



NEWS SMART GROUP

INTERIM REPORT 2007



NEW SMART ENERGY GROUP LIMITED

(Stock code : 91)

CORPORATE INFORMATION

Executive Directors

Tong Nai Kan
(Chairman and Managing Director)
Chow Sim Chu, Shirley
Bai Yang
Tan Chuanrong

Independent Non-Executive Directors

Tang Tin Sek
Liu Ngai Wing
Lam Yat Fai
Chan Kin Sang

Audit Committee

Tang Tin Sek *(Chairman)*
Liu Ngai Wing
Lam Yat Fai
Chan Kin Sang

Remuneration Committee

Lam Yat Fai *(Chairman)*
Tang Tin Sek
Liu Ngai Wing

Company Secretary

Lee Kuen Chiu, Sherman

Qualified Accountant

Lee Kuen Chiu, Sherman

Principal Bankers

Bank of Communications Co., Ltd.
The Hongkong and Shanghai Banking
Corporation Limited
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited

Solicitors

Stephenson Harwood & Lo

Auditors

PricewaterhouseCoopers
22nd Floor, Prince's Building,
Central, Hong Kong

Registered Office

19th Floor,
Bank of East Asia Harbour View Centre,
56 Gloucester Road,
Wanchai, Hong Kong

Share Registrars

Tricor Standard Limited
26th Floor, Tesbury Centre,
28 Queen's Road East,
Wanchai, Hong Kong

Listing Exchange

The Stock Exchange of Hong Kong Limited
Stock code: 91

Company Website

www.newsmartgroup.com

The Board of Directors (the “Board” or “Directors”) of New Smart Energy Group Limited (the “Company”) is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007 (the “Period”).

RESULTS

For the Period, the turnover of the Group was HK\$62,833,000 (2006: HK\$37,318,000), representing an increase of 68.4%. The increase was mainly due to the contribution from the newly acquired natural gas business amounted to HK\$32,806,000, equivalent to 52.2% of the Group’s turnover. The gross profit increased by 362.7% to HK\$19,014,000 from HK\$5,243,000. Before the accounting loss for the extinguishment of promissory notes and fair value change on embedded financial derivatives in respect of convertible bonds, the loss attributable to the shareholders of the Company for the Period was HK\$5,834,000, a decrease in loss of 73.4% over last corresponding period. After the accounting loss for the fair value of net changes in conversion price of the convertible bonds for the Period of HK\$145,723,000, the loss attributable to the shareholders of the Company was HK\$152,287,000 (2006: HK\$22,157,000), representing an increase of 587.3%. The Board was of the opinion that the substantial loss incurred by the accounting loss on fair value change shall not have actual negative impact on the cashflow position of the Group. As of the date of this report, the majority of the convertible bonds have been converted into shares of the Company. With the remaining convertible bonds mandatory to be converted, the convertible bonds of HK\$61,418,000 classified under current liabilities will be converted as equity eventually and should not result in a cash outflow to the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the Period.

BUSINESS REVIEW

Natural Gas Business

The Group was principally engaged in property investment and technology-related business in the previous years. After cautious and prudent studies, the Directors expect that the energy-related businesses in Mainland China have a huge potential to grow in the near future.

In August 2006, the Group completed the acquisition of the entire issued share capital of Sanxia Gas (BVI) Investment Limited (“Sanxia Gas”) from Mr. Tan Chuanrong (“Mr. Tan”) at a consideration of HK\$250 million, of which HK\$35,000,000 was paid in cash, HK\$38,125,000 was satisfied by the allotment and issue of 152,500,000 shares of HK\$0.25 each and the remaining HK\$176,875,000 was satisfied by issuing seven promissory notes to Mr. Tan.

BUSINESS REVIEW (Continued)

Natural Gas Business (Continued)

On 7 March 2007, the Company entered into a deed of settlement and a subscription agreement with Mr. Tan pursuant to which Mr. Tan agreed that the promissory notes and accrued interest amounting to HK\$178,356,328.12 will be settled by the issuance of convertible bonds to him by the Company. The convertible bonds were issued to Mr. Tan on 22 June 2007 and the Directors are of the opinion that the net asset value, the working capital and the gearing level of the Group would be improved by the issuance of the convertible bonds to settle the promissory notes. In fact, as at the date of this report, substantial amount of the convertible bonds have already been converted into shares of the Company and, the outstanding amount of the convertible bonds was HK\$10,000,000 and the gearing level of the Group have been significantly improved.

Sanxia Gas indirectly owned 100% equity interest in Chongqing Yunyang Natural Gas Company Limited (“First Yunyang”), Yunyang Three Gorges Compressed Natural Gas Company Limited (“Second Yunyang”), Fengjie Three Gorges Wind Natural Gas Company Limited (“Fengjie Gas”) and Wushan Three Gorges Wind Natural Gas Company Limited (“Wushan Gas”). The principal activities of these subsidiaries are the sale and distribution of piped natural gas and/or compressed natural gas in Yunyang, Fengjie and Wushan, Mainland China.

For the six months ended 30 June 2007, the turnover and profit of Sanxia Gas was HK\$32,806,000 and HK\$11,606,000, respectively. The revenue of Sanxia Gas before sales tax mainly comprised of gas connection fee of HK\$16,263,000 and sales of natural gas supply charges of HK\$16,874,000. As at 30 June 2007, Sanxia Gas had more than 48,000 customers with details as follows:

| No. of customers | First Yunyang | Fengjie Gas | Wushan Gas | Total |
|------------------|---------------|-------------|------------|--------|
| 31 December 2006 | 26,803 | 10,907 | 5,818 | 43,528 |
| 30 June 2007 | 28,266 | 13,083 | 6,772 | 48,121 |
| New customers | 1,463 | 2,176 | 954 | 4,593 |
| % growth | 5.5% | 20.0% | 16.4% | 10.6% |

Second Yunyang, a natural gas filling station for motor vehicles, start operating in 2006 with gas sales of 4,551,000 cubic meters for the six months period under review.

