



中國水務集團有限公司
China Water Affairs Group Limited

INTERIM REPORT 2005



CHINA WATER

The board of directors (the "Board") of China Water Affairs Group Limited (the "Company") is pleased to announce the unaudited condensed consolidated interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2005, together with the comparative figures for the corresponding period in 2004, as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

| | | Six months ended 30 September | |
|-------------------------------|--------------|--|---------------------------------|
| | | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 |
| | <i>Notes</i> | | |
| Turnover | 3 | 16,677 | 29,446 |
| Cost of sales | | (11,160) | (27,153) |
| Gross profit | | 5,517 | 2,293 |
| Other revenue | | 5,560 | 99 |
| Selling expenses | | (52) | (246) |
| Administrative expenses | | (8,718) | (5,112) |
| Other operating expenses | | - | (4) |
| PROFIT/(LOSS) FROM OPERATIONS | 4 | 2,307 | (2,970) |
| Finance costs | 5 | (1,486) | (1,433) |
| Share of result of associates | | - | (3,793) |
| PROFIT/(LOSS) BEFORE TAXATION | | 821 | (8,196) |
| Taxation | 6 | 2,264 | - |
| PROFIT/(LOSS) FOR THE PERIOD | | 3,085 | (8,196) |
| Attributable to: | | | |
| Equity holders of the Company | | 373 | (8,189) |
| Minority interests | | 2,712 | (7) |
| | | 3,085 | (8,196) |
| EARNING/(LOSS) PER SHARE | 7 | | |
| Basic | | HK0.07 cents | HK(2.6) cents |
| Diluted | | N/A | N/A |

