1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 38 to the consolidated financial statements.

The consolidated financial statements are presented in Hong Kong dollars, which is the same as the functional currency of the Company and its subsidiaries (the "Group").

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

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

The Group has not early applied the following new standard, amendment or interpretations that have been issued but are not yet effective as at 31 December 2006. The directors of the Company anticipate that the application of these standard, amendment or interpretations will have no material impact on the results and the financial position of the Group.

Hong Kong Accounting Standard ("HKAS') 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HKFRS 8	Operating segments[2]
HK(IFRIC)-Interpretation ("Int") 7	Applying the restatement approach under HKAS 29 Financial Reporting in Hyperinflationary Economies[3]
HK(IFRIC)-Int 8	Scope of HKFRS 2[4]
HK(IFRIC)-Int 9	Reassessment of embedded derivatives[5]
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment[6]
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions[7]
HK(IFRIC)-Int 12	Service Concession Arrangements[8]

1 Effective for annual periods beginning on or after 1 January 2007.
2 Effective for annual periods beginning on or after 1 January 2009.
3 Effective for annual periods beginning on or after 1 March 2006.
4 Effective for annual periods beginning on or after 1 May 2006.
5 Effective for annual periods beginning on or after 1 June 2006.
6 Effective for annual periods beginning on or after 1 November 2006.
7 Effective for annual periods beginning on or after 1 March 2007.
8 Effective for annual periods beginning on or after 1 January 2008.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis and in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

3A. Fundamental uncertainty

The consolidated financial statements have been prepared on a going concern basis notwithstanding the net current liabilities of approximately HK$43,573,000 as at 31 December 2006. In the opinion of the directors, the Group should be able to maintain itself as a going concern in the coming year by taking into consideration the proposed arrangements which include, but are not limited to the following:

1. subsequent to the balance sheet date, on 31 January 2007, the Company entered into a share placing agreement pursuant to which 230,000,000 shares of HK$0.1 per share of the Company are placed at the price of HK$0.49 per share; and

2. subsequent to the balance sheet date, on 23 March 2007 the Company entered into a share placing agreement pursuant to which 300,000,000 shares of HK$0.1 per share of the Company are placed at the price of HK$1.06 per share.

The directors consider that the Group will have sufficient working capital to meet its financial obligations as and when they fall due for the twelve months from 31 December 2006. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis. The consolidated financial statements do not include any adjustments relating to the carrying amount and reclassification of assets and liabilities that might be necessary should the Group be unable to continue as a going concern.

3B. Principal accounting policies

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant subsidiary at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a subsidiary is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Goodwill *(Continued)*

A discount on acquisition arising on an acquisition of a subsidiary or an associate, for which an agreement date is on or after 1 January 2005 represents the excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the investor has significant influence and that is not a subsidiary.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sales of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Impairment (tangible assets and intangible assets with finite useful lives)

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as expense immediately.

Where impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Property, plant and equipment

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of items of property, plant and equipment over their estimated useful lives using the straight-line method.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or where shorter, the term of the relevant lease.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

Construction in progress represents property, plant and equipment under construction and is stated at cost less any identified impairment loss. Construction in progress is not depreciated until construction is completed and the assets are ready for their intended use. Completed items are transferred from construction in progress to proper categories of property, plant and equipment when they are ready for their intended use.

Intangible assets

Expenditure on research activities is recognised as expense in the year in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight-line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Intangible assets *(Continued)*

The amount initially recognised for internally-generated intangible asset is the sum of expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as expense in the year in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets acquired separately.

Intangible assets with finite useful lives are tested for impairment when there is an indication that an asset may be impaired (see the accounting policy in respect of impairment above).

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition.

Non-current assets classified as held for sale are measured at the lower of the assets' previous carrying amount and fair value less costs to sell.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the terms of the relevant leases. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the year in which they arise, except for exchange differences arising on monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the balance sheet date. Exchange differences arising are recognised in the translation reserve.

Borrowing costs

Borrowing costs are charged to the consolidated income statement in the year in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Retirement benefits costs

Payments to the Mandatory Provident Fund Scheme are charged as expenses as they fall due.

The subsidiaries in the People's Republic of China (the "PRC") participate in the central pension scheme (the "CPS") operated by the PRC government for all of their staff. The subsidiaries are required to contribute a certain percentage of their covered payroll to the CPS to fund the benefits. The only obligation of the Group will respect to the CPS is to pay the ongoing required contributions under the CPS. Payments to the CPS are charged as expenses as they fall due in accordance with the rules of the CPS.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees of the Company

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognised in share option reserve will be transferred to accumulated profit (losses).

Share options granted to suppliers / consultants

Share options issued in exchange for goods or services are measured at the fair values of the goods or services received. The fair values of the goods or services received are recognised as expenses immediately, unless the goods or services qualify for recognition as assets. Corresponding adjustments has been made to equity (share option reserve).

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

3B. Principal accounting policies *(Continued)*

Financial instruments *(Continued)*

Financial assets

The Group's financial assets are classified into one of the four categories, including financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss has two subcategories, including financial assets held for trading and those designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. Impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities. The accounting policies adopted in respect of other financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables, bank borrowings, obligations under finance leases, amounts due to related parties and directors are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in note 3, management has made the following judgments that have significant effect on the amounts recognised in the consolidated financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are also discussed below.

Useful lives and impairment assessment of property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and identified impairment losses. The estimation of useful lives impacts the level of annual depreciation expenses recorded. Property, plant and equipment are evaluated for possible impairment on a specific asset basic or in groups of similar assets, as applicable. This process requires management's estimate of future cash flows generated by each asset or group of assets. For any instance where this evaluation process indicates impairment, the relevant asset's carrying amount is written down to the recoverable amount and the amount of the write-down is charged against the consolidated income statement.

Allowances for bad and doubtful debts

The policy for allowance of bad and doubtful debts of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The carrying amount of goodwill at the balance sheet date was approximately HK$1,361,000. No impairment loss was recognised during 2006.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include trade and bills receivables, other receivables, trade and bills payables, other payables, borrowings and obligations under finance leases. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Currency risk

Certain subsidiaries of the Company have foreign currency sales and purchases, and certain trade receivables and trade payables of the Group are denominated in Renminbi, which expose the Group to foreign currency risk. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure when the need arises.