BUSINESS REVIEW (*Continued*)

Technology-related Business

Strong Way International Limited (“SWIL”), the Group’s 60% equity interest subsidiary, is principally engaged in design and distribution of “SONIX” brand integrated circuits for toy manufacturing in Hong Kong and the South East Asia Region. During the Period, SWIL continuously enlarged its sales network in Mainland China through an established sales agent in Guangzhou which has already built up good business relationship with a number of household appliances manufacturers. The turnover from sales of electronic components amounted to HK\$30,027,000 for the period under review with a decrease of 19.5% comparing to HK\$37,318,000 in the corresponding period in 2006. The segment results was loss of HK\$264,000 for the Period (2006: profit of HK\$1,217,000).

FINANCIAL REVIEW

As at 30 June 2007, the Group had current assets of HK\$125,283,000 (31 December 2006: HK\$95,972,000), current liabilities of HK\$247,942,000 (31 December 2006: HK\$94,250,000), of which HK\$61,418,000 under convertible bonds will be converted as equity eventually and should not result in a cash outflow to the Group, and cash and bank balances of HK\$38,120,000 (31 December 2006: HK\$20,339,000).

To minimize exposure to exchange fluctuation, most of the Group’s cash reserves generated or raised in Hong Kong are placed in Hong Kong dollar short-term deposits with major banks in Hong Kong. The Board believes that substantial portion of the Group’s operating income will be denominated in Renminbi in coming years, which will be sufficient to repay the Renminbi borrowings by the Sanxia Gas group and the Group will benefit from the appreciation of Renminbi expected in the foreseeable future.

The Group has successfully raised HK\$58,000,000 by top-up placement of 170,000,000 shares and placement of 30,000,000 new shares at subscription price of HK\$0.3001 per share on 11 April 2007 for the possible investment in coal-bed methane business in future and for general working capital purpose.

PROSPECTS

The acquisition of Sanxia Gas allows the Group to diversify into a solid business with a new array of steady income and was the first step for the Group to enter into energy-related business in Mainland China. The Directors expect that Sanxia Gas will make a significant part of contribution for the Group's 2007 results.

Since the Group has decided to diversify into energy-related business in early 2006, the Group has successfully raised net proceeds exceeding HK\$150,000,000 in total by three placements of shares. The Board believes that the positive reactions from the shareholders and investors to the placements reflect their confidence and support of the new business directions. In addition, on 8 August 2007, the Company entered into a placing agreement with Shenyin Wanguo Capital (H.K.) Limited, as placing agent, in respect of placing of redeemable convertible notes, at a best effort basis, of not less than HK\$150,000,000 with a maximum of HK\$250,000,000 at a conversion price of HK\$0.25 per share. The first holder of each HK\$1,000,000 of convertible notes will also be issued unlisted detachable warrants to subscribe HK\$648,000 for new shares at the initial subscription price of HK\$0.45 per share, subject to adjustment. The placing of the convertible notes with unlisted warrants was approved by the shareholders on 12 September 2007, with a placing period of three months from the date of approval.

As a whole, the Group will actively identify opportunities to invest in the energy-related business, mainly in Mainland China, so as to bring in significant improved returns and contribute enhanced value to our shareholders.

SHARE OPTION SCHEME

Under the terms of the share option scheme (the “Scheme”) of the Company approved by the shareholders on 29 December 2004, the Directors of the Company may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme.

During the Period, share options are granted to the Directors and employees specified under the Scheme. Details of the share options outstanding as at 30 June 2007 which have been granted under the Scheme are as follows:

| Categories of participant | Date of grant | Exercise price (HK\$) | Exercisable period | Number of share options | | | | | Closing price immediately before the date of grant (HK\$) |
|---------------------------|---------------|-----------------------|--------------------------------------|-------------------------|-------------------|---------------------|---------------------|--------------------|---|
| | | | | As at 1 January 2007 | Granted | Exercised | Lapsed | As at 30 June 2007 | |
| Employees | 27-Sep-05 | 0.2500 | 27 October 2005 to 26 September 2010 | 20,400,000 | - | (13,000,000) | (5,600,000) | 1,800,000 | 0.1090 |
| Employees | 27-Sep-05 | 0.2500 | 27 March 2006 to 26 September 2010 | 100,000 | - | - | - | 100,000 | 0.1090 |
| Directors | 8-Mar-06 | 0.2648 | 8 April 2006 to 7 March 2011 | 1,830,000 | - | - | - | 1,830,000 | 0.2440 |
| Employees | 8-Mar-06 | 0.2648 | 8 April 2006 to 7 March 2011 | 5,700,000 | - | (5,700,000) | - | - | 0.2440 |
| Employees | 1-Jun-06 | 0.2900 | 1 July 2006 to 31 May 2011 | 55,120,000 | - | (1,800,000) | - | 53,320,000 | 0.2850 |
| Employees | 1-Nov-06 | 0.4140 | 1 March 2007 to 29 February 2012 | 10,480,000 | - | - | (10,480,000) | - | 0.4100 |
| Employees | 1-Mar-07 | 0.2620 | 1 April 2007 to 29 February 2012 | - | 10,630,000 | (600,000) | - | 10,030,000 | 0.2550 |
| | | | | <u>93,630,000</u> | <u>10,630,000</u> | <u>(21,100,000)</u> | <u>(16,080,000)</u> | <u>67,080,000</u> | |

DIRECTORS' INTERESTS IN CONTRACT

There is no contract of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2007, the interests and short positions of each Director and Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