CONDENSED CONSOLIDATED BALANCE SHEET

| | | As at | |
|--|-------|---|--|
| | Notes | 30 September 2005 (unaudited) HK\$'000 | 31 March 2005 (Restated) HK\$'000 |
| NON-CURRENT ASSETS | | | |
| Fixed assets | | 84,338 | 58,916 |
| Non-current portion of trade receivables | | 4,604 | 3,441 |
| Interests in associates | | – | 1,200 |
| Prepaid lease payments on land use rights | | 881 | 924 |
| | | 89,823 | 64,481 |
| CURRENT ASSETS | | | |
| Inventories | | 4,386 | 2,160 |
| Trade receivables | 8 | 10,501 | 6,498 |
| Prepayments, deposits and other receivables | | 24,790 | 18,180 |
| Prepaid lease payments on land use right | | 87 | 87 |
| Cash and bank balances | | 10,392 | 20,239 |
| | | 50,156 | 47,164 |
| CURRENT LIABILITIES | | | |
| Trade payables | 9 | 5,361 | 1,431 |
| Accrued liabilities and other payables | | 9,706 | 19,501 |
| Bank loans | | 10,087 | 10,094 |
| Current portion of other loans | | 8,103 | 8,103 |
| Due to a director | | 410 | 4,751 |
| Due to minority shareholders of subsidiaries | | 21,733 | 11,381 |
| Convertible note | | – | 1,061 |
| Taxation | | 53 | 2,317 |
| | | 55,453 | 58,639 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | | As at | |
|---|-----------------|------------|--|
| | 30 September | 31 March | |
| | 2005 | 2005 | |
| | (unaudited) | (Restated) | |
| Note | HK\$'000 | HK\$'000 | |
| NET CURRENT LIABILITIES | (5,297) | (11,475) | |
| TOTAL ASSETS LESS CURRENT LIABILITIES | 84,526 | 53,006 | |
| NON-CURRENT LIABILITIES | | | |
| Promissory notes | - | 10,480 | |
| NET ASSETS | 84,526 | 42,526 | |
| CAPITAL AND RESERVES | | | |
| Share capital | 10 5,389 | 4,813 | |
| Reserves | 57,588 | 30,237 | |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | 62,977 | 35,050 | |
| MINORITY INTERESTS | 21,549 | 7,476 | |
| TOTAL EQUITY | 84,526 | 42,526 | |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended | |
|--|-------------------------|-------------|
| | 30 September | |
| | 2005 | 2004 |
| | (unaudited) | (unaudited) |
| | HK\$'000 | HK\$'000 |
| Net cash inflow/(outflow) from operating activities | (15,366) | 742 |
| Net cash outflow from investing activities | (6,146) | (4,465) |
| Net cash inflow from financing activities | 11,665 | 21,659 |
| INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS | (9,847) | 17,936 |
| Cash and cash equivalents at beginning of period | 20,239 | 3,197 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 10,392 | 21,133 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 10,392 | 21,133 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|--|--|--|--|---|----------------------------------|---|----------------------------------|
| | Share capital (unaudited) HK\$'000 | Share premium (unaudited) HK\$'000 | Capital reserve (unaudited) HK\$'000 | Contributed surplus (unaudited) HK\$'000 | Fixed assets | | Total (unaudited) HK\$'000 | Minority Interests (unaudited) HK\$'000 | Total (unaudited) HK\$'000 |
| | | | | | revaluation reserve (unaudited) HK\$'000 | Accumulated losses (unaudited) HK\$'000 | | | |
| At 1 April 2005 | 4,813 | 86,762 | 340 | 70,725 | 1,298 | (128,888) | 35,050 | 7,476 | 42,526 |
| Issue of shares | 576 | 28,224 | | | | | 28,800 | | 28,800 |
| Contribution from minority shareholders of a subsidiary | | | | | | | | 11,361 | 11,361 |
| Issue expenses | | (1,246) | | | | | (1,246) | | (1,246) |
| Net profit for the period | | | | | | 373 | 373 | 2,712 | 3,085 |
| At 30 September 2005 | 5,389 | 113,740 | 340 | 70,725 | 1,298 | (128,515) | 62,977 | 21,549 | 84,526 |
| At 1 April 2004 | 2,920 | 36,585 | 340 | 70,725 | 10,590 | (100,876) | 20,284 | 9,791 | 30,075 |
| Arising from Open offer | 1,460 | 27,743 | - | - | - | - | 29,203 | | 29,203 |
| Contribution from minority shareholders of a subsidiary | | | | | | | | 3,129 | 3,129 |
| Issue expenses | - | (1,203) | - | - | - | - | (1,203) | | (1,203) |
| Net loss for the period | - | - | - | - | - | (8,189) | (8,189) | (7) | (8,196) |
| At 30 September 2004 | 4,380 | 63,125 | 340 | 70,725 | 10,590 | (109,065) | 40,095 | 12,913 | 53,008 |

Notes:

1. Basis of preparation

The condensed financial statements 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 and with Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. Principal accounting policies

The condensed financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the annual financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005, except as described below:

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as "new HKFRSs") issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the condensed consolidated income statement, condensed consolidated balance sheet and the condensed consolidated statement of change in equity. In particular, the presentation of minority interests has been changed as required by HKAS 1 "Presentation of financial statements". The change in presentation has been applied retrospectively. The adoption of the new HKFRSs has resulted in changes to the Group's accounting policies in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

Share-based payments

In the current period, the Group has applied HKFRS 2 "Share-based payment" which requires an expense to be recognised where the Group buys goods or obtain services in exchange for shares or right over shares ("equity-settled transactions"), or in exchange for other assets equivalents in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of these share options until they were exercised. The Group has applied HKFRS 2 to share options granted on or after 1 April 2005. In relation to share options granted before 1 April 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 April 2005 in accordance with the relevant transitional provisions. The Group had no share options granted after 7 November 2002 and had not yet vested on 1 April 2005, and accordingly, no retrospective restatement is required.

Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and measured using the cost model. In current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings elements can be made reliably, the leasehold interest in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as fixed assets.

3. 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;
- (b) City water supply segment engages in the provision of water supply service; and
- (c) Sewage treatment segment engages in the provision of water treatment service.

