, the company became a subsidiary of the Group with effect from 20 July 2004. As at 31 March 2004, the net asset value of that subsidiary, Xinle Shi Sheng Mei Water Purification Limited, included in the consolidated prepayments, deposits and other receivables of the Group amounted to approximately HK\$10.4 million.

10. Trade and bills payables

An analysis of the aging of the Group's trade and bills payable, based on invoiced date, is as follows:

	30 September	As at
	2004	31 March
	(unaudited)	2004
	HK\$'000	(audited)
		HK\$'000
Current to 90 days	7,960	11
91 to 180 days	–	–
Over 181 days	713	713
	8,673	724

11. Share capital

	Number of shares	Value
	'000	HK\$'000
<i>Authorised:</i>		
Ordinary shares of HK\$0.01 each at 30 September 2003 and 30 September 2004	20,000,000	200,000
<i>Issued and fully paid:</i>		
Ordinary shares of HK\$0.10 each at 1 April 2003	3,062,556	306,256
Capital reorganisation	(2,909,428)	(304,725)
Conversion of convertible bonds	60,000	600
Ordinary shares of HK\$0.01 each at 30 September 2003	213,128	2,131
Placing of existing shares	70,000	700
Shares issued for settlement of creditors	8,900	89
Ordinary shares of HK\$0.01 each at 31 March 2004	292,028	2,920
Open Offer <i>note (i)</i>	146,014	1,460
Ordinary shares of HK\$0.01 each at 30 September 2004	438,042	4,380

Share capital

During the six months ended 30 September 2004, the movements in share capital are as follows:

- (i) On 28 April 2004, the Company announced a proposed open offer of new shares on the basis of one offer share for every two shares held on 21 June 2004. The expected gross amount of the open offer is HK\$29.2 million (before expenses). The proposed open offer was approved on the special general meeting on 21 June 2004 and the net proceeds were deposited to the Company's bank account on 19 July 2004.

12. Pledge of assets

As at 30 September 2004, the bank loans were secured by properties owned by Renhua County of the PRC Government and the joint venture partner of a subsidiary, and the water supply rights of a subsidiary.

13. Litigation

During the period, neither the Company nor other members of the Group is engaged in any litigation or arbitration or of material importance and no litigation or claims of material importance is known to the Directors to be pending or threatened against any member of the Group.

14. Related party transactions

As at 31 September 2004, the Group's banking facilities were secured by legal charges on certain properties owned by a joint venture partner of a subsidiary (2003: nil) and legal charges on certain properties owned by Renhua County of the PRC Government.

During the year, Mr. Duan Chuan Liang, a director of the Company, advanced approximately HK\$160,000 to the Group. The advance is interest free, unsecured and is repayable on demand.

15. Contingent liabilities

At 30 September 2004, the Group has no material contingent liabilities. At 30 September 2003, the banking facilities granted to the subsidiaries subject to guarantees from the Company given to the banks were utilised to the extent of approximately HK\$3.1 million.

16. Post balance sheet events

The details of the significant post balance sheet events of the Group are set out below:

- (i) On 19 October 2004, China Water Supply Group Limited "China Water", an indirect wholly-owned subsidiary of the Company, and the Luyi Government entered into an investment agreement pursuant to which China Water agreed to construct a new water plant and related networks in Luyi County, Henan Province, the PRC with an estimated total capital expenditure of approximately RMB20 million (equivalent to approximately HK\$18.7 million). This constitutes a discloseable transaction of the Company under the Listing Rules. A press announcement has been published on 20 October 2004 and a circular dated 10 November 2004 has been sent to the shareholders of the Company.
- (ii) On 20 October 2004, the board of directors of the Company announced the proposal to change the English name of the Company from "China Silver Dragon Group Limited" to "China Water Affairs Group Limited" and to adopt the new name Chinese name "中國水務集團有限公司" in place of its current Chinese name "中國銀龍集團有限公司" for identification purposes only. A press announcement has been published on 20 October 2004 and a circular dated 10 November 2004 has been sent to the shareholders of the Company.