(A) Long positions in shares of the Company:

| <u>Name of Director</u> | <u>Nature of interest</u> | <u>Number of shares</u> | <u>Percentage</u> |
|------------------------------|---------------------------|-------------------------|-------------------|
| Tong Nai Kan (<i>Note</i>) | Corporate | 180,000,000 | 12.16 |
| Tan Chuanrong | Personal | 42,500,000 | 2.87 |
| Chow Sim Chu, Shirley | Personal | 1,310,000 | 0.09 |
| Tang Tin Sek | Personal | <u>158,000</u> | <u>0.01</u> |

Note: These shares are beneficially owned by and registered in the name of Time Prosper Holdings Limited and Gold Blue Group Limited, which are 100% beneficially owned by Mr. Tong Nai Kan, Chairman and Managing Director of the Company.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION (*Continued*)

(B) Long positions in underlying shares of the Company – share options:

| Name of Directors | Date of grant | Number of underlying shares comprised in the options | Exercise price per share (HK\$) | Exercisable period |
|--------------------------|----------------------|---|--|------------------------------|
| Tang Tin Sek | 8 March 2006 | 610,000 | 0.2648 | 8 April 2006 to 7 March 2011 |
| Liu Ngai Wing | 8 March 2006 | 610,000 | 0.2648 | 8 April 2006 to 7 March 2011 |
| Lam Yat Fai | 8 March 2006 | 610,000 | 0.2648 | 8 April 2006 to 7 March 2011 |

(C) Long position in debentures of the Company:

| Name of Director | Nature of Interest | Amount of debentures (HK\$) | Conversion price per share (HK\$) |
|-------------------------|---------------------------|------------------------------------|--|
| Tan Chuanrong | Personal | 78,356,328 | 0.25 |

Save as disclosed above, as at 30 June 2007, none of the Directors and Chief Executive 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 (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2007, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the Directors and Chief Executives.

| Name | Nature of interest | Number of shares | Percentage |
|--|---------------------------|-------------------------|-------------------|
| Tong Nai Kan (<i>Note</i>) | Corporate | 180,000,000 | 12.16 |
| Time Prosper Holdings Limited ("Time Prosper") | Beneficial | 120,000,000 | 8.11 |
| Gold Blue Group Limited ("Gold Blue") | Beneficial | 60,000,000 | 4.05 |
| Luo Hong Sheng | Beneficial | 80,000,000 | 5.41 |
| Yin Zhen Shan | Beneficial | 80,000,000 | 5.41 |
| Galaxy China Opportunities Fund | Beneficial | 76,500,000 | 5.17 |

Note: Mr. Tong Nai Kan is the beneficial owner of the entire issued share capital of Time Prosper and Gold Blue. In accordance with the SFO, the interests of Time Prosper and Gold Blue are deemed to be, and have therefore been included in the interests of Mr. Tong Nai Kan.

Save as disclosed above, as at 30 June 2007, no persons, other than the Directors and Chief Executive of the Company whose interests are set out in the section "Directors' and Chief Executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, had notified the Company of any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Company had complied with the Code on Corporate Governance Practices (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the Period with the following major deviations:

Code Provision A.2.1

Under the code provision A.2.1, the roles of chairman and chief executive officer (“CEO”) should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company has deviated from this code by having the chairman and CEO to be the same person. Mr. Tong Nai Kan currently assumes the roles of both the chairman and CEO of the Company. The Board believes that the vesting of the roles of chairman and CEO in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies, as well as ensuring effective oversight of management.

Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election.

None of the existing independent non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all Directors of the Company (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the CG Code.

HUMAN RESOURCES

As at 30 June 2007, the Group had 181 employees, of which 42 were in Hong Kong and 139 were in Mainland China. Employee remunerations are in accordance with nature of their duties and remain competitive under current market trend. Staff benefits include medical scheme, share option scheme, Mandatory Provident Fund scheme for Hong Kong employees and the state-managed employee pension scheme for employees in Mainland China.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding the directors' securities transactions on exactly the terms and required standard contained in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities in the Company during the Period under review.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises all the independent non-executive Directors including Dr. Tang Tin Sek, Mr. Liu Ngai Wing, Mr. Lam Yat Fai and Mr. Chan Kin Sang.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to our shareholders for their support and to our staff for their contributions and diligence during the Period.

On behalf of the Board
New Smart Energy Group Limited
Tong Nai Kan
Chairman and Managing Director

Hong Kong, 13 September 2007

CONSOLIDATED PROFIT AND LOSS ACCOUNT (UNAUDITED)

For the six months ended 30 June 2007

| | <i>Note</i> | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|--|-------------|--------------------------------|-------------------------|
| Turnover | 5 | 62,833 | 37,318 |
| Cost of sales | | (43,819) | (32,075) |
| Gross profit | | 19,014 | 5,243 |
| Other income | | 520 | 408 |
| Administrative expenses | | (25,368) | (27,714) |
| Loss on extinguishment of promissory notes | 16 | (172,369) | – |
| Fair value change on embedded financial derivative | 16 | 26,029 | – |
| Operating loss | 6 | (152,174) | (22,063) |
| Financial expenses | 8 | (6,584) | (151) |
| Loss before taxation | | (158,758) | (22,214) |
| Taxation credit | 9 | 6,471 | 57 |
| Loss for the period | | (152,287) | (22,157) |
| Attributable to: | | | |
| Equity holders | | (152,287) | (22,157) |
| Minority interest | | – | – |
| | | (152,287) | (22,157) |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Loss per share | 10 | | |
| Basic | | (13.05) | (3.46) |
| Diluted | | (9.51) | (3.46) |

CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 June 2007

| | | 30 June 2007 | 31 December 2006 |
|-------------------------------------|-------------|-------------------------|---------------------|
| | <i>Note</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 131,016 | 129,745 |
| Leasehold land and land use rights | 11 | 2,578 | 2,605 |
| Intangible assets | | 160,110 | 156,494 |
| Associated company | | – | – |
| Available-for-sale financial assets | | 2,791 | 2,791 |
| | | 296,495 | 291,635 |
| Current assets | | | |
| Inventories | | 3,045 | 2,883 |
| Debtors and prepayments | 12 | 64,722 | 53,275 |
| Amounts due from related parties | | 19,361 | 19,449 |
| Trading investments | | 35 | 26 |
| Cash and bank balances | | 38,120 | 20,339 |
| | | 125,283 | 95,972 |
| Total assets | | 421,778 | 387,607 |
| EQUITY | | | |
| Share capital | 13 | 370,004 | 264,729 |
| Reserves | | (214,796) | (128,225) |
| Equity holders | | 155,208 | 136,504 |
| Minority interests | | 23 | 23 |
| Total equity | | 155,231 | 136,527 |

CONSOLIDATED BALANCE SHEET (UNAUDITED) (Continued)

As at 30 June 2007

| | | 30 June | 31 December |
|--------------------------------|-------------|-----------------|-----------------|
| | | 2007 | 2006 |
| | <i>Note</i> | HK\$'000 | <i>HK\$'000</i> |
| LIABILITIES | | | |
| Non-current liability | | | |
| Borrowings | 16 | 18,039 | 149,884 |
| Deferred taxation liabilities | | 566 | 6,946 |
| | | 18,605 | 156,830 |
| Current liabilities | | | |
| Creditors and accruals | 15 | 44,773 | 38,910 |
| Amounts due to related parties | | 2,097 | 6,754 |
| Embedded financial derivative | 16 | 114,295 | – |
| Borrowings | 16 | 86,712 | 48,495 |
| Taxation | | 65 | 91 |
| | | 247,942 | 94,250 |
| Total liabilities | | 266,547 | 251,080 |
| Total equity and liabilities | | 421,778 | 387,607 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2007

| | Attributable to the equity holders of the Company | | | | Minority interests HK\$'000 | Total HK\$'000 |
|---|---|----------------------------|--------------------------------|-----------------------|--------------------------------|-------------------|
| | Share capital HK\$'000 | Other reserves HK\$'000 | Accumulated losses HK\$'000 | Sub-total HK\$'000 | | |
| At 31 December 2006 | 264,729 | 84,431 | (212,656) | 136,504 | 23 | 136,527 |
| Changes in exchange rates | – | 6,661 | – | 6,661 | – | 6,661 |
| Issues of new shares, net of issue expenses | 50,000 | 8,820 | – | 58,820 | – | 58,820 |
| Conversion of convertible bonds to shares | 50,000 | 48,966 | – | 98,966 | – | 98,966 |
| Share options granted at fair value | – | 1,106 | – | 1,106 | – | 1,106 |
| Issue of shares upon exercise of share options | 5,275 | 163 | – | 5,438 | – | 5,438 |
| Loss for the period | – | – | (152,287) | (152,287) | – | (152,287) |
| At 30 June 2007 | 370,004 | 150,147 | (364,943) | 155,208 | 23 | 155,231 |
| At 31 December 2005 | 152,646 | 21,337 | (185,606) | (11,623) | 23 | (11,600) |
| Changes in exchange rates | – | 1 | – | 1 | – | 1 |
| Issues of new shares, net of issue expenses | 30,000 | (726) | – | 29,274 | – | 29,274 |
| Change in fair value of available-for-sale financial assets | – | 204 | – | 204 | – | 204 |
| Share options granted at fair value | – | 12,357 | – | 12,357 | – | 12,357 |
| Issue of shares upon exercise of share options | 3,658 | 9 | – | 3,667 | – | 3,667 |
| Loss for the period | – | – | (22,157) | (22,157) | – | (22,157) |
| At 30 June 2006 | 186,304 | 33,182 | (207,763) | 11,723 | 23 | 11,746 |

CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 June 2007

| | 2007 <i>HK\$'000</i> | 2006 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Cash flows from operating activities | | |
| Cash used in operations | (36,793) | (11,194) |
| Interest received | 132 | 47 |
| Interest paid | (1,601) | (137) |
| Interest element of finance lease rental payments | (14) | (14) |
| Overseas tax paid | (28) | – |
| Net cash used in operating activities | <u>(38,304)</u> | <u>(11,298)</u> |
| Cash flows from investing activities | | |
| Purchase of plant and equipment | (2,260) | (21) |
| Proceeds on disposal of plant and equipment | 9 | – |
| Deposits for acquisition of a subsidiary | – | (35,000) |
| Net cash used in investing activities | <u>(2,251)</u> | <u>(35,021)</u> |
| Cash flows from financing activities | | |
| Issue of new shares | 65,458 | 33,667 |
| Share issue expenses | (1,200) | (726) |
| Decrease in bank loans | (6,581) | – |
| Net advance from a Director | – | 17,828 |
| Capital elements of finance lease rental payments | (145) | (146) |
| Net cash from financing activities | <u>57,532</u> | <u>50,623</u> |
| Increase in cash and bank balances | 16,977 | 4,304 |
| Cash and bank balances at beginning of period | 20,339 | 3,976 |
| Changes in exchange rates | 804 | – |
| Cash and bank balances at end of period | <u><u>38,120</u></u> | <u><u>8,280</u></u> |

NOTES

1 General information

The principal activities of the Company and its subsidiaries (together the “Group”) are the selling and distribution of natural gas and technology related business. The Company is a limited liability company incorporated in Hong Kong and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Floor 19th, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.

