



2006

Interim Report



**China Sciences
Conservational Power Limited**
中科環保電力有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 351)

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The board of directors (the "Board") of China Sciences Conservational Power Limited (the "Company/China Sciences") is pleased to present the interim financial statements of the Company and its subsidiaries (together, the "Group") for the six months ended 30 June 2006. These interim financial statements have been audited and have been reviewed by the Company's audit committee (the "Audit Committee") and by the Company's independent auditors, Shu Lun Pan Horwath Hong Kong CPA Limited (formerly named Horwath Hong Kong CPA Limited) in accordance with the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

For the six months ended 30 June 2006, China Sciences' turnover reached approximately HK\$32,714,000 (2005: approximately HK\$289,249,000), representing a reduction of 89% as compared with corresponding period of 2005. Gross loss from operations was approximately HK\$1,518,000 (2005: Gross profit from operation was approximately HK\$1,932,000). Loss after taxation for the period under review was approximately HK\$23,133,000 (2005: approximately HK\$18,948,000). Loss per share were 1.94 HK cents (2005: Loss per share: 2.01 HK cents).

The reduction in turnover was attributed to the interruption of the principal activity of the Group and to a realignment of the business which began in 2005.

BUSINESS REVIEW

The main focus over the six months under review was the Group's preparation for the resumption of trading of Company's shares while maintaining a smooth continuation of business. The unfortunate schedule of events at the end of 2005 leading to the suspension of trading in the Company's shares prompted a number of management reshuffles, with the major aim of steering the Company in the right direction.

Currently, the new management team began drawing up resumption-of-trading proposals. In order to prevent detrimental instances from occurring in the future, management also aims to adopt high standards in internal control and corporate governance during this crucial period.

The completion of the construction phase at the Group's Dongguan plant highlighted a significant achievement for the management team during this volatile period.

The Dongguan 30MW capacity waste-to-energy power plant was a major milestone in early 2006 with its transition from the construction phase to the testing and commissioning phase. With the major facilities installed, the plant underwent several months of significant testing in order to prepare it for power generation to the Southern Power Grid. Although the plant was, by the end of the period under review, still in the testing and commissioning phase, electricity was being generated and supplied to the power grid providing revenue for the Group.

PROSPECTS

With the Group's first waste-to-energy project completed and launched, it represents a stable flow of income for the China Sciences.

The introduction of the People's Republic of China's (the "PRC") 11th Five Year Plan (2006-2010), which included resource conservation and the promotion of an environmentally friendly society, gives a strong indication that the government is focused on protecting the environment and will continue to support environmentally friendly projects. The National Development & Reform Commission (NDRC) has targeted biomass derived energy of 5,500MW by 2010 and 30,000MW by 2020. The NDRC also introduced a new pricing policy for renewable energy power in January 2006 which provides a subsidy of RMB0.25 on top of the price given to conventional coal-fired power stations.

The PRC is also one of the 169 countries that have agreed to conform to mandatory emissions controls under the Kyoto Protocol. This enables environmentally friendly projects in China to earn credits for reducing pollution. These credits can be traded with the other parties under the Protocol who have exceeded predefined emissions levels. The Group have assigned a European consultancy company to assist in the application of these credits for future projects.

The Group expects to continue developing further projects in this sector once the process of trade resumption has been successfully completed. With continued support from investors and the PRC government, the environmental protection industry will be both economically and socially rewarding.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2006, the Group had net current assets of approximately HK\$25,406,000 (31 December 2005: approximately HK\$69,077,000) and shareholders' funds of approximately HK\$86,644,000 (31 December 2005: approximately HK\$108,086,000).

The Group is mainly financed by internal cash flow generated by operations.

As at 30 June 2006, the Group had outstanding borrowings in respect of HK\$20,000,000 8.5 per cent per annum extendable convertible notes. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, was 3.38 (31 December 2005: 2.57).

During the period under review, the Group did not undergo any fund raising exercise or strengthen its financial position.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

In 14 March 2006, the Company obtained the remaining 20% equity interest in Xingning China Sciences Conservational Power Ltd. 興寧中科環保電力有限公司, raising the Group's stake in it to 100%.

Saved as disclosed above and under headings "Business review" and "Prospects", the Group did not have significant new acquisitions or disposal during the six months ended 30 June 2006 and up to the date of this report.

EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2006, the Group has 169 employees, 155 of whom was based in the PRC. Their salary and benefits are maintained at competitive levels and are based on their duties, working experience and the prevailing market practices. Employees are rewarded by a share option scheme based on the performance of the Group and individual employees.

DISCLOSURE OF INTEREST

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2006, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

LONG POSITIONS IN ORDINARY SHARES OF THE COMPANY

Name of the Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of shareholding
Liang Jun	Beneficial owner	2,000,000	—	—	—	2,000,000	0.17

Save as disclosed above, as at 30 June 2006, none of the members of the Board of Directors of the Company or their respective associates had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

The interests of the directors in the share options of the Company are separately disclosed under the section "Share options" below.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2006, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
Ordinary shares			
CITIC International Assets Management Limited (Note 1)	Beneficial owner	111,116,666 (Note 2)	9.60%
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.22%
CITIC Capital Markets Holdings Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Forever Glory Holdings Ltd. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Golden Gateway Enterprises Inc. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC Pacific Limited. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC United Asia Investments Limited (Note 1)	Interest of a controlled corporation	6,080,000	0.5%
CITIC International Financial Holdings Limited (Note 1)	Interest of a controlled corporation	194,706,666	16.83%

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
CITIC Group (Note 1)	Interest of a controlled corporation	200,786,666	17.35%
Delight Assets Management Limited (Notes 3)	Beneficial owner	295,000,000	25.5%
Ko Fong	Interest of a controlled corporation and beneficial owner	295,000,000	25.5%
Sky Bright International Development Limited (Note 4)	Beneficial owner	78,500,000	6.78%
Wong King King	Interest of a controlled corporation and beneficial owner	78,500,000	6.78%
Metro Capital Finance Limited	Interest of a controlled corporation	70,000,000	6.05%
Preference shares			
China Conservational Power Holdings Limited (Note 5)	Beneficial owner	80,000,000	100%

Notes:

1. CITIC Group is interested in 56% of the issued share capital of CITIC International Financial Holdings Limited and is interested in 100% of the issued share capital of CITIC United Asia Investments Limited. CITIC International Financial Holdings Limited is interested in 100% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd.. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SF0: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 111,116,666 Shares held by CITIC International Assets Management Limited and the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited; (ii) CITIC International Assets Management Limited is interested in 44,450,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.
2. Out of the 111,116,666 Shares held by CITIC International Assets Management Limited, 66,666,666 Shares represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the Convertible Notes subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.
3. Delight Assets Management Limited is wholly owned by Ko Fong.
4. Sky Bright International Development Limited is wholly owned by Wong King King.
5. These are class B preference shares of HK\$0.01 each ("Preference Shares") issued pursuant to the Sale and Purchase Agreement dated 7 April 2005 between the Company and China Conservational Power Holdings Limited ("CCPH"). These Preference Shares are convertible into ordinary shares of HK\$0.01 each in the capital of the Company at a conversion price of HK\$0.76 each within a three-year period maturing on 4 July 2008. Pursuant to this Sale and Purchase Agreement, CCPH also has the right to subscribe for 40,000,000 option shares at the price of HK\$0.76 each and any exercise of such options must be accompanied by the conversion of two Preference Shares at the same time.

Save as disclosed above, as at 30 June 2006, the directors of the Company were not aware of any other person or corporation having an interest or short position in the Shares and underlying Shares of the Company representing 5% or more of the issued ordinary share capital of the Company.

SHARE OPTIONS

On 27 May 2002, a share option scheme (the "Share Option Scheme") was adopted. The purpose of the Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include:—

- (i) any eligible employee;
- (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity");
- (iii) any customer of the Group or any Invested Entity;
- (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity;
- (v) any shareholder or any member of the Group or any Invested Entity; and
- (vi) any company wholly owned by any participant.

The Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

The following table discloses the movements in the Company's share options under Share Option Scheme during the period:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	As at 1.1.2006	Granted during the period	Exercised during the period	Lapsed during the period	As at 30.6.2006	Market value per share (Note 1)	
									Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
Former directors										
Wong King King	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	(8,000,000)	—	0.4650	—
Tian Yuchuan	03.08.2005	03.08.2005 to 02.08.2015	0.6880	3,000,000	—	—	(3,000,000)	—	0.6600	—
Employees										
In aggregate	12.08.2004	12.08.2004 to 11.08.2014	0.3850	26,800,000	—	—	—	26,800,000	0.3800	—
	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	—	8,000,000	0.4650	—
	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	—	8,000,000	0.6700	—
	31.01.2005	31.01.2005 to 30.01.2015	0.5700	7,000,000	—	—	—	7,000,000	0.5900	—
	24.03.2005	24.03.2005 to 23.03.2015	0.8400	6,000,000	—	—	—	6,000,000	N/A (Note 2)	—
	26.05.2005	26.05.2005 to 25.05.2015	0.6900	6,100,000	—	—	(2,400,000)	3,700,000	0.6800	—
	03.08.2005	03.08.2005 to 02.08.2015	0.6880	3,500,000	—	—	(500,000)	3,000,000	0.6600	—