Price risk

The Group is subject to risk from increases in the price of major raw materials which are used in the production of inventories. To minimise this risk, the Group entered into contracts with suppliers in advance and made prepayments to suppliers to secure future supplies.

Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

Liquidity risk

The Group is exposed to liquidity risk as its current assets are less than its current liabilities. At 31 December 2006, the Group had net current liabilities of approximately HK$43,573,000. The liquidity of the Group is primarily dependent on its ability to maintain adequate cash flow from operations to meet its debt obligations. Subsequent to year end date, the Group had raised an aggregate of approximately HK$430,700,000 additional funds for financing its general working capital and future capital investment through placing of the Company's shares.

Interest rate risk

The Group's fair value interest rate risk relates primarily to the Group's bank borrowings, long-term borrowing and obligations under finance leases (See Notes 22, 23 and 29 of these borrowings). The Group's exposure to interest rate risk is minimal as the Group's entire bank borrowings and long-term borrowings are at fixed interest rates, and the Group does not have any other long-term financial assets and liabilities.

6. TURNOVER

Turnover represents the net amounts received and receivable for computer peripherals sold and trading of watches and accessories by the Group to outside customers, less returns and discounts.

An analysis of the Group's turnover is as follows:

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Sales of computer peripherals	**30,582**	56,724
Trading of watches and accessories	**39,552**	4,496
	70,134	61,220

7. SEGMENT INFORMATION

Business segments

For management purposes, the Group is currently organised into three operating divisions – production and sale of computer peripherals, trading of watches and accessories and provision of water supply and sewage treatment. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:

(a) Production and sale of computer peripherals;

(b) Trading of watches and accessories to customers in Hong Kong; and

(c) Provision of water supply and sewage treatment business in the PRC.

7. SEGMENT INFORMATION *(Continued)*

Segment information about these businesses is presented below:

For the year ended 31 December

	Production and sale of computer peripherals		Trading of watches and accessories		Provision of water supply and sewage treatment		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000* (Restated)	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
TURNOVER								
External sales	**30,582**	56,724	**39,552**	4,496	**–**	–	**70,134**	61,220
RESULT								
Segment results	**(67,810)**	(39,512)	**(26,059)**	327	**(297)**	–	**(94,166)**	(39,185)
Unallocated corporate income							**–**	627
Unallocated corporate expenses							**(1,084)**	(3,721)
Share of profit of an associate							**338**	-
Finance costs							**(494)**	(262)
Loss before tax							**(95,406)**	(42,541)
Income tax expense							**(336)**	(1,718)
Loss for the year							**(95,742)**	(44,259)
OTHER INFORMATION								
Depreciation of property, plant and equipment	**4,570**	8,469	**188**	93	**–**	–	**4,758**	8,562
Amortisation of intangible assets	**–**	720	**–**	–	**–**	–	**–**	720
Allowance for bad and doubtful debts	**14,870**	7,903	**–**	–	**–**	–	**14,870**	7,903
Impairment loss on intangible assets	**2,160**	–	**–**	–	**–**	–	**2,160**	–
Allowance for inventories	**11,601**	–	**–**	–	**–**	–	**11,601**	–
Written off on inventories	**35,134**	4,810	**143**	–	**–**	–	**35,277**	4,810
Loss on disposal of property, plant and equipment	**74**	6,560	**–**	–	**–**	–	**74**	6,560
Capital expenditure	**2,853**	5,014	**–**	465	**–**	–	**2,853**	5,479
At 31 December								
ASSETS								
Segment assets	**29,492**	106,076	**22,462**	15,270	**73,077**	–	**125,031**	121,346
Interest in an associate	**–**	–	**–**	–	**–**	–	**36,477**	–
Unallocated segment assets							**628**	156
Consolidated total assets							**162,136**	121,502
LIABILITIES								
Segment liabilities	**36,672**	24,327	**3,125**	3,982	**47,753**	–	**87,550**	28,309
Unallocated segment liabilities							**16,795**	14,634
Consolidated total liabilities							**104,345**	42,943

7. SEGMENT INFORMATION *(Continued)*

Geographical segments

The Group's operations are located in the PRC and Hong Kong. The Group's trading of watches and accessories division is located in Hong Kong. Production and sale of computer peripherals, provision of water supply and sewage treatment are carried out in the PRC.

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods / services:

	Sales revenue by geographical market	
	2006	2005
	HK$'000	*HK$'000*
Europe	**4,621**	5,812
Asia Pacific	**40,572**	22,071
North America	**24,941**	33,337
	70,134	61,220

The following is an analysis of the carrying amount of segment assets, and additions to property, plant and equipment and intangible assets, analysed by the geographical areas in which the assets are located:

	Carrying amount of segment assets		Additions to property, plant and equipment and intangible assets	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**121,787**	95,132	**1,756**	3,594
Hong Kong	**31,660**	19,386	**1,097**	1,885
Taiwan	**8,689**	6,984	**–**	–
	162,136	121,502	**2,853**	5,479

The PRC, Hong Kong and Taiwan are included in the Asia Pacific region.

8. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on:		
– Bank borrowings wholly repayable within five years	**442**	248
– Finance leases	**52**	14
	494	262

9. LOSS BEFORE TAX

	2006	2005
	HK$'000	*HK$'000*
Loss before tax has been arrived at after charging:		
Amortisation of intangible assets	–	720
Auditors' remuneration	**580**	338
Allowance for bad and doubtful debts	**14,870**	7,903
Allowance for inventories (included in cost of sales)	**11,601**	–
Written off of inventories (included in administrative expenses)	**35,277**	4,810
Impairment loss on intangible assets	**2,160**	–
Share-based payment expenses (included in administrative expenses)	**7,635**	826
Cost of inventories recognised as expenses	**34,983**	31,293
Depreciation of property, plant and equipment	**4,758**	8,562
Loss on disposal of property, plant and equipment	**74**	6,560
Loss on disposal of investments held for trading	**1,200**	200
Minimum lease payments under operating leases: factory premises, plant and staff quarters	**5,103**	4,669
Research and development costs	–	159
Staff costs excluding directors' emoluments *(Note 10(a))*:		
– Salaries, wages and other benefits	**9,220**	7,851
– Retirement benefits scheme contributions	**597**	785
Total staff costs	**9,817**	8,636
and after crediting:		
Interest income	**115**	9
Net foreign exchange gain (loss)	**486**	(678)
Gain on disposal of assets held for sale	**1,013**	–
Gain on disposal of a subsidiary	**148**	–
Release of negative goodwill included in other operating income	–	48

10. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES

(a) Directors' emoluments

Directors' remuneration for the year is as follows:

The emolument paid or payable to each of the 21 (2005: 12) directors were as follows:

		Other emoluments		
Name	**Fees**	**Salaries, allowance and benefits in kind**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Wang Chia Chin	–	806	7	813
Chen Ho Fa[2]	–	349	–	349
Wu Chi Lok[4]	–	690	12	702
Wong Chong Fai, William[2]	–	1,010	11	1,021
Yeung Tsz Keung, Jackey[2]	–	100	6	106
Luk Chi Shing[3]	–	120	–	120
Sze Chun Ning, Vincent[1]	–	140	–	140
Chu Yin Yin, Georgiana[1]	–	90	–	90
Shi De Mao[1]	–	50	–	50
Zhong Wen Sheng[1]	–	20	–	20
Wang Xiao Bo[1]	–	–	–	–
	–	3,375	36	3,411
Non-executive directors:				
Huang Yuan Wen[1]	–	13	–	13
Pan Shi Ying[1]	–	13	–	13
	–	26	–	26
Independent non-executive directors:				
Chan But Leung[2]	–	36	2	38
Shum Po Cheung[2]	–	32	2	34
Lui Nam Kit[2]	–	33	2	35
Lien Wai Hung[3]	–	37	2	39
Lee Hung Sang[3]	–	50	2	52
Chang Kin Man[1]	–	68	2	70
Wu Tak Lung[1]	–	63	2	65
Gu Wen Xuan[1]	–	20	–	20
	–	339	14	353
Total for 2006	–	3,740	50	3,790

1 appointed during the year
2 resigned during the year
3 appointed and resigned during the year
4 resigned after the year ended 31 December 2006

10. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(a) Directors' emoluments *(Continued)*

Name	Fees	Other emoluments: Salaries, allowance and benefits in kind	Other emoluments: Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Wang Chia Chin	–	1,564	–	1,564
Chen Ho Fa	–	926	–	926
Wu Chi Lok[1]	–	400	8	408
Wong Chong Fai, William[1]	–	400	8	408
Yeung Tsz Keung, Jackey[1]	–	33	2	35
Chen Fang Yu[2]	–	251	–	251
	–	3,574	18	3,592
Independent non-executive directors:				
Chan But Leung[1]	46	–	2	48
Shum Po Cheung[1]	53	–	3	56
Lui Nam Kit[1]	35	–	2	37
Chen Chiu Ming[2]	38	–	–	38
Lui Cho Tak[2]	45	–	–	45
Hirosuke Yogo[2]	62	–	–	62
	279	–	7	286
Total for 2005	279	3,574	25	3,878

1 appointed during the year

2 resigned during the year

There was no arrangement under which directors waived or agreed to waive any emoluments in the years ended 31 December 2006 and 2005.

10. EMOLUMENTS FOR DIRECTORS AND EMPLOYEES *(Continued)*

(b) Employees' emoluments

Details of the five highest paid individuals in (a) included two directors (2005: four directors), whose emoluments are set out in (a) above. The emoluments of the remaining three (2005: one) highest paid individuals were as follows:

	2006	2005
	HK$'000	*HK$'000*
Salaries, allowance and benefits in kind	**2,134**	275
Retirement benefits scheme contributions	**30**	12
	2,164	287

Their emoluments were within the following bands:

	No. of employees	
	2006	2005
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	–

During the two years ended 31 December 2006, no emolument was paid to the five highest paid individuals (included both directors and employees) and other directors as an inducement to join or upon joining the Group or as compensation for loss of office.

No other remuneration paid to other members of key management during the two years ended 31 December 2006.

11. INCOME TAX EXPENSE

	2006	2005
	HK$'000	*HK$'000*
Current tax:		
Hong Kong	**336**	–
Deferred tax *(Note 24)*	**–**	1,718
	336	1,718

Hong Kong Profits Tax is calculated at 17.5% (2005: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Company and its subsidiaries which operate in Hong Kong have no assessable profits in 2005.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year can be reconciled to the loss before tax per the consolidated income statement as follows:

	2006	2005
	HK$'000	*HK$'000*
Loss before tax	**(95,406)**	(42,541)
Tax at the domestic income tax rate of 17.5% (2005: 17.5%)	**(16,696)**	(7,445)
Tax effect of share of profit of an associate	**59**	–
Tax effect of expenses not deductible in determining taxable profit	**12,566**	11,109
Tax effect of income not taxable for tax purpose	**(224)**	(8,789)
Effect of different tax rates of subsidiaries operating in other jurisdictions	**–**	570
Tax effect of deferred tax assets not recognised	**4,631**	6,273
Tax charge for the year	**336**	1,718

12. DIVIDENDS

No dividend was paid or proposed during 2006 and 2005, nor has any dividend been proposed since the balance sheet date.

13. LOSS PER SHARE

The calculation of basic and diluted loss per share attributable to the ordinary equity holders of the parent is based on the following data:

Loss	**2006**	2005
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share (Loss for the year attributable to equity holders of the parent)	**95,452**	44,172

Number of shares	**2006**	2005
	'000	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**989,705**	575,914
Effect of dilutive potential ordinary shares:		
Share options issued by the Company	**98,400**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share	**1,088,105**	575,914

No diluted loss per share is presented for the year ended 31 December 2006 as the effect of the conversion of the Company's outstanding share options since their exercise was anti-dilutive.

No diluted loss per share has been presented for the year ended 31 December 2005 as there was no dilutive event existed in 2005.