This interim financial information has been approved by the Board of Directors on 13 September 2007.

2 Basis of preparation

The interim financial information has been prepared under the historic cost convention, as modified by the revaluation of certain available-for-sale financial assets and embedded financial derivative which are carried at fair value, and in accordance with Hong Kong Financial Reporting Standards and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

The accounting policies and methods of computation used in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2006.

In 2007, the Group adopted new standard, amendment and interpretations of Hong Kong Financial Reporting Standards (“HKFRS”) below, which are relevant to its operations. HKAS 1 (Amendment) – Presentation of Financial Statements: Capital Disclosures, HK (IFRIC) – Int 9 Reassessment of Embedded Derivatives, HK (IFRIC) – Int 10 Interim Reporting and Impairment and HKFRS 7 Financial Instruments: Disclosures.

The Group has assessed the impact of the adoption of these new standard, amendment and interpretations and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in the annual consolidated financial statements.

3 Financial risk management

All aspects of the financial risk management objectives and policies of the Group are consistent with those disclosed in the annual financial statements for the year ended 31 December 2006.

4 Critical accounting estimates and judgements

Estimates and judgements used are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Apart from the new estimates and assumptions discussed below, all other estimates and assumptions applied in the preparation of the interim financial information are consistent with those used in the annual financial statements for the year ended 31 December 2006.

Embedded derivative and convertible bonds

The fair values of embedded derivative and convertible bonds are estimated by independent professional valuers determined based on various assumptions on volatility, credit spread, dividend paid out rate and annual risk free, which generally represent the best estimate of the fair values of the embedded derivative and convertible bonds at the date of granting.

5 Segment information

In accordance with the internal financial reporting and operating activities of the Group, the primary segment reporting is by business segments and the secondary segment reporting is by geographical segments. Segment assets consist primarily of non-current assets, inventories and receivables. Segment liabilities comprise of payables. There are no sales or trading transactions between the business segments. In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

(a) Business segments

| | Natural gas <i>HK\$'000</i> | Technology <i>HK\$'000</i> | Corporate and others <i>HK\$'000</i> | Group <i>HK\$'000</i> |
|--|--------------------------------|-------------------------------|--|--------------------------|
| For the six months ended 30 June 2007 | | | | |
| Turnover | <u>32,806</u> | <u>30,027</u> | <u>-</u> | <u>62,833</u> |
| Segment results | 11,606 | (264) | (163,516) | (152,174) |
| Finance expenses | | | | <u>(6,584)</u> |
| Loss before taxation | | | | (158,758) |
| Taxation credit | | | | <u>6,471</u> |
| Loss for the period | | | | <u>(152,287)</u> |
| Capital expenditure | 1,732 | - | 528 | 2,260 |
| Depreciation | 3,411 | - | 593 | 4,004 |
| Amortisation | 91 | - | - | 91 |
| Bad debt written off | <u>-</u> | <u>-</u> | <u>172</u> | <u>172</u> |
| As at 30 June 2007 | | | | |
| Segment assets | 326,185 | 19,520 | 37,953 | 383,658 |
| Unallocated assets | | | | <u>38,120</u> |
| Total assets | | | | <u>421,778</u> |
| Segment liabilities | 16,207 | 25,997 | 4,666 | 46,870 |
| Unallocated liabilities | | | | <u>219,677</u> |
| Total liabilities | | | | <u>266,547</u> |

5 Segment information (Continued)

(a) Business segments (Continued)

| | Technology <i>HK\$'000</i> | Corporate and others <i>HK\$'000</i> | Group <i>HK\$'000</i> |
|--|--------------------------------------|--|---------------------------------|
| For the six months ended 30 June 2006 | | | |
| Turnover | 37,318 | – | 37,318 |
| Segment results | 1,217 | (23,280) | (22,063) |
| Finance expenses | | | (151) |
| Loss before taxation | | | (22,214) |
| Taxation credit | | | 57 |
| Loss for the period | | | (22,157) |
| Capital expenditure | – | 21 | 21 |
| Depreciation | 48 | 285 | 333 |
| Impairment of available-for-sale financial assets | – | 2,020 | 2,020 |
| | Natural gas | Technology | Corporate and others |
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| As at 31 December 2006 | | | |
| Segment assets | 331,551 | 15,651 | 367,268 |
| Unallocated assets | | | 20,339 |
| Total assets | | | 387,607 |
| Segment liabilities | 22,734 | 16,102 | 45,664 |
| Unallocated liabilities | | | 205,416 |
| Total liabilities | | | 251,080 |

5 Segment information (Continued)

(b) Geographical segments

| | Turnover | | Operating results | |
|----------------|------------------|------------------|--------------------------------------|--|
| | 2007 HK\$'000 | 2006 HK\$'000 | 2007 HK\$'000 | 2006 HK\$'000 |
| Hong Kong | 30,027 | 37,318 | (162,320) | (21,997) |
| Mainland China | 32,806 | – | 10,146 | (66) |
| | <u>62,833</u> | <u>37,318</u> | <u>(152,174)</u> | <u>(22,063)</u> |
| | | | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
| Total assets | | | | |
| Hong Kong | | | 77,868 | 38,812 |
| Mainland China | | | 343,910 | 348,795 |
| | | | <u>421,778</u> | <u>387,607</u> |