Notes:

1. The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed as the date of the exercise of the share options was the weighted average closing price of the shares immediately before the date on which the share options with the disclosure category were exercised.
2. The trading of the Company's Shares was suspended on 23 March 2005.

No option under the Share Option Scheme was cancelled during the six months ended 30 June 2006.

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE PRACTICES

It is one key commitment of The Board of Directors (the "Board") and of management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Code on Corporate Governance Practices (the "SEHK Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value.

Throughout the period of six months ended 30 June 2006, the Company has complied with the SEHK Code, except for the following deviations:

CODE PROVISION A.2.1

The roles of the chairman and the chief executive officer were not segregated during Mr. Tse On Kin's term of appointment as chairman of the Company from 10 March 2006 to 1 April 2007. Prior to his appointment, the two roles were separated and segregated.

Given the extensive experience of Mr. Tse On Kin as well as the Company's stage of progress at the period under review, it was considered unnecessary to appoint a chief executive officer.

CODE PROVISION A.4.1

All existing non-executive directors, appointed prior to the period under review, did not have a specific term of appointment but are subject to the relevant bye-law of the Bye-laws of the Company. The relevant Bye-law stipulates that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office at the next annual general meeting of the Company.

All non-executive directors, appointed during the period under review, have a fixed term of appointment.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors.

Given the time lapse between the period under review and the date of this report, it is no longer practicable to make specific enquiry of the directors of the period under review and confirmed that they have complied with the code throughout the six months ended 30 June 2006. However, specific enquiry has been made of the current directors and they have confirmed that as at the date of this report they are complying with the code.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules. The main purpose of the audit committee is to review and provide supervision over the Group's financial reporting process and internal controls. The audit committee comprises three Independent Non-Executive Directors of the Company.

During the period under review, the Board had adopted the recommendations stated in "A Guide for Effective Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants as the terms of reference for the Company's audit committee.

The audited consolidated results of the Group for the six months ended 30 June 2006 and the interim report have been reviewed by the Audit Committee.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2006.

INDEPENDENT AUDITOR'S REPORT



Shu Lun Pan Horwath Hong Kong CPA Limited

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TO THE SHAREHOLDERS OF CHINA SCIENCES CONSERVATIONAL POWER LIMITED

(中科環保電力有限公司)

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 17 to 72, which comprise the consolidated and Company balance sheets as at 30 June 2006, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and the Group as at 30 June 2006 and of the loss and cash flows of the Group for the six-month period then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

SIGNIFICANT UNCERTAINTY — ONGOING PROCEEDINGS BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

As further explained in note 37 to the financial statements, on 29 September 2005, the Independent Commission against Corruption (the “ICAC”) issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by ICAC for the purpose of investigation. According to a press release by the ICAC dated 20 February 2006, two former Directors of the Company who held office until 26 October 2005, were charged with alleged conspiracy to defraud the Company involving Company’s funds (the “Charges”). The alleged offences took place between January 2004 and April 2005. At the date of this report, save as set out in note 37 to the financial statements, the Company is not aware of other development of the Charges, and hence any possible impact on the Group’s operations and financial position.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the fact that because the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group for the six-month period ended 30 June 2005 were not audited by an independent auditor and our opinion dated 3 December 2007 on the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended was disclaimed for the scope limitation based on reasons summarised in the basis of opinion section therein, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current period.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

17 December 2007

Li Pak Ki

Practising Certificate number P01330

CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Note	For the six months ended 30 June	
		2006 HK\$'000	2005 HK\$'000 (unaudited)
Turnover	5	32,714	289,249
Cost of sales		(34,232)	(287,317)
Gross (loss)/profit		(1,518)	1,932
Other revenue		1,095	127
Administrative expenses		(19,121)	(20,310)
Loss from operations	7	(19,544)	(18,251)
Finance costs	8	(3,589)	(697)
Loss before taxation		(23,133)	(18,948)
Income tax	9	—	—
Loss after taxation		(23,133)	(18,948)
Attributable to:			
Equity holders of the Company		(22,423)	(18,948)
Minority interests		(710)	—
		(23,133)	(18,948)
Dividends	11	—	—
Loss per share			
— Basic	12	(1.94) cents	(2.01) cents
— Diluted	12	N/A	N/A

The accompanying notes form part of these financial statements.

CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2006

	Note	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	166,842	5,158
Land use rights	14	4,149	—
Construction in progress	15	168,754	298,416
Goodwill	17	23,316	23,061
		363,061	326,635
Current assets			
Inventories	18	2,122	476
Trade and other receivables	19	20,336	30,274
Amount due from a director	20	500	—
Investments held for trading	21	64	56
Pledged bank deposits	32	14,573	14,413
Bank balances and cash	22	25,346	40,290
		62,941	85,509
Current liabilities			
Trade and other payables	23	36,696	16,432
Amount due to minority shareholder	24	839	—
		37,535	16,432
Net current assets		25,406	69,077
Total assets less current liabilities		388,467	395,712
Non-current liabilities			
Bank loans	25	223,445	211,387
Convertible notes	26	20,356	20,176
Convertible preference shares	27	49,037	46,471
		(292,838)	(278,034)
Net assets		95,629	117,678

CONSOLIDATED BALANCE SHEET *(Continued)*

AT 30 JUNE 2006

	<i>Note</i>	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Equity			
Share capital	29	11,570	11,570
Reserves		75,074	96,516
Equity attributable to equity holders of the Company		86,644	108,086
Minority interests		8,985	9,592
Total equity		95,629	117,678

These financial statements were approved and authorised for issue by the board of directors on 17 December 2007.

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

BALANCE SHEET

AT 30 JUNE 2006

	Note	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	1	5
Investments in subsidiaries	16	18,765	18,765
		18,766	18,770
Current assets			
Trade and other receivables	19	7,735	4,959
Investments held for trading	21	64	56
Amount due from a director	20	500	—
Bank balances and cash	22	19,350	29,079
		27,649	34,094
Current liabilities			
Trade and other payables	23	4,264	4,587
Net current assets		23,385	29,507
Total assets less current liabilities		42,151	48,277
Non-current liabilities			
Convertible notes	26	20,356	20,176
Convertible preference shares	27	49,037	46,471
		(69,393)	(66,647)
Net liabilities		(27,242)	(18,370)
Equity			
Share capital	29	11,570	11,570
Reserves	31	(38,812)	(29,940)
Total equity		(27,242)	(18,370)

These financial statements were approved and authorised for issue by the board of directors on 17 December 2007.

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	Attributable to equity shareholders of the Company									
	Equity							Total	Minority interests	Total equity
	Equity component of					Translation reserve	Accumulated losses			
	Share capital	Share premium	Share option reserve	convertible notes	of preference shares					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<i>(Note 29)</i>										
For the six months ended 30 June 2006										
At 1 January 2006	11,570	459,967	9,198	550	20,952	2,831	(396,982)	108,086	9,592	117,678
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	803	—	803	103	906
Net loss for the period	—	—	—	—	—	—	(22,423)	(22,423)	(710)	(23,133)
Total recognised income and expenses for the period	—	—	—	—	—	803	(22,423)	(21,620)	(607)	(22,227)
Recognition of share option payments	—	—	178	—	—	—	—	178	—	178
Share option lapsed during the period	—	—	(377)	—	—	—	377	—	—	—
At 30 June 2006	11,570	459,967	8,999	550	20,952	3,634	(419,028)	86,644	8,985	95,629

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY *(Continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2005

	Attributable to equity shareholders of the Company										
	Share capital	Share premium	Equity component of convertible preference shares				Translation reserve	Accumulated losses	Total	Minority interests	Total equity
			Share option reserve	convertible notes	of convertible preference shares						
			HK\$'000	HK\$'000	HK\$'000	HK\$'000					
<i>(Note 29)</i>											
For the six months ended 30 June 2005											
At 1 January 2005											
— As previously reported	8,129	236,593	—	—	—	—	(124,781)	119,941	7	119,948	
— Prior year adjustments on effects of changes in accounting policies	—	—	2,316	550	—	—	(2,545)	321	—	321	
— As restated	8,129	236,593	2,316	550	—	—	(127,326)	120,262	7	120,269	
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	96	—	96	—	96	
Net loss for the period	—	—	—	—	—	—	(18,948)	(18,948)	—	(18,948)	
Total recognised income and expenses for the year	—	—	—	—	—	96	(18,948)	(18,852)	—	(18,852)	
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	—	—	—	—	—	27,000	—	27,000	
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	—	—	—	—	—	37,800	—	37,800	
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,614	—	—	—	—	—	91,814	—	91,814	
Exercise of share options	31	790	—	—	—	—	—	821	—	821	
At 30 June 2005	10,560	391,597	2,316	550	—	96	(146,274)	258,845	7	258,852	