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK$'000	Plant and machinery HK$'000	Leasehold improvements HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Water pipeline HK$'000	Total HK$'000
COST							
At 1 January 2005	6,464	71,369	6,146	1,269	–	–	85,248
Additions	–	46	3,538	1,895	–	–	5,479
Acquired on acquisition of a subsidiary	–	6	–	–	–	–	6
Disposals	–	(29,594)	(6,806)	(442)	–	–	(36,842)
Reclassified as held for sale	(1,450)	–	–	–	–	–	(1,450)
Exchange adjustments	(5)	95	13	(2)	–	–	101
At 31 December 2005	**5,009**	**41,922**	**2,891**	**2,720**	**–**	**–**	**52,542**
Additions	–	717	1,880	256	–	–	2,853
Acquired on acquisition of subsidiaries	7,241	378	36	70	17,439	20,304	45,468
Disposals of a subsidiary	–	–	(331)	–	–	–	(331)
Disposals	–	(833)	(200)	(298)	–	–	(1,331)
Exchange adjustments	50	1,546	55	31	–	–	1,682
At 31 December 2006	**12,300**	**43,730**	**4,331**	**2,779**	**17,439**	**20,304**	**100,883**
ACCUMULATED DEPRECIATION AND IMPAIRMENT							
At 1 January 2005	652	45,526	5,353	1,141	–	–	52,672
Provided for the year	147	6,069	1,696	650	–	–	8,562
Eliminated on disposals	–	(23,285)	(6,535)	(2)	–	–	(29,822)
Reclassified as held for sale	(369)	–	–	–	–	–	(369)
Exchange adjustments	(14)	530	(12)	4	–	–	508
At 31 December 2005	416	28,840	502	1,793	–	–	31,551
Provided for the year	99	3,649	850	160	–	–	4,758
Disposal of a subsidiary	–	–	(66)	–	–	–	(66)
Eliminated on disposals	–	(681)	(364)	(30)	–	–	(1,075)
Exchange adjustments	4	1,049	4	30	–	–	1,087
At 31 December 2006	**519**	**32,857**	**926**	**1,953**	**–**	**–**	**36,255**
CARRYING AMOUNTS							
At 31 December 2006	**11,781**	**10,873**	**3,405**	**826**	**17,439**	**20,304**	**64,628**
At 31 December 2005	4,593	13,082	2,389	927	–	–	20,991

14. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Freehold land	Nil
Land and buildings	Over the shorter of the term of the lease, or 30 years
Plant and machinery	5 to 10 years
Leasehold improvements	Over the shorter of the term of the lease, or 5 years
Motor vehicles	5 years
Water Pipeline	15 years

The carrying amounts of the properties shown above comprises:

	2006	2005
	HK$'000	*HK$'000*
Freehold outside Hong Kong	**4,540**	4,593

As at 31 December 2006, net carrying value of motor vehicles of approximately HK$440,000 (2005: HK$772,000) was held under finance leases.

The Group has pledged land and buildings having a net carrying value of approximately HK$4,538,000 (2005: HK$4,593,000) to secure general banking facilities granted to the Group.

15. INTANGIBLE ASSETS

	Development costs *HK$'000*
COST	
At 1 January 2005	3,531
Exchange adjustments	69
At 31 December 2005	3,600
Additions	–
At 31 December 2006	**3,600**
ACCUMULATED AMORTISATION AND IMPAIRMENT	
At 1 January 2005	706
Provided for the year	720
Exchange adjustments	14
At 31 December 2005	1,440
Impairment losses recognised	2,160
At 31 December 2006	**3,600**
CARRYING AMOUNTS	
At 31 December 2006	**–**
At 31 December 2005	2,160

The directors reviewed the carrying values of intangible assets at 31 December 2006 based on a value-in-use calculation. As a result of huge loss for the year, the directors consider that the above intangible assets do not bring economic benefits to the Group and as such impairment losses are provided on the full carrying amounts of the intangible assets.

Development costs have definite useful lives and are amortised on a straight-line basis over 5 years.

16. GOODWILL

	HK$'000
COST	
At 1 January 2005 and 31 December 2005	–
Arising on acquisition of subsidiaries	1,361
At 31 December 2006	**1,361**
CARRYING AMOUNTS	
At 31 December 2006	**1,361**
At 31 December 2005	–

The goodwill was recognised on acquisitions of two subsidiaries, 100% interest in Anhui Dang Shan Water Industry Company Limited ("DS Water") and 70% interest in Jining City Heiyuan Water Investment Company Limited ("HY Water"), which are engaged in the water supply and sewage treatment business.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the subsidiaries, which covers the above goodwill is determined from a value-in-use calculation. The key assumptions for the value-in-use calculation are those regarding the discount rate, growth rate, and expected changes to selling prices and direct costs during the period. The Group estimates discount rate using the prevailing market rate of return of similar companies in the market adjusted with the specific risks relating to DS Water and HY Water. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on the management's past experience and expectations of future changes in the relevant markets.

The Group prepares five-year cash flow forecasts (the "Forecasts") derived from the subsidiaries' financial budgets for 2007 to 2011, of which are approved by the management of the subsidiaries. The rate used to discount the Forecasts is 8% per annum.

As the water supply and sewage treatment business is regulated by government in the PRC, the Group considers that the Forecasts covering a period of 5 years and on average growth rate of 5% per annum are appropriate for the impairment test review.

The results for the reviews undertaken as at 31 December 2006 indicated that no impairment loss was necessary for the year ended 31 December 2006.

17. INTEREST IN AN ASSOCIATE

	2006	2005
	HK$'000	*HK$'000*
Cost of investment in an associate (Note),		
Unlisted	**36,139**	–
Share of post-acquisition profit	**338**	–
	36,477	–

Note: Included in amount was goodwill arising from acquisition of an associate amounted to approximately HK$25,238,000.

The goodwill was recognised on acquisition of 40% interest in an associate, Onfar International Limited, an investment holding company of which its major subsidiaries are engaged in the provision of water supply and sewage treatment.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the associate, which covers the above goodwill is determined from a value-in-use calculation and based on the dividend income received from Onfar International Limited. The key assumptions for the value-in-use calculation are those regarding the discount rate, growth rate, dividend yield rate and expected changes to selling prices and direct costs during the period. The Group estimates discount rate using the prevailing market rate of return of similar companies in the market adjusted with the specific risks relating to Onfar International Limited. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on the management past industry practices and expectations of future changes in the relevant markets. The dividend yield rate is estimated with reference to the historical profit trends of the associate.

The Group prepares five-year cash flow forecasts ("Forecasts") derived from the associate's financial budgets for 2007 to 2011, of which are approved by the management of the associate. The rate used to discount the Forecasts is 8% per annum.

As the water supply and sewage water treatment business is regulated by government in the PRC, the Group considers that the Forecasts covering a period of 5 years and on average growth rate of 5% per annum are appropriate for the impairment test review.

The results for the reviews undertaken as at 31 December 2006 indicated that no impairment loss was necessary for the year ended 31 December 2006.