6 Operating loss

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|-------------------|-------------------|
| Operating loss is stated after crediting: | | |
| Interest income from bank | 134 | 47 |
| Operating lease rental income for land and buildings | 64 | 160 |
| Exchange gain | – | 54 |
| | <u> </u> | <u> </u> |
| and after charging: | | |
| Depreciation | | |
| – owned assets | 3,862 | 191 |
| – leased assets | 142 | 142 |
| Amortisation | | |
| – Leasehold land and land use rights | 90 | – |
| – Intangible assets | 254 | – |
| Operating lease rental expenses for land and buildings | 2,163 | 478 |
| Bad debt written off | 172 | – |
| Impairment of available-for-sale financial assets | – | 2,020 |
| Loss on disposal of property, plant and equipment | 77 | – |
| Staff costs (including Directors' emoluments) | | |
| – Salaries and other emoluments | 12,665 | 7,951 |
| – Share options granted | 1,106 | 12,356 |
| – Contributions to retirement scheme | 153 | 223 |
| | <u> </u> | <u> </u> |

7 Directors' emoluments

| | 2007 HK\$'000 | 2006 HK\$'000 |
|------------------------------------|------------------|------------------|
| Fees | 587 | 455 |
| Salaries and other emoluments | 2,848 | 2,360 |
| Share options granted | – | 155 |
| Contributions to retirement scheme | 18 | 18 |
| | <u>3,453</u> | <u>2,988</u> |

The Directors represent key management personnel of the Company having authority and responsibility for the planning, directing and controlling the activities of the Group.

8 Financial expenses

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| Interest expenses | | |
| Promissory notes not wholly repayable within five years | 4,839 | – |
| Convertible bonds not wholly repayable within five years | 130 | – |
| Bank loans and overdrafts | 1,601 | 137 |
| Finance lease obligations wholly repayable within five years | 14 | 14 |
| | <u>6,584</u> | <u>151</u> |

9 Taxation credit

| | 2007 HK\$'000 | 2006 HK\$'000 |
|-----------------------|------------------|------------------|
| Current taxation | | |
| Hong Kong profits tax | – | 57 |
| Deferred taxation | | |
| Mainland China | 6,471 | – |
| | <u>6,471</u> | <u>57</u> |

Hong Kong profits tax has not been provided as the Group does not have any assessable profit for the period (2006: nil). Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in which the Group operates.

The subsidiaries in Mainland China are subject to an income tax rate of 15% (2006: 15%), being the current preferential tax rate applicable. As approved by the Chongqing Municipal Tax Bureau, the subsidiaries in Mainland China are exempted from enterprise income tax for two years commencing from their first profit-making year of operation in 2006 and thereafter, entitled to a 50% relief from enterprise income tax for the following three years.

9 Taxation credit (Continued)

Pursuant to the Corporate Income Tax Law of the People's Republic of China approved by the National People's Congress approved the on 16 March 2007, the corporate income tax rate for foreign invested enterprises will be increased from 15% to 25% with effect from 1 January 2008.

The reversal of temporary difference during the period represents the approval of extending tax benefits to prior year income by the Chongqing Municipal Tax Bureau.

10 Loss per share

(a) Basic

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of shares in issue during the period.

| | 2007 | 2006 |
|--|----------------------|--------------------|
| Loss attributable to equity holders (HK\$'000) | <u>(152,287)</u> | <u>(22,157)</u> |
| Weighted average number of shares in issue | <u>1,166,902,868</u> | <u>640,906,490</u> |
| Basic loss per share (HK cents) | <u>(13.05)</u> | <u>(3.46)</u> |

(b) Diluted

Diluted loss per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares, being the share options and convertible bonds, which are calculated by determining the number of shares that could have been acquired at fair value (determined as the average annual market price of the shares of the Company) based on the monetary value of the subscription rights attached to the outstanding share options and convertible bonds. The number of shares as calculated above is compared with the number of shares that would have been issued assuming the exercise of the share options or conversion.

| | 2007 | 2006 |
|--|----------------------|--------------------|
| Loss attributable to equity holders (HK\$'000) | <u>(152,287)</u> | <u>(22,157)</u> |
| Weighted average number of shares in issue | <u>1,166,902,868</u> | <u>640,906,490</u> |
| Adjustment for share options | <u>21,816,318</u> | – |
| Adjustment for convertible bonds | <u>413,425,312</u> | – |
| Weighted average number of shares for diluted loss per share | <u>1,602,144,498</u> | <u>640,906,490</u> |
| Diluted loss per share (HK cents) | <u>(9.51)</u> | <u>(3.46)</u> |

11 Capital expenditure and leasehold land and land use rights

| | Property, plant and equipment <i>HK\$'000</i> | Leasehold land and land use rights <i>HK\$'000</i> |
|-----------------------------|--|---|
| Net book amount | | |
| At 31 December 2005 | 1,583 | – |
| Changes in exchange rates | 1 | – |
| Additions | 21 | – |
| Depreciation | (333) | – |
| | <hr/> | <hr/> |
| At 30 June 2006 | 1,272 | – |
| Changes in exchange rates | 2,727 | 56 |
| Acquisition of subsidiaries | 125,193 | 2,561 |
| Additions | 4,604 | 62 |
| Disposals | (53) | – |
| Depreciation | (3,998) | (74) |
| | <hr/> | <hr/> |
| At 31 December 2006 | 129,745 | 2,605 |
| Changes in exchange rates | 3,101 | 63 |
| Additions | 2,260 | – |
| Disposals | (86) | – |
| Depreciation | (4,004) | (90) |
| | <hr/> | <hr/> |
| At 30 June 2007 | <u>131,016</u> | <u>2,578</u> |

12 Debtors and prepayments

| | 30 June 2007 <i>HK\$'000</i> | 31 December 2006 <i>HK\$'000</i> |
|--------------------------|--|--|
| Trade debtors | 21,538 | 16,371 |
| Other debtors | 41,451 | 32,485 |
| Deposits and prepayments | 1,733 | 4,419 |
| | <hr/> | <hr/> |
| | 64,722 | 53,275 |
| | <hr/> | <hr/> |

The credit terms granted to trade debtors in respect of sales of electronic components are usually 30 to 90 days. Sale of natural gas and gas connection fees are due upon presentation of payment advice.