The accompanying notes form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Operating activities		
Loss before taxation	(23,133)	(18,948)
Adjustment for:		
Gain on disposal of investments held for trading	—	(114)
Interest income	(398)	(5)
Interest on obligations under finance leases	—	18
Unrealised holding gain of investments held for trading	(8)	—
Depreciation and amortisation of property, plant and equipment	476	494
Amortisation of land use rights	6	—
Loss on disposal of property, plant and equipment	117	70
Provision for impairment of trade and other receivables	57	—
Bad debts written off	59	—
Equity-settled share-based payment	178	1,917
Interest on convertible notes	1,023	679
Interest on convertible preference shares	2,566	—
Effect of foreign exchange rate changes	(771)	—
Operating loss before changes in working capital	(19,828)	(15,889)
Increase in inventories	(1,646)	(1,448)
Decrease/(increase) in trade and other receivables	9,822	(86,427)
Increase in amount due from a director	(500)	—
Increase/(decrease) in trade and other payables	19,305	(23,188)
Increase in amount due to a minority shareholder	839	—
Cash from/(used in) operations	7,992	(126,952)
Interest on obligations under finance leases	—	(18)
Interest on bank loan	(6,847)	—
Interest on convertible notes	(843)	(679)
Interest received	398	5
Net cash (from/(used in) operating activities	700	(127,644)

CONSOLIDATED CASH FLOW STATEMENT (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2006

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Investing activities		
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	—	(2,431)
Purchase of property, plant and equipment	(19,033)	(1,971)
Payments for land use rights	(3,196)	—
Payments for construction in progress	(3,414)	—
Proceeds from disposal of property, plant and equipment	33	120
Net cash used in investing activities	(25,610)	(4,282)
Financing activities		
New bank loan	9,715	—
Capital element of finance leases rentals paid	—	(22)
Proceeds from issue of shares	—	118,673
Proceeds from exercise of share options	—	851
Net cash from financing activities	9,715	119,502
Net decrease in cash and cash equivalents	(15,195)	(12,424)
Cash and cash equivalents at 1 January	40,290	37,027
Effect of foreign exchange rate changes	251	—
Cash and cash equivalents at 30 June representing bank balances and cash	25,346	24,603

The accompanying notes form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars)

1. ORGANISATION AND OPERATIONS

The Company is a public company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and has its registered office and principal place of business at Room 1208-1210, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 16.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current period, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group's accounting policies nor have affected the amounts reported for the current period or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Group were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 - Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of initial application.

3. PRINCIPAL ACCOUNTING POLICIES

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

(B) BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

(C) BASIS OF CONSOLIDATION

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to six months ended 30 June for each period.

The results of subsidiaries acquired and disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the date of disposal respectively.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests 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.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and exchange difference which was not previously charged or recognised in the profit and loss account.

(D) 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 assumed in a business combination are recognised at their fair values at the acquisition date.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(D) **BUSINESS COMBINATIONS** *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition 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 the profit and loss account.

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.

(E) **SUBSIDIARIES**

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(F) **ASSOCIATES**

An associate is an enterprise over which the Group holds for long term and is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these 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 impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group enterprise transacts with an associate of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(G) **GOODWILL**

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is presented separately.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gain or loss on the disposal of a subsidiary or associate includes the carrying amount of goodwill relating to the subsidiary or associate sold.

(H) **PROPERTY, PLANT AND EQUIPMENT**

Buildings, plant and equipment held for use in production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their historical costs, less any subsequent accumulated depreciation and accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the group's accounting policy. Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit and loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.

3. PRINCIPAL ACCOUNTING POLICIES (Continued)

(H) PROPERTY, PLANT AND EQUIPMENT (Continued)

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Building, plant, and equipments	2% - 5%
Leasehold improvements	Over the remaining term of the lease but not exceeding 5 years
Furniture, fixtures and equipment	20% - 33%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(I) IMPAIRMENT OF ASSETS EXCLUDING GOODWILL

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(J) **INVENTORIES**

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs incurred in bringing the goods to their present location and condition. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the balance sheet date or to management estimates based on prevailing market conditions.