17. INTEREST IN AN ASSOCIATE *(Continued)*

As at 31 December 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of incorporation	Class of share held	Proportion of nominal value of issued capital held by the Group	Principal activities
Onfar International Limited	Incorporated	British Virgin Islands	Ordinary	40%	Investment holding

Onfar International Limited was acquired by the Group on 14 November 2006. The results of Onfar International Limited have been accounted for into the Group's consolidated financial statements by equity accounting method, and are derived from the unaudited financial statements of Onfar International Limited from 14 November 2006 to 31 December 2006.

Subsequent to balance sheet date, the Group acquired an additional 60% equity interest in Onfar International Limited. Accordingly, Onfar International Limited will become a wholly owned subsidiary of the Group. Details of which are set out in Note 39(d).

The summarised financial information in respect of the Group's associate is set out below:

	31.12.2006
	HK$'000
Total assets	188,022
Total liabilities	(96,829)
Net assets	91,193
Group's share of net assets of an associate	36,477

	14.11.2006 to 31.12.2006
	HK$'000
Turnover	2,152
Profit for the year	845
Group's share of profit of an associate for the year	338

18. INVENTORIES

	2006 HK$'000	2005 HK$'000
Raw materials	**3,433**	24,031
Work in progress	**1,008**	10,713
Finished goods	**14,342**	9,235
	18,783	43,979

Included in the inventories are raw materials of approximately HK$3,433,000 (2005: HK$2,634,000) and finished goods of approximately HK$14,342,000 (2005: Nil) carried at net realisable value.

19. TRADE AND OTHER RECEIVABLES

	2006 HK$'000	2005 HK$'000
Trade receivables	**49,916**	36,666
Less: Accumulated impairment	**(21,135)**	(6,265)
	28,781	30,401
Other receivables	**2,752**	12,234
Deposit paid	**2,248**	6,000
	33,781	48,635

The Group allows an average credit period of 30 days to 180 days given to its trade customers.

An aged analysis of the trade receivable as at the balance sheet date, based on invoice date, and net of impairment losses is as follows:

	2006 HK$'000	2005 HK$'000
Current to 90 days	**14,729**	18,688
91 to 180 days	**8,742**	1,722
181 to 365 days	**5,310**	9,991
	28,781	30,401

The fair values of the Group's trade and other receivables at 31 December 2006 approximate to the corresponding carrying amounts due to their short-term maturities.

20. PLEDGED BANK DEPOSITS

The pledged bank deposits carry fixed interest rate of 4.03% (2005: Nil).

Pledged bank deposits represents deposits pledged to banks to secure banking facilities granted to the Group. As at 31 December 2006, deposits amounting to approximately HK$2,061,000 (2005: Nil) have been pledged to secure trust receipt loans and trust receipt acceptance repayable in three months' time and are therefore classified as current assets. The pledged bank deposits will be released upon the settlement of relevant banking facilities.

21. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date, based on payment due date:

	2006	2005
	HK$'000	*HK$'000*
Current to 30 days	**6,615**	10,190
31 to 90 days	**5,283**	7,034
91 to 180 days	**1,849**	2,124
181 to 365 days	**1,024**	635
Over 1 year	**2,474**	165
	17,245	20,148
Other payables *(Note)*	**61,095**	7,627
	78,340	27,775

The fair values of the Group's trade and other payable at 31 December 2006 approximate to the corresponding carrying amounts.

Note: Included in amount was consideration payables to the former shareholders of two subsidiaries of approximately HK$35,855,000, as considerations to acquire the two subsidiaries (2005: Nil) and payable to purchase sewage treatment system of approximately HK$9,387,000 (2005: Nil).

22. OBLIGATIONS UNDER FINANCE LEASES

It is the Group's policy to lease its motor vehicles under finance leases. The lease term is 4 years. Interest rates underlying the obligations under finance leases are fixed at 5.5% (2005: 4.2%) per annum. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Amounts payable under finance leases:				
Within one year	**164**	279	**140**	239
In more than one year but not more than two years	**164**	279	**140**	239
In more than two years but not more than three years	**122**	221	**105**	190
In more than three years but not more than four years	**–**	123	**–**	105
	450	902	**385**	773
Less: Future finance charge	**(65)**	(129)	**N/A**	N/A
Present value of lease obligations	**385**	773	**385**	773
Less: Amount due for settlement within one year (shown under current liabilities)			**(140)**	(239)
Amount due for settlement after one year			**245**	534

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets.

The fair values of the Group's finance lease obligations, determined based on the present value of the estimated future cash flows discounted using the prevailing market rate at the balance sheet date approximate to their carrying amounts.

The finance lease obligations are denominated in the functional currency of the Group.

23. BANK BORROWINGS

	2006	2005
	HK$'000	*HK$'000*
Secured bank borrowings repayable within one year	**6,442**	3,898

The balance is fixed-rate borrowing which carries interest at 4% (2005: 4%) per annum.

During the year, the Group obtained new borrowing in the amount of approximately HK$6,442,000. The proceeds were used to finance the general working capital of the Group. The borrowing drawn during the year bears interest at 4% per annum.

The bank borrowings were secured by land and buildings of the Group as disclosed in note 14 to the consolidated financial statements and personal guarantees issued by a director.

The directors consider that the carrying amount of bank borrowings approximates their fair value.

All bank borrowings as at 31 December 2006 are denominated in New Taiwan dollar 27,000,000 (equivalent to approximately HK$6,442,000).

24. DEFERRED TAXATION

The followings are the major deferred tax balances recognised and movements thereon during the current and prior year:

Deferred tax asset:

	Accumulated impairment for inventories
	HK$'000
At 1 January 2005	1,718
Charge to consolidated income statement for the year	(1,718)
At 31 December 2005 and 31 December 2006	–

At the balance sheet date, the Group has unused tax losses of approximately HK$62,754,000 (2005: HK$38,419,000) available for offsetting against future profits. No deferred tax asset has been recognised in respect of the above tax losses due to the unpredictability of future profits streams. The unrecognised tax losses will expire in five years' time.

At the balance sheet date, the Group also has deductible temporary differences of approximately HK$70,713,000 (2005: HK$68,587,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profits will be available against which the deductible temporary differences can be utilized.

25. AMOUNTS DUE TO RELATED PARTIES

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying value of the amounts at the balance sheet date approximates its fair value.

26. AMOUNTS DUE TO DIRECTORS

The amounts are unsecured, non-interest bearing and repayable on demand. The directors consider that the carrying value of the amounts at the balance sheet date approximates its fair value.