(a) Business segments

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

| | Electronic products Six months ended 30 September | | City water supply Six months ended 30 September | | Sewage treatment Six months ended 30 September | | Consolidated Six months ended 30 September | |
|-------------------------------|---|---------------------------------|---|---------------------------------|--|---------------------------------|--|---------------------------------|
| | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 5,317 | 21,880 | 6,871 | 5,980 | 4,489 | 1,586 | 16,677 | 29,446 |
| Other revenue | 1,260 | 99 | 3,010 | - | - | - | 4,270 | 99 |
| Total | 6,577 | 21,979 | 9,881 | 5,980 | 4,489 | 1,586 | 20,947 | 29,545 |
| Segment result: | 537 | (1,258) | 3,249 | 1,161 | 4,967 | 382 | 8,753 | 285 |
| Interest income | | | | | | | 3 | - |
| Unallocated incomes | | | | | | | 1,287 | - |
| Unallocated expenses | | | | | | | (7,736) | (3,255) |
| Profit/(Loss) from operations | | | | | | | 2,307 | (2,970) |
| Finance costs | | | | | | | (1,486) | (1,433) |
| Share of result of associates | | | | | | | - | (3,793) |
| Profit/(Loss) before taxation | | | | | | | 821 | (8,196) |
| Taxation | | | | | | | 2,264 | - |
| Profit/(Loss) for the period | | | | | | | 3,085 | (8,196) |

(b) *Geographical segments*

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

| | Asia | | Europe | | North and South America | | Consolidated | |
|-----------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | | Six months ended 30 September | |
| | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 16,677 | 14,434 | - | 6,805 | - | 8,207 | 16,677 | 29,446 |

4. **Profit/(Loss) from operations**

Profit/(Loss) from operations is arrived at after charging:

| | Six months ended 30 September | |
|--|---------------------------------|---------------------------------|
| | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 |
| Cost of inventories sold | 11,160 | 22,682 |
| Depreciation and amortisation of property, plant and equipment | 2,231 | 5,189 |

5. **Finance costs**

| | Six months ended 30 September | |
|--|---------------------------------|---------------------------------|
| | 2005 (unaudited) HK\$'000 | 2004 (unaudited) HK\$'000 |
| Interest on bank loans and overdrafts wholly repayable within five years | 863 | 270 |
| Interest on other loans | 435 | 478 |
| Interest in promissory notes and convertible note | 188 | 685 |
| | 1,486 | 1,433 |

6. **Taxation**

No provision for Hong Kong Profits Tax has been made in the condensed financial statements as the Group had no assessable profits for the period (30 September 2004: nil). Overseas taxation is calculated at the rates prevailing in the respective jurisdictions. No provision for PRC Profits Tax has been made by the Group as those subsidiaries operating in the PRC were entitled to tax exemptions for the period (30 September 2004: nil).

7. Earning/(Loss) per ordinary share

The calculation of basic earnings per ordinary share for the six months ended 30 September 2005 is based on the profit attributable to equity holders of the Company of HK\$373,000 and on the weighted average of 512,074,303 ordinary shares in issue during the period. The calculation of loss per ordinary share for the six months ended 30 September 2004 is based on the loss attributable to equity holders of the Company of HK\$8,189,000 and on the weighted average of 320,430,504 ordinary shares in issue during the period.

No diluted earning/loss per ordinary share has been presented for both periods as the exercise prices of the Company's share options were higher than the average market price per share for the six months ended 30 September 2005 and no potential ordinary shares were outstanding during the six months ended 30 September 2004.

8. Trade receivables

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

| | 30 September 2005 (unaudited) HK\$'000 | As at 31 March 2005 (audited) HK\$'000 |
|--------------------|---|---|
| Current to 90 days | 3,337 | 2,272 |
| 91 to 180 days | 1,835 | 1,552 |
| Over 181 days | 5,329 | 2,674 |
| | 10,501 | 6,498 |

The Group has a policy of allowing trade customers with credit period normally 30 days.