(K) **FINANCIAL INSTRUMENTS**

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(I) **TRADE AND OTHER RECEIVABLES**

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate provision for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(II) **INVESTMENTS**

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group or the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts. An 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 investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(K) **FINANCIAL INSTRUMENTS** *(Continued)*

(II) **INVESTMENTS** *(Continued)*

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(III) **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(IV) **FINANCIAL LIABILITIES AND EQUITY**

Financial liabilities and equity instruments issued by the Group 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 accounting policies adopted for specific financial liabilities and equity instruments are set out below.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(K) FINANCIAL INSTRUMENTS** *(Continued)***(V) BORROWINGS**

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(VI) CONVERTIBLE NOTES AND CONVERTIBLE PREFERENCE SHARES

Convertible notes and convertible preference shares are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes/convertible preference shares and fair value assigned to the liability component, representing the embedded option for the holder to convert the convertible notes/convertible preference shares into equity of the Group, is included in equity (equity component of convertible notes/convertible preference shares).

Issue costs are apportioned between the liability and equity components of the convertible notes/convertible preference shares based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes/convertible preference shares.

(VII) TRADE AND OTHER PAYABLES

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

(VIII) EQUITY INSTRUMENTS

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

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(L) **LEASES**

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.

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 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 to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

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

The cost of acquiring land use right held under an operating lease is amortised on a straight-line basis over the period of the lease term. Land use rights are stated at cost less accumulated amortisation and any impairment losses.

(M) **PROVISIONS AND CONTINGENT LIABILITIES**

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(N) 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 period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes 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 liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, 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. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

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 liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associated companies, 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(O) TRANSLATION OF FOREIGN CURRENCIES

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are expressed in Hong Kong dollars which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)***(O) TRANSLATION OF FOREIGN CURRENCIES** *(Continued)*

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange 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 retranslation of monetary items, are included in profit and loss account for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised in profit and loss account in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(P) EMPLOYEES' BENEFITS**(I) SHORT TERM EMPLOYEE BENEFITS**

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(P) EMPLOYEES' BENEFITS *(Continued)*

(II) PENSION OBLIGATIONS

The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 30 June 2006.

Employees of the Company's subsidiaries in the People's Republic of China ("PRC") are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 30 June 2006.

(III) SHARE-BASED PAYMENTS

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. 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 behavioural considerations.

(Q) BORROWING COSTS

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

3. **PRINCIPAL ACCOUNTING POLICIES** *(Continued)*

(R) RESEARCH AND DEVELOPMENT COSTS

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(S) RELATED PARTIES

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

(T) REVENUE RECOGNITION

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

- (i) Waste incineration power generation income are earned and recognised upon transmission of electricity to the power grid companies.
- (ii) Sales of goods are recognised when goods are delivered and title has passed.
- (iii) Service income is recognised when services are provided.
- (iv) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (v) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(U) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment information be presented as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

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.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments 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 Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(A) USEFUL LIVES OF PROPERTY, PLANT AND EQUIPMENT

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(B) IMPAIRMENT OF TRADE AND OTHER RECEIVABLES

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(C) ASSESSMENT OF IMPAIRMENT OF GOODWILL

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate. In cases where the actual future cash flows generated are less than expected, a material portion of the goodwill may be derecognised, which would be charged to the consolidated income statement for the period in which such a derecognition takes place. As at 30 June 2006, the carrying amount of goodwill was HK\$23,316,000 (At 31 December 2005: HK\$23,061,000). Details of the impairment assessment are disclosed in note 17.

5. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances, waste incineration power generation income and service income for the period, and is analysed as follows:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Waste incineration power generation income	1,051	—
Sale of computer hardware and maintenance support services	31,352	288,405
Software design and development	311	844
	32,714	289,249

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(A) BUSINESS SEGMENTS

For management purposes, the Group is currently organised into three operating divisions: (i) waste incineration power generation business; (ii) computer hardware and provision of maintenance support services; and (iii) provision of software design and development. These divisions are the bases on which the Group reports its primary segment information.