27. ASSETS CLASSIFIED AS HELD FOR SALE

At 31 December 2005, assets classified as held for sale represent the property, plant and equipment to be disposed in 2006. The net proceeds of disposal are expected to exceed the net carrying amount of the relevant assets and accordingly, no impairment loss has been recognised during the year ended 31 December 2005.

The property, plant and equipment were disposed of on 15 January 2006.

28. SHARE CAPITAL

	2006		2005	
	Number of shares	**Amount** *HK$'000*	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.10 each				
Authorised:				
At beginning and end of year	**4,000,000,000**	**400,000**	4,000,000,000	400,000
Issued and fully paid:				
At beginning of year	**734,500,000**	**73,450**	495,000,000	49,500
Issue of shares	**430,000,000**	**43,000**	198,000,000	19,800
Exercise of share options	**–**	**–**	41,500,000	4,150
At end of year	**1,164,500,000**	**116,450**	734,500,000	73,450

Notes:

(a) On 20 December 2005, the Company entered into a placing agreement with Goldbond Securities Limited ("Goldbond"), pursuant to which Goldbond has agreed to place an aggregate of up to 250,000,000 shares of HK$0.1 each at the placing price of HK$0.11 per share, among which, as to 60,000,000 shares to Mr. Wu Chi Lok, an executive director of the Company; as to 60,000,000 shares to Mr. Yeung Sze Keung, Jackey, an executive director of the Company; and as to 130,000,000 shares to not less than six independent placees (other than Mr. Wu Chi Lok and Mr. Yeung Sze Keung, Jackey). The placing price represents a discount of approximately 19.71% to the closing price of HK$0.137 per share as quoted on the Stock Exchange on 19 December 2005.

On 2 February 2006, the placing in respect of 250,000,000 placing shares was successfully placed at HK$0.11 per share.

(b) At the annual general meeting of the Company held on 1 June 2006, the shareholders of the Company approved the grant of a general mandate to the directors to allot, issue and deal with 196,900,000 shares of the Company, representing 20% of the 984,500,000 shares in issue.

On 7 November 2006, 180,000,000 new shares of the Company, of HK$0.1 each at the price of HK$0.20 per share, were allotted and issued to Boost Skill Investments Limited, a third party company independent of the Company at that time, for the consideration to acquire 40% of the equity interest of Onfar International Limited, a third party company independent of the Company.

All new shares issued in 2006 rank pari passu in all respects with other shares in issue.

29. LONG-TERM BORROWING

	2006 HK$'000	2005 HK$'000
Unsecured borrowing repayable over five years, carrying amount at amortised cost	**857**	–

Pursuant to an agreement entered into between DS Water, a wholly-owned subsidiary of the Company, and Anhui Dang Shan County Finance Bureau ("DS Finance Bureau") on 1 March 2006, a loan of RMB1,200,000 (equivalent to approximately HK$1,196,000) was granted by DS Finance Bureau to DS Water, and guaranteed by Dang Shan County Water Supply Bureau. The loan is unsecured, interest-bearing at the fixed deposit rate as stipulated by the People's Bank of China plus 0.3%, and repayable on 28 February 2021.

30. ACQUISITION OF SUBSIDIARIES

(a) On 31 December 2006, the Group acquired 100% of the equity interest of DS Water and 70% of the equity interest of HY Water, for considerations of RMB25,198,000 (equivalent to approximately HK$25,113,000) and RMB10,774,000 (equivalent to approximately HK$10,742,000) respectively. The acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$1,361,000 in aggregate.

The net assets acquired in the transaction and the goodwill arising are as follows:

	2006 DS Water Fair value *HK$'000*	**2006 HY Water Fair value *HK$'000***	**2006 Total Fair value *HK$'000***
Net assets acquired:			
Property, plant and equipment, net	**28,463**	**17,005**	**45,468**
Cash and cash equivalents	**135**	**2,448**	**2,583**
Trade and other receivables	**1,771**	**254**	**2,025**
Trade and other payables	**(5,268)**	**(5,064)**	**(10,332)**
Long-term borrowing	**(857)**	**–**	**(857)**
Minority interests	**–**	**(4,393)**	**(4,393)**
	24,244	**10,250**	**34,494**
Goodwill *(Note 16)*	**869**	**492**	**1,361**
	25,113	**10,742**	**35,855**
Satisfied by:			
Other payables to the former shareholders of DS Water and HY Water *(Note 21)*	**25,113**	**10,742**	**35,855**

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

Net cash inflow arising in acquisition:

	2006
	HK$'000
Cash consideration paid	–
Bank balances and cash acquired	**2,583**
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**2,583**

DS Water and HY Water did not contribute to the Group's turnover or loss for the year as they were acquired at the balance sheet date.

If the acquisition had been completed on 1 January 2006, total Group's turnover for the year would have been approximately HK$74,320,000, and loss for the year would have been approximately HK$95,419,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2006, nor is it intended to be a projection of future results.

(b) In November 2005, the Group acquired 50.01% of the issued share capital of Technostore Limited for consideration of HK$2 million. This acquisition has been accounted for using the purchase method. The amount of negative goodwill arising as a result of the acquisition was HK$48,000.

	2005
	Fair value
	HK$'000
Net assets acquired:	
Property, plant and equipment, net	6
Cash and cash equivalents	10
Trade and other receivables	253
Inventories	3,680
Tax recoverable	165
Trade and other payables	(19)
Minority interests	(2,047)
	2,048
Negative goodwill	(48)
	2,000
Satisfied by:	
Cash	2,000

30. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows :

	2005
	HK$'000
Cash consideration	(2,000)
Cash and bank balances acquired	10
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(1,990)

Technostore Limited contributed HK$821,000 turnover and HK$175,000 to the Group's loss before taxation for the year between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 January 2005, total group turnover for the year would have been HK$65,693,000, and loss for the year would have been HK$43,443,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2005, nor is it intended to be a projection of future results.

31. DISPOSAL OF A SUBSIDIARY

On 28 December 2006, the Group disposed of its entire interest in Mascot Distribution Limited, a wholly-owned subsidiary of the Company. The net liabilities of Mascot Distribution Limited at the date of disposal were as follows:

	2006
	HK$'000
Net liabilities disposed of:	
Property, plant and equipment	**265**
Inventories	**1,700**
Trade and other receivables	**646**
Trade and other payables	**(2,747)**
	(136)
Gain on disposal	**148**
Total consideration	**12**
Satisfied by:	
Cash	**12**

The subsidiary disposed of during the year ended 31 December 2006 had no significant impact on the turnover and results of the Group.