9. Trade payables

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

| | 30 September 2005 (unaudited) HK\$'000 | As at 31 March 2005 (audited) HK\$'000 |
|--------------------|---|---|
| Current to 90 days | 2,378 | 44 |
| 91 to 180 days | 557 | 70 |
| Over 181 days | 2,426 | 1,317 |
| | 5,361 | 1,431 |

10. Share capital

| | Number of shares '000 | Value HK\$'000 |
|--|--------------------------|-------------------|
| <i>Authorised:</i> | | |
| Ordinary shares of HK\$0.01 each at 30 September 2004 and 30 September 2005 | 20,000,000 | 200,000 |
| <i>Issued and fully paid:</i> | | |
| Ordinary shares of HK\$0.01 each at 1 April 2004 | 292,028 | 2,920 |
| Open offer | 146,014 | 1,460 |
| Ordinary shares of HK\$0.01 each at 30 September 2004 | 438,042 | 4,380 |
| Share issued upon conversion of convertible note | 13,260 | 133 |
| Placing and subscription of shares | 30,000 | 300 |
| Ordinary shares of HK\$0.01 each at 31 March 2005 | 481,302 | 4,813 |
| Placing and subscription of shares (i) | 57,600 | 576 |
| Ordinary shares of HK\$0.01 each at 30 September 2005 | 538,902 | 5,389 |

During the six months ended 30 September 2005, the movements in share capital are as follows:

- (i) On 4 April 2005, a substantial shareholder of the Company entered into a placing agreement with an independent placing agent for the placement of 57,600,000 ordinary shares of the Company owned by the substantial shareholder at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, the substantial shareholder has agreed to subscribe for 57,600,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The placement of shares raised total consideration, before expenses of approximately HK\$28,800,000.

11. Pledge of assets

As at 30 September 2005, properties owned by Renhau County in the PRC and the water supply rights held by a subsidiary were pledged to a bank to secure banking facilities for the Group.

12. Litigation

During the period, neither the Company nor other members of the Group had any outstanding litigation or arbitration of material importance and the Directors had no knowledge of any pending or threatened litigation or claims of material importance against any member of the Group.

13. Capital Commitments

At the balance sheet date, the Group was committed to the payment of approximately HK\$41 million (2004: HK\$7 million) for the capital injections in companies engaged in city water supply business in the PRC.

14. Contingent liabilities

As at 30 September 2004 and 2005, the Group has no material contingent liabilities.

15. Post balance sheet events

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

- (i) On 13 December 2005, the Company and a subsidiary of the Company entered into agreements with independent third parties to acquire the entire equity interest of Wannian County Da Gang Qiao Water Supply Company Limited ("Wannian Water Supply"), a company established in the PRC and principally engages in the water supply business in Wannian County, Jiangxi Province, the PRC, at a total cash consideration of approximately RMB3.9 million. Following the completion of the agreements, the Group will have an effective interest of approximately 90% in Wannian Water Supply. The acquisition of Wannian Water Supply constitutes a discloseable transaction of the Company under the Listing Rules. Details of the transaction are contained in a press announcement dated 14 December 2005.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2005.

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

For the period under review, the Group recorded turnover of approximately HK\$16.7 million (2004: 29.4 million), while net profit attributable to equity holders of the Company amounted to approximately HK\$0.4 million (2004: loss of 8.2 million). The decrease in turnover of the Group was mainly attributed to the contraction of its electronic products segments as the Group has realigned its business strategies to focus on water supply businesses in the PRC. In the opinion of the Directors, water supply business will provide steady positive cash inflow and to a lesser extent affected by fluctuations in economic cycles. The Directors consider that the expansion in water supply business is in the interests of the Company and the Shareholders as a whole.