12 Debtors and prepayments (Continued)

The ageing analysis of the trade debtors, based on the dates of the invoices, net of provision for impairment, is as follows:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|----------------|--------------------------------------|---------------------------------|
| Below 30 days | 5,674 | 5,331 |
| 30 to 90 days | 10,366 | 6,202 |
| 91 to 180 days | 4,860 | 4,309 |
| Over 180 days | 638 | 529 |
| | 21,538 | 16,371 |

13 Share capital

| | <i>Number of shares</i> | <i>HK\$'000</i> |
|---|-------------------------|-----------------|
| <i>Authorised:</i> | | |
| At 31 December 2006 and 30 June 2007 | 4,000,000,000 | 1,000,000 |
| <i>Issued and fully paid:</i> | | |
| At 31 December 2005 | 610,584,391 | 152,646 |
| Issue of new shares for cash | 120,000,000 | 30,000 |
| Share options exercised | 14,630,000 | 3,658 |
| At 30 June 2006 | 745,214,391 | 186,304 |
| Issue of new shares for cash | 146,000,000 | 36,500 |
| Issue of new shares for acquisition of subsidiaries | 152,500,000 | 38,125 |
| Share options exercised | 15,200,000 | 3,800 |
| At 31 December 2006 | 1,058,914,391 | 264,729 |
| Issue of new shares for cash | 200,000,000 | 50,000 |
| Issue of new shares upon conversion of convertible bonds (note 16(c)) | 200,000,000 | 50,000 |
| Share options exercised (note 14) | 21,100,000 | 5,275 |
| At 30 June 2007 | 1,480,014,391 | 370,004 |

On 11 April 2007, the Company allotted and issued 200,000,000 new shares of HK\$0.25 each at the issue price of HK\$0.3001 per share for cash.

All the new shares rank pari passu to the existing shares.

14 Share option scheme

The Company operates a share option scheme, under which the Directors of the Company may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the scheme. Movements in the numbers of share options during the period are as follows:

| | Number of options | |
|------------------------|-------------------|--------------------|
| | 2007 | 2006 |
| At beginning of period | 93,630,000 | 43,620,000 |
| Granted | 10,630,000 | 87,140,000 |
| Lapsed | (16,080,000) | – |
| Exercised | (21,100,000) | (14,630,000) |
| At end of period | <u>67,080,000</u> | <u>116,130,000</u> |

On 1 March 2007, 10,630,000 share options were granted to employees at the exercise price of HK\$0.262 per share. These options can be exercised at any time up to five years from the date of grant of options. At the date before the options were granted, the market value per share was HK\$0.255.

The fair value of the options granted during the period is HK\$1,106,000 (2006: HK\$12,356,000), as determined using the Black-Scholes valuation model. The significant inputs into the model are share price of HK\$0.255 (2006: HK\$0.25, HK\$0.29 and HK\$0.414) at the valuation date, exercise price of HK\$0.262 (2006: HK\$0.2648, HK\$0.29 and HK\$0.414) per share, standard deviations of expected share price returns of 86.23% (2006: 73%), expected life of the options of 2 to 3 years, expected dividend paid out rate of 0% (2006: 0%) and annual risk-free interest rate of 3.93% to 3.99% (2006: 4.17% to 4.54%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last two (2006: three) years.

15 Creditors and accruals

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|----------------------------|-----------------------------|---------------------------------|
| Trade creditors | 32,815 | 25,685 |
| Other creditors | 9,022 | 5,760 |
| Accrued operating expenses | 2,936 | 7,465 |
| | <u>44,773</u> | <u>38,910</u> |

15 Creditors and accruals (Continued)

The ageing analysis of the trade creditors, based on the dates of the invoices, is as follows:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|----------------|--------------------------------------|---------------------------------|
| Below 30 days | 7,041 | 4,662 |
| 30 to 90 days | 14,986 | 8,901 |
| 91 to 180 days | 7,980 | 9,272 |
| Over 180 days | 2,808 | 2,850 |
| | 32,815 | 25,685 |

16 Borrowings

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|---|--------------------------------------|---------------------------------|
| Secured bank loans wholly repayable within five years (<i>note a</i>) | 42,263 | 48,283 |
| Short term loans, unsecured | 828 | 808 |
| Promissory notes (<i>note b</i>) | – | 148,900 |
| Convertible bonds (<i>note c</i>) | 61,418 | – |
| Finance lease obligations wholly repayable within five years | 242 | 388 |
| | 104,751 | 198,379 |
| Current portion included in current liabilities | | |
| Secured bank loans wholly repayable within five years (<i>note a</i>) | 24,224 | 25,650 |
| Short term loans, unsecured | 828 | 808 |
| Promissory notes (<i>note b</i>) | – | 21,746 |
| Convertible bonds (<i>note c</i>) | 61,418 | – |
| Finance lease obligations wholly repayable within five years | 242 | 291 |
| | 86,712 | 48,495 |
| | 18,039 | 149,884 |

16 Borrowings (Continued)

- (a) Bank loans amounting to HK\$33,501,000 (2006: HK\$39,231,000) is secured by the right to collect revenue on sales of natural gas of the gas operating subsidiaries.
- (b) On 7 August 2006, the Group issued seven promissory notes at a nominal amount of HK\$176,875,000 as part of the consideration for the acquisition of the entire equity interest in Sanxia Gas (BVI) Limited (“Sanxia Gas”). The promissory notes carried interest at 1.5% per annum and were secured by the share of Sanxia Gas. The carrying value of the promissory notes at 31 December 2006 was calculated at a discount rate of 7%. The promissory notes were fully settled on 22 June 2007 with the issuance of convertible bonds (*note c*).
- (c) Convertible bonds

On 22 June 2007, the Group issued convertible bonds with an aggregate principal amount of HK\$178,356,328 (the “Bonds”) with a term of five years. The Bonds do not carry interest and are secured by the share of Sanxia Gas. Holders of the Bonds have the option to convert the Bonds into shares of the Company of HK\$0.25 each at a conversion price of HK\$0.25 per share. Bonds of HK\$25,000,000 were redeemed on the same date and the aggregate outstanding amount of Bond at close of business on 22 June 2007 was HK\$153,356,328.