32. MAJOR NON-CASH TRANSACTION

(a) During the year ended 31 December 2006, the Company issued 180,000,000 new ordinary shares at par value of HK$0.1 per share at the price of HK$0.2 per share, for a total of HK$36,000,000 to acquire 40% of the equity interest of Onfar International Limited as set out in note 28.

(b) During the year ended 31 December 2006, the Group acquired the subsidiaries as set out in note 30, the purchase consideration amounting to approximately HK$35,855,000, which was unpaid at year ended 31 December 2006. This acquisition is not reflected in the consolidated cash flow statement.

(c) During the year ended 31 December 2005, the Group entered into finance lease arrangements in respect of assets with total capital values at the inception of the leases of HK$858,000.

33. CAPITAL COMMITMENT

	2006	2005
	HK$'000	*HK$'000*
		(Restated)
Capital commitments contracted but not provided for, for acquisition of property, plant and equipment	**1,265**	–

34. PLEDGED OF ASSETS

Assets with the following carrying amounts have been pledged to secure short-term bank borrowings of the Group (see Note 23):

	2006	2005
	HK$'000	*HK$'000*
Freehold land and buildings *(Note 14)*	**4,540**	4,593
Pledged bank deposits *(Note 20)*	**2,061**	–
	6,601	4,593

In addition, the Group's obligations under finance leases (see note 22) are secured by the lessors' title to the leased assets, which have a carrying amount of approximately HK$440,000 (2005: HK$772,000).

35. OPERATING LEASE COMMITMENT

The Group leases certain of its factory premises, plant and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to six years.

At the balance sheet date, the Group had future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2006	2005
	HK$'000	*HK$'000*
Within one year	**4,872**	4,309
In the second to fifth year, inclusive	**12,544**	10,460
More than five years	**3,174**	7,508
	20,590	22,277

36. SHARE-BASED PAYMENT TRANSACTIONS

Equity-settled share option scheme:

The Company's share option scheme (the "Scheme"), became effective on 17 January 2002 for the primary purpose of providing incentives to directors and eligible employees or persons and, unless otherwise cancelled or amended, will remain in force for 10 years from that date. Under the Scheme, the board of directors of the Company may grant options to eligible employees, including directors of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to outside third parties for settlement in respect of goods or services provided to the Company.

At 31 December 2006, the number of shares in respect of which options had been granted and remained outstanding under the scheme was 98,400,000 (2005: Nil), representing 8.4% (2005: Nil) of the shares of the Company in issue at that date.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 30% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK$5 million, within one year, must be approved in advance by the Company's shareholders.

Options granted must be taken up within twelve months of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from the date of grant of the share option to the tenth anniversary of the date of grant. The exercise price is determined by the directors of the Company, and will not be less than the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

Equity-settled share option scheme: *(Continued)*

The following table discloses movements of the Company's share options held by directors and employees and other eligible persons during both years:

	Outstanding at 1/1/2006	**Granted during year**	**Exercised during year**	**Outstanding at 31/12/2006**
Directors	–	–	–	–
Employees	–	–	–	–
Eligible persons	–	98,400,000	–	98,400,000
	–	98,400,000	–	98,400,000

During the year ended 31 December 2006, options were granted on 25 September 2006. The estimated fair value of the options granted is approximately HK$7,635,000 (2005: HK$826,000).

	Outstanding at 1/1/2005	Granted during year	Exercised during year	Outstanding at 31/12/2005
Directors	–	8,300,000	(8,300,000)	–
Employees	–	4,150,000	(4,150,000)	–
Eligible persons	–	29,050,000	(29,050,000)	–
	–	41,500,000	(41,500,000)	–

The fair value was calculated using the Black-Scholes pricing model. The inputs into the model were as follows:

	Share options granted on 25 September 2006	Share options granted on 4 July 2005
Grant date share price	HK$0.167	HK$0.101
Exercise price	HK$0.1	HK$0.1
Expected volatility	99.96%	78.17%
Option life	1.5 years	1.5 years
Risk-free rate	effective yield on government bond	3.178%
Expected dividend yield	0%	0%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous one year. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations.

The Group recognised the total expense of approximately HK$7,635,000 for the year ended 31 December 2006 in relation to share options granted by the Company (2005: HK$826,000).

37. RETIREMENT BENEFIT SCHEME

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries which operates in the PRC are required to participate in the CPS operated by the local municipal governments. These PRC subsidiaries are required to contribute 8% to 10% of its payroll costs to the CPS. The contributions are charged to the income statement as they become payable in accordance with the rules of the CPS.

The total cost charged to consolidated income statement of approximately HK$647,000 (2005: HK$810,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

38. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries at 31 December 2006, are as follows:

Name of company	Place of incorporation/ operations	Particulars of issued and paid up/ registered capital	Proportion of equity interest held		Principal activities
			Direct	Indirect	
Pablo Enterprises Ltd.	British Virgin Islands	10,000 ordinary shares of US$1 each	100%	–	Investment holding
Sky Hawk Computer (Shenzhen) Company Limited	PRC	Registered capital of US$5,650,000	–	100%	Manufacturing of computer peripherals
San Hawk Technic Co., Ltd.	Taiwan	Registered capital of NT$10,000,000	–	100%	Trading of computer peripherals
Eagle Lord Development Limited ("Eagle Lord")#	Hong Kong	10,000 non-voting deferred shares of HK$1 each and 2 ordinary shares of HK$1 each	–	100%	Trading of computer peripherals

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up/ registered capital	Proportion of equity interest held Direct	Indirect	Principal activities
Eagle Lord Trading International (Shenzhen) Limited	PRC	Registered capital of HK$2,000,000	–	100%	Trading of computer peripherals
Glory Trading Limited	Samoa	10,000 ordinary shares of US$1 each	–	100%	Trading of computer peripherals
Sky Hawk Computer Group Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100%	Investment holding
Happy Hour Limited	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Technostore Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	50.01%	Trading of watches and accessories
Mascot Industries Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Trading of watches
Newton Investment Ltd.	Samoa	10,000 ordinary shares of US$1 each	–	100%	Investment holding
Faith Honest Enterprises Ltd.	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Dormant
All Favour Ltd.	British Virgin Islands	100 ordinary shares of US$1 each	100%	–	Investment holding
Jovial Trading Ltd.	Hong Kong	2 ordinary shares of HK$1 each	–	100%	Dormant
Billion City Investments Ltd.	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
Super Sino Investment Ltd.	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding

38. PRINCIPAL SUBSIDIARIES *(Continued)*

Name of company	Place of incorporation/ operations	Particulars of issued and paid up/ registered capital	Proportion of equity interest held Direct	Proportion of equity interest held Indirect	Principal activities
DS Water	PRC	Registered capital of RMB10,000,000	–	100%	Water supply
Nourish Gain Investments Ltd.	British Virgin Islands	1 ordinary share of US$1 each	100%	–	Investment holding
China Ace Investment Ltd.	Hong Kong	1 ordinary share of HK$1 each	–	100%	Investment holding
HY Water	PRC	Registered capital of RMB10,000,000	–	100%	Sewage treatment
China Water Industry (HK) Ltd.	Hong Kong	1 ordinary share of HK$1 each	–	100%	Not yet commenced business
South Top Investment Ltd.	Hong Kong	1 ordinary share of HK$1 each	100%	–	Provision of administrative services

\# In accordance with the Articles of Association of Eagle Lord, a shareholder of non-voting deferred shares is not entitled to any dividend or any participation in the profits or assets of Eagle Lord and is also not entitled to vote at any general meeting.

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

39. POST BALANCE SHEET EVENT

(a) Subsequent to the balance sheet date, the Company had granted in aggregate of 28,200,000 shares options to 3 Executive Directors, pursuant to the Company's Share Option Scheme. On 11 January 2007, each of Mr. Sze Chun Ning, Vincent and Ms. Chu Yin Yin, Georgiana had been granted 11,600,000 share options at an exercise price of HK$0.335 per share. On 17 January 2007, the Company had granted 5,000,000 share options to Mr. Liu Bai Yue at an exercise price of HK$0.42 per share.

(b) On 31 January 2007, the Company, Boost Skill Investments Limited ("Boost Skill"), a substantial shareholder of the Company, Favor Jumbo Investments Limited ("Favor Jumbo"), a company beneficially wholly owned by Mr Wang Xiao Bo, an executive director of the Company, and Sure Ability Limited ("Sure Ability"), a company beneficially wholly owned by Mr. Sze Chun Ning, an executive director of the Company, entered into a placing and subscription agreement pursuant to which the First Shanghai Securities Group agreed to place up to 230,000,000 existing shares of the Company at the price of HK$0.49 per share. Under the placing and subscription agreement, Boost Skill, Favor Jumbo and Sure Ability have agreed to subscribe for up to 230,000,000 subscription shares which are equal to the number of placing shares under the placing and subscription agreement.

On 2 February 2007, a total of 230,000,000 existing shares have been placed to third parties independent of the Company.

(c) On 12 February 2007, the Company entered into a non-legally binding memorandum of understanding with (the People's Government of Hedong District in Linyi City*) 臨沂市河東區人民政府, a joint venture partner, and (Linyi City Hedong District Water Supply Company Limited*) 臨沂市河東區自來水有限公司 in relation to the Company's proposed capital contribution in form of cash in the aggregate sum of RMB18,000,000 for the establishment of a joint venture company which will be principally engaged in water supply business in Linyi City, Shangdong Province, the PRC.

39. POST BALANCE SHEET EVENT *(Continued)*

(d) On 12 March 2007, Billion City Investments Limited ("Billion"), a wholly-owned subsidiary of the Company, and Boost Skill entered into an agreement pursuant to which Billion agreed to acquire from Boost Skill 60% of the entire issued share capital of Onfar International Limited, an associate of the Company, for a consideration of RMB30 million.

(e) On 15 March 2007, China Water Industry (Hong Kong) Limited ("China Water (HK)"), a wholly-owned subsidiary of the Company, entered into a non-legally binding agreement with (the Management Committee of Shu Yang District Economic Development Zone in Jiangsu Province*) 江蘇省沭陽縣經濟開發區管理委員會, a third party independent of the Company and its subsidiaries. Pursuant to which China Water (HK) agreed to establish a wholly-owned subsidiary in Shu Yang District Economic Development Zone in Jiangsu Province of the PRC.

(f) On 23 March 2007, the Company and Boost Skill and Favor Jumbo entered into a placing agreement with DBS Asia Capital Limited ("DBS") pursuant to which DBS agreed to place up to 300,000,000 existing shares of the Company at the price of HK$1.06 per share.

On 29 March 2007, 300,000,000 shares of the Company have been placed to third parties independent of the Company.

(g) On 11 April 2007, China Water (HK) and (Linyi City Hedong District Water Supply Company*) ("Linyi Hedong") 臨沂市河東區自來水公司, a company wholly owned by the People's Government of Hedong District, entered into a joint venture agreement pursuant to which China Water (HK) and Linyi Hedong agreed to establish a joint venture company (the "JV Company") which will be principally engaged in the provision of public service in respect of water supply and the provision of related services in Linyi City, Hedong District, Shangdong Province, the PRC.

39. POST BALANCE SHEET EVENT *(Continued)*

(h) On 11 April 2007, China Water (HK), the People's Government of Hedong District and Linyi Hedong entered into a concession agreement pursuant to which Linyi Hedong has been granted the exclusive concession of the provision of public services in respect of water supply in Linyi City, Hedong District, Shangdong Province, the PRC for a term of 30 years commencing from the date of business license of the JV Company.

(i) On 23 April 2007, China Water (HK) entered into a letter of intent with 河南省商丘市公用事業管理局 (Public Utility Management Bureau of Shang Qiu City in Henan Province*) of the PRC (the "JV Partner"), pursuant to which China Water (HK) agreed to establish the JV Company with the JV Partner to principally engage in the construction and operation of water supply plants with aggregate water supply capacity of 1 million tons per day for 商丘市城區 (the urban area of Shang Qiu City*), 永城市 (Yong Cheng City*), 夏邑縣 (Xia Yi District*), 虞城縣 (Yu Cheng District*), 柘城縣 (Zhe Cheng District*), 寧陵縣 (Ning Ling District*), 睢縣 (Ju District*) and 民權縣 (Min Quan District*) of the PRC. The proposed establishment of the JV Company is subject to the entering into of the JV Agreement by China Water (HK) and the JV Partner. Upon the establishment of the JV Company, it will be held as to 51% by China Water (HK) and 49% by the JV Partner.

* *The English names are for identification purpose only.*