Liquidity and financial resources

On 4 April 2005, a substantial shareholder of the Company entered into a placing agreement with an independent placing agent for the placement of 57,600,000 ordinary shares of the Company owned by the substantial shareholder at a price of HK\$0.50 per share. Pursuant to a subscription agreement on the same date, the substantial shareholder has agreed to subscribe for 57,600,000 new ordinary shares of the Company at a price of HK\$0.50 per share. The placement of shares raised total consideration, before expenses of approximately HK\$28,800,000. The net proceed received by the Company under the subscription was approximately HK\$28.1 million of which 25.1 million was for investment in city water supply business in the PRC and the remaining HK\$3.0 million was utilised as general working capital for the Group.

As at 30 September 2005, the Group had utilised approximately HK\$3.0 million in general working capital and approximately HK\$19 million for investment in city water supply business in the PRC. The unused proceed of HK\$9.1 million was held by the Group as bank balances.

As at 30 September 2005, the Group had current assets of approximately HK\$50.1 million (31 March 2005: HK\$47.1 million) and current liabilities of approximately HK\$55.5 million (31 March 2005: HK\$58.6 million). The Group's current ratio is approximately 0.90 times as at 30 September 2005 as compared with approximately 0.80 times as at 31 March 2005. The Group had total assets of approximately HK\$140 million (31 March 2005: 112 million) and total liabilities of approximately HK\$55.5 million (31 March 2005: HK\$69.1 million) representing a gearing ratio (expressed as total liabilities to total assets) of approximately 40% as at 30 September 2005 as compared with approximately 62% as at 31 March 2005.

In light of the financial measures taken to date, the Group will have sufficient working capital to meet its financial obligations in full as they fall due in the foreseeable future.

Prospects

As disclosed in the 2005 annual report of the Company, the Directors will continue devote their efforts in expanding the Group's business in water affairs. The Board considered that the water affairs projects will strengthen the Group's revenue base and generate steady revenue inflow to the Group. The Board believes that operating efficiency of the water affairs projects will be improved by capitalising on the expertise and experience in water affairs businesses of the senior management team.

Highlights on recent developments of water affairs projects of the Group *Henan Luyi Silver Dragon Water Supply Co., Ltd ("Luyi Silver Dragon")*

Luyi Silver Dragon is established in the PRC and 100% owned by the Group. Luyi Silver Dragon engaging in water supply business in Luyi County, Henan Province. Having operated for half a year since it commenced operation in February 2005, Luyi Silver Dragon fully commits itself to increase the fresh water supply coverage and implement a policy of reform under which a separate meter is to be installed for each household. As at late September 2005, the trunk pipelines and branch pipelines laid by Luyi Silver Dragon respectively totaled 7,010 metres and 2,091 metres in length. This development will alleviate the problem of the insufficient coverage of fresh water supply in an accelerating manner. According to the statistics of the Planning Committee of Luyi County, as at late November 2005, the population of the county was approximately 1,170,000; the urban population was approximately 151,000; and the number of urban households was approximately 35,000. Since the beginning of 2005, Luyi County has been stepping up its efforts to encourage the establishment of foreign investment industries, and has adopted a policy of preferential treatment to foreign investors. Under the Eleventh Five-Year Plan, a process of urbanization will result in an increase of urban population to 350,000, and an increase of urbanization area to approximately 50km². In view that Luyi County is carrying out a meter installation policy reform, whereby one meter is to be installed for each household, Luyi Silver Dragon has also accelerated its own pace of implementation. As at late September 2005, the urban household for which the meter installation reform has been carried out accounted for less than 5% of the total urban households, and Luyi Silver Dragon is making the best use of time in its effort to improve the completion rate of the reform. Under the abovementioned reform program, a separate meter will be installed for each household, and each installation will generate a cash income of approximately RMB400. Such cash income, being a satisfactory source of funds of Luyi Silver Dragon, will be used to increase the fresh water coverage rate. The directors consider that Luyi County offers much room for development, and the pipeline works, fresh water supply service, and meter installation works all have great potential for growth. Furthermore, the directors consider that other water supply plants of the Group in Wannian County and Dongxiang County in Jiangxi Province, the PRC and Renhua County, Guangdong Province, the PRC will also provide the Group with additional revenue from the related installation works.