The principal activities of the divisions are as follows:

Waste incineration power generation business	— Waste incineration, processing and power generation for power generation business in the PRC
Computer hardware and maintenance support services	— Sale of computer hardware and provision of maintenance support service
Software design and development	— E-commerce consultancy, software development, system integration, website design and sale of software

There were no sales or other transactions between the business segments.

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) BUSINESS SEGMENTS (Continued)

For the six months ended 30 June 2006

	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Consolidated HK\$'000
Turnover	1,051	31,352	311	32,714
Segment results	(7,141)	(490)	(604)	(8,235)
Net investment gain				406
Unallocated corporate income and expenses (net)				(11,715)
Loss from operations				(19,544)
Finance costs				(3,589)
Loss before taxation				(23,133)
Income tax				—
Loss for the period				(23,133)
Minority interests				710
Loss for the period attributable to equity holders of the Company				(22,423)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) BUSINESS SEGMENTS (Continued)

For the six months ended 30 June 2006

	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Consolidated HK\$'000
Segment assets	387,266	38	106	387,410
Unallocated corporate assets				38,592
Consolidated total assets				<u>426,002</u>
Segment liabilities	253,351	2,469	428	256,248
Unallocated corporate liabilities				74,125
Consolidated total liabilities				<u>330,373</u>
Capital expenditure	22,185	—	6	
Depreciation and amortisation	79	—	45	
Provision for impairment of trade and other receivables	—	—	57	
Bad debts written off	—	—	59	

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) BUSINESS SEGMENTS (Continued)

For the six months ended 30 June 2005 (unaudited)

	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Consolidated HK\$'000
Turnover	—	288,405	844	289,249
Segment results	—	86	(298)	(212)
Net investment gain				119
Unallocated corporate income and expenses (net)				(18,158)
Loss from operations				(18,251)
Finance costs				(697)
Loss before taxation				(18,948)
Income tax				—
Loss for the period				(18,948)
Minority interests				—
Loss for the period attributable to equity holders of the Company				(18,948)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS (Continued)

(A) BUSINESS SEGMENTS (Continued)

For the year ended 30 June 2005 (unaudited)

	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support services HK\$'000	Software design and development HK\$'000	Consolidated HK\$'000
Segment assets	—	10,519	101,307	111,826
Unallocated corporate assets				176,804
Consolidated total assets				288,630
Segment liabilities	—	12,329	112,858	125,187
Unallocated corporate liabilities				97,005
Consolidated total liabilities				222,192
Capital expenditure	—	16	178	
Depreciation and amortisation	—	6	105	

(B) GEOGRAPHICAL SEGMENTS

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of customers. There were no sales between the geographical segments. Carrying amounts of segment assets and additions to property, plant and equipment, land use rights and construction in progress are based on the geographical location of the assets.

	Segment revenues		Carrying amount of segment assets		Additions to property plant and equipment, land use rights and construction in progress	
	Six months ended 30 June		At 30 June		Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)	2006 HK\$'000	2005 HK\$'000 (unaudited)	2006 HK\$'000	2005 HK\$'000 (unaudited)
Hong Kong	24,896	201,584	29,139	215,237	47	1,871
Other regions of PRC	4,399	44,977	396,863	73,393	25,596	100
Russia	—	22,394	—	—	—	—
Taiwan	1,194	10,706	—	—	—	—
Others	2,225	9,588	—	—	—	—
	32,714	289,249	426,002	288,630	25,643	1,971

7. LOSS FROM OPERATIONS

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Loss from operations has been arrived at after charging/(crediting):—		
Depreciation and amortisation of		
— property, plant and equipment		
— owned assets	476	494
— leased assets	—	—
	476	494
Amortisation of land use rights	6	—
Auditor's remuneration	255	45
Loss on disposal of property, plant and equipment	117	70
Bad debts written off	59	—
Provision for impairment of trade and other receivables	57	—
Exchange (gain)/loss	(652)	60
Cost of inventories expensed	34,232	287,317
Operating lease rentals in respect of equipment	41	—
Operating lease rentals in respect of land and buildings	1,005	1,112
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	10,696	6,091
— Contributions to defined contribution retirement scheme	157	140
	10,853	6,231

8. FINANCE COSTS

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Interest on bank borrowings wholly repayable within five years	6,847	—
Interest on convertible notes	1,023	679
Interest element of finance leases	—	18
Interest on convertible preference shares	2,566	—
Total borrowing costs	10,436	697
Less: amount capitalised into construction in progress	(6,847)	—
	3,589	697

9. INCOME TAX

- (a) Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the period. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong had no assessable profit for the six months ended 30 June 2006 (2005: Nil).