As the functional currency of the Group is Renminbi, the conversion option of the Bonds denominated in Hong Kong dollar will not result in settlement by the exchange of a fixed amount of cash for a fixed number of equity instrument. The embedded conversion option is therefore separated from the host contract and accounted for as an embedded derivative carried at fair value through profit or loss.

Embedded derivative component

The fair value of the embedded derivative component of the Bonds is calculated using the binomial model with the major inputs as follows:

| | 22 June 2007 | 26 June 2007 | 30 June 2007 |
|----------------|-----------------|-----------------|-----------------|
| Stock price | HK\$0.490 | HK\$0.495 | HK\$0.425 |
| Exercise price | HK\$0.25 | HK\$0.25 | HK\$0.25 |
| Volatility | 78.91% | 78.91% | 78.93% |
| Dividend yield | 0% | 0% | 0% |
| Risk free rate | 4.665% | 4.551% | 4.620% |

16 Borrowings (Continued)

(c) Convertible bonds (Continued)

Liability component

The liability component is the residual amount after recognising the embedded derivative and subsequently carried at amortised cost. On 26 June 2007, Bonds with face value of HK\$50,000,000 were converted into 200,000,000 shares of the Company at a conversion price of HK\$0.25 per share. The movement of the liability component and embedded derivatives of the convertible bonds for the period is as follows:

| | Convertible bonds | | | | |
|---|--|---|--|--------------------------|---|
| | Promissory notes <i>HK\$'000</i> | Liability component <i>HK\$'000</i> | Embedded financial derivative <i>HK\$'000</i> | Total <i>HK\$'000</i> | Bondholder conversion <i>HK\$'000</i> |
| At 31 December 2006 | (148,900) | – | – | – | – |
| Interest accrued | (4,839) | – | – | – | – |
| Settlement of interest | 530 | – | – | – | – |
| Convertible bonds issued | | | | | |
| on 22 June 2007 | 153,209 | (178,356) | – | (178,356) | – |
| Redemption on 22 June 2007 | – | 25,000 | – | 25,000 | – |
| Recognition of fair value | | | | | |
| on 22 June 2007 | – | 62,419 | (209,641) | (147,222) | – |
| Interest accrued | – | (130) | – | (130) | – |
| Changes in fair value prior to conversion | – | – | (2,963) | (2,963) | – |
| Conversion into new shares on 26 June 2007 | – | 29,649 | 69,317 | 98,966 | (98,966) |
| Changes in fair value after conversion | – | – | 28,992 | 28,992 | – |
| At 30 June 2007 | – | (61,418) | (114,295) | (175,713) | – |

16 Borrowings (Continued)

(c) Convertible bonds (Continued)

Liability component (Continued)

The aggregate effect of the issuance of convertible bonds to the profit and loss account for the period is as follows:

| | 2007 HK\$'000 | 2006 HK\$'000 |
|--|------------------|------------------|
| Loss on extinguishment of promissory notes | | |
| Carrying value of promissory notes | 153,209 | – |
| Issuance of convertible bonds | (178,356) | – |
| Fair value change of convertible bonds on grant date | (147,222) | – |
| | <u>(172,369)</u> | <u>–</u> |
| Fair value change on convertible bonds | | |
| Prior to conversion | (2,963) | – |
| After conversion | 28,992 | – |
| | <u>26,029</u> | <u>–</u> |

On 3 July, 4 July, 16 July and 14 August 2007, Bonds with aggregate face value of HK\$93,355,000 were converted into 373,420,000 shares of the Company at a conversion price of HK\$0.25 per share.

17 Commitments

(a) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following years:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|--------------------------|-----------------------------|---------------------------------|
| Within one year | 4,944 | 4,583 |
| Within two to five years | 6,109 | 3,468 |
| | <u>11,053</u> | <u>8,051</u> |

17 Commitments (Continued)*(b) Minimum lease receivable*

The future aggregate minimum lease rental income in respect of land and building under non-cancellable operating leases is receivable in the following years:

| | 30 June 2007 HK\$'000 | 31 December 2006 HK\$'000 |
|--------------------------|--------------------------------------|---------------------------------|
| Within one year | 52 | – |
| Within two to five years | 149 | – |
| | 201 | – |

18 Insurance contracts

The Company has provided guarantees in respect of finance lease obligations granted to a subsidiary company amounting to HK\$242,000 (2006: HK\$388,000).

19 Subsequent events

- (a) On 8 August 2007, the Company entered into a share placing agreement for the placing of convertible notes of up to HK\$250,000,000. The convertible notes which will mature on the fifth anniversary of the date of issue, do not carry any interest and entitle the holders the right to convert into the shares of the Company at HK\$0.25 per share, subject to adjustment. The first holder of each HK\$1,000,000 convertible note will also be issued unlisted detachable warrants to subscribe HK\$648,000 for shares of the Company at HK\$0.45 per share.
- (b) Pursuant to the ordinary resolution passed at the extraordinary general meeting held on 12 September 2007, the authorised share capital of the Company was increased from HK\$1,000,000,000 to HK\$4,000,000,000 by the creation of 12,000,000,000 new shares of HK\$0.25 each.