Conseco Seabuckthorn Co., Ltd (“Conseco”)

On 15 July 2005, a non-wholly owned subsidiary of the Company entered into an investment agreement to invest RMB20 million in Conseco in exchange for a 50% interest in its equity. As at the date of this report, all relevant business license and approval from the relevant authorities in the PRC have been obtained.

Conseco will be jointly managed by China National Administration Center for Seabuckthorn Development and by the Company. With headquarter in Beijing, Conseco is engaged in the cultivation, processing, researching, developing as well as distribution of Seabuckthorn. It is the largest supplier of Seabuckthorn in the world and over 95% of the world’s total supply of Seabuckthorn is from China.

Seabuckthorn is a kind of perennial bushes or sub-arbor. Seabuckthorn plays an important part in the ecological cycle, especially in barren lands and deserts. It can retain huge amount of water as its roots are fast growing and the plant has lots of leaves and branches. Together with the fact that the plant can multiply at an alarming speed, thus, enables it to retain huge amount of water. These unique properties enable the plant to stabilize and fortify river banks, reduce river sediment and to lower the rate of water evaporation. It also serves to protect and beautify the environment at the same time.

Medicinally, Seabuckthorn reduces blood viscosity, increases tenacity of blood vessel, improve the immune system and with anti aging properties. It is an effective medicine which helps to improve blood circulation.

Biochemically, Seabuckthorn fruits contain more than 190 active ingredients including various kinds of vitamin, carotenoid, phosphate, flavone compounds, phenolic compounds, unsaturated fatty acid, microelements. etc. Its leaves can be used to produce tea and beverages whilst its trunk can be used in making high density board, compound fibreboard and for growing mushroom. Its fruits may also be used in making jam and jelly and its extraction for the manufacture of cosmetic and healthcare products. The economical and ecological value of Seabuckthorn must not be underestimated.

Advantages of Conseco

Conseco currently has seabuckthorn resource bases in Erdos Plateau, Loess Plateau, North-east Plain and Qinghai-Tibet Plateau. Such bases guarantee the supply of seabuckthorn. Conseco has also constructed seeding bases for the propagation of Seabuckthorn in Beijing, Inner Mongolia and Shaanxi Province. Advanced technologies and equipment have been imported from Germany with production procedures designed to conform to GMP. Conseco’s has the widest product range and is the largest supplier and manufacturer of Seabuckthorn products such as seabuckthorn juice, tea, oil and flavone soft capsule.

Employees and remuneration policies

As at 30 September 2005, the Group had approximately 310 full-time employees. Most of them station in the PRC while the remaining in Hong Kong. The remuneration package of the employees is determined by various factors including the employees' experience and performance, the market condition, industry practice and applicable employment law.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS

At 30 September 2005, the interests and short positions of the directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the securities and Futures Ordinance (the "SFO") (the "Associated Corporations") 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 Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("Model Code") were as follows:

(a) Shares

| Name of Director | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|--------------------------------------|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| Mr. Duan Chuan Liang (<i>Note</i>) | Corporate | 139,862,301 | 0 | 25.95% |
| Mr. Tsui Chi Kin | Personal | 26,950,000 | 0 | 5.00% |

Note:

These Shares are beneficially owned by and registered in the name of Asset Full, a company incorporated in the British Virgin Islands, whose entire issued share capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

(b) Underlying shares

| Name of Director | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|---------------------------|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| | | <i>(Note)</i> | | |
| Mr. Duan Chuan Liang | Personal | 1,600,000 | 0 | 0.33% |
| Mr. Tsui Chi Kin | Personal | 3,500,000 | 0 | 0.73% |
| Mr. Chiu Shui Pui, Andrew | Personal | 2,200,000 | 0 | 0.46% |
| Mr. Zhao Hai Hu | Personal | 2,600,000 | 0 | 0.54% |
| Mr. Zhou Wen Zhi | Personal | 870,000 | 0 | 0.18% |

Note:

Options to acquire ordinary shares of the Company, further details of which are set out in the section headed "Share Option Schemes" below.