No provision for PRC enterprise income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for the six months ended 30 June 2006 (2005: Nil).

- (b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the enacted tax rate of the Company as follows:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Loss before taxation	(23,133)	(18,948)
Calculated at the tax rate of 17.5%	(4,049)	(3,316)
Tax effect of expenses not deductible for taxation purpose	2,652	1,588
Tax effect of non-taxable items	(64)	(1)
Tax effect of unrecognised tax losses and temporary differences	1,461	1,729
Taxation charge	—	—

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS**(A) DIRECTORS' EMOLUMENTS****For the six months ended 30 June 2006**

	Directors' fees	Salaries, and other benefits	Discre- tionary bonuses	Share- based payments	Pension fund con- tributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Wong King King**	—	349	—	—	3	352
Tian Yuchuan**	—	338	—	—	3	341
Tse On Kin	—	223	—	—	4	227
Ping Kim	—	223	—	—	4	227
Liang Jun	—	37	—	—	—	37
Non-executive directors						
His Royal Highness Prince Idris	195	—	—	—	—	195
Alan Grant Quasha	195	—	—	—	—	195
John Douglas Kuhns	195	—	—	—	—	195
Independent non-executive directors						
Chan Chi Yuen	50	—	—	—	—	50
Lai Hin Wing, Henry**	233	—	—	—	—	233
Chan Kin Sang**	233	—	—	—	—	233
Tai Sik Fung, George	41	—	—	—	—	41
Zhang Xi	41	—	—	—	—	41
	1,183	1,170	—	—	14	2,367

** Resigned as director of the Company with effect from 10 March 2006.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)**(A) DIRECTORS' EMOLUMENTS (Continued)**

For the six months ended 30 June 2005 (unaudited)

	Directors' fees	Salaries, and other benefits	Discre- tionary bonuses	Share- based payments	Pension fund con- tributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Hon Ming Kong*	—	600	—	—	6	606
Wong King King	—	600	—	—	6	606
Chan Tat Chee [#]	—	600	—	—	6	606
Chow Ho Tung, Anthony [#]	—	480	—	—	6	486
Hon Yik Kwong	—	408	—	—	6	414
Non-executive directors						
His Royal Highness Prince Idris	175	—	—	—	—	175
Alan Grant Quasha	175	—	—	—	—	175
Lo Wing Yat, Kelvin	33	—	—	—	—	33
John Douglas Kuhns	68	—	—	—	—	68
Independent non-executive directors						
Cham Yiu Keung	66	—	—	—	—	66
Chan Chi Yuen	34	—	—	—	—	34
Cheng Kin Chow, Tony	33	—	—	—	—	33
	584	2,688	—	—	30	3,302

* re-designated from chairman and executive director to non-executive director on 3 October 2005.

[#] re-designated from executive director to non-executive director on 3 October 2005.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)**(B) FIVE HIGHEST PAID INDIVIDUALS**

The five highest paid individuals of the Group included four (six months ended 30 June 2005: five) directors, details of whose emoluments are set out above. The emoluments of the remaining one (six months ended 30 June 2005: Nil) individual for the period ended 30 June 2006, other than the directors of the Company, are as follows:

	For the six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000 (unaudited)
Salaries and other benefits	1,001	—
Contributions to defined contribution retirement scheme	—	—
	1,001	—

The emoluments of the highest paid individual, other than the directors of the Company, were within the following bands:

	2006 Number of employees	2005 Number of employees
HK\$Nil to HK\$1,000,000	—	—
HK\$1,000,000 to HK\$1,500,000	1	—

(C) No emoluments were paid or payable to any directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the period.

11. DIVIDENDS

No dividend has been paid or declared by the Company during the six-month period ended 30 June 2006 (six months ended 30 June 2005: Nil).

The directors do not recommend the payment of dividend during the period.

12. LOSS PER SHARE

The calculation of basic loss per share for the six months ended 30 June 2006 is based on the loss attributable to equity holders of the Company for the six months ended 30 June 2006 of approximately HK\$22,423,000 (six months ended 30 June 2005: loss attributable to equity holders of the Company of approximately HK\$18,948,000) and on 1,157,027,100 ordinary shares (six months ended 30 June 2005: 944,310,360 ordinary shares) in issue during the period.

Diluted loss per share has not been presented for both periods as the potential dilutive ordinary shares resulting from the exercise of the