SHARE OPTION SCHEMES

The following table discloses movements in the Company's share options during the period:

| | At 1.4.2005 | Granted | Exercised | Lapsed | At 30.9.2005 | Date of grant | Exercise period | Exercise price HK\$ |
|--------------------------|-------------------|----------------------|----------------------|----------------------|-------------------|------------------|--------------------------|---------------------------|
| | | during the period | during the period | during the period | | | | |
| Directors | | | | | | | | |
| Duan Chuan Liang | 1,600,000 | - | - | - | 1,600,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Tsui Chi Kin | 3,500,000 | - | - | - | 3,500,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Chiu Shui Pui, Andrew | 2,200,000 | - | - | - | 2,200,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Zhao Hai Hu | 2,600,000 | - | - | - | 2,600,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Zhou Wen Zhi | 870,000 | - | - | - | 870,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Other Employees | 4,540,000 | - | - | - | 4,540,000 | 1.2.2005 | 1.8.2005 to 31.1.2007 | 0.41 |
| Total | 15,310,000 | - | - | - | 15,310,000 | | | |

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which the Directors and the chief executives were taken or deemed to have under the provisions of the SFO or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

Other than as disclosed in the sections headed "Directors' and chief executives' interests and short positions" and "Share Option Schemes" above, at no time during the year was the Company, its subsidiaries or its fellow subsidiaries a party to any arrangements to enable the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in or debt securities (including debentures) of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2005, so far as is known to any Directors or chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

| Name of Shareholder | Capacity/ Nature of interest | Number of Shares | | Approximately percentage of shareholding in the Company |
|--|------------------------------------|------------------|----------------|--|
| | | Long position | Short position | |
| Mr. Tsui Chi Kin | Personal | 26,950,000 | 0 | 5.00% |
| Asset Full Resources Limited (Note) | Beneficial | 139,862,301 | 0 | 25.95% |

Note:

These Shares are beneficially owned by and registered in the name of Asset Full Resources Limited, a company incorporated in the British Virgin Islands, whose entire issued capital is wholly and beneficially owned by Duan Chuan Liang, an executive director and chairman of the Company.

Save as disclosed above, as at 30 September 2005, so far as is known to any Director or chief executive of the Company, no person (other than a Director or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or who was directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

CORPORATE GOVERNANCE

The Directors consider that the Company has complied with the applicable code provisions of the Code on Corporate Governance Practice (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2005. except for certain deviations as follows:

Code Provision A.4.1

Under this code provision, non-executive directors should be appointed for a specific term and subject to re-election.

None of the existing non-executive directors of the Company is appointed for a specific term. However, under the Company's bye-laws, all the directors of the Company (whether executive or non-executive) are subject to the retirement by rotation at each annual general meeting. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practice are no less exacting than those in the Code.

Code Provision A.4.2

Under this code provision, every director should be subject to retirement by rotation at least once every three years. According to the Company's bye-laws, at each annual general meeting, one third of the directors shall retire from office by rotation provided that notwithstanding anything therein, the chairman of the Board of the Company shall not be subject to retirement by rotation or taken into account in determining the number of directors to retire. As continuation is a key factor to the successful long term implementation of business plans, the Board believes that the roles of the chairman provide the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategy. As such, the Board is of the view that the chairman of Board should not be subject to retirement by rotation.

Code Provision B.1.1

Under this code provision, the Company should establish a remuneration committee with terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.

The Company has established the remuneration committee on 22 December 2005 with appropriate terms of reference.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for the Securities Transaction by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by its directors. Having made specific enquiry of all directors, the directors have confirmed compliance with the required standard set out in the Model Code as provided in Appendix 10 of the Listing Rules for the six months ended 30 September 2005.

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

During the period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a general review of the unaudited interim condensed accounts for the six months ended 30 September 2005 with the directors.

On behalf of the Board
Duan Chuan Liang
Chairman

22 December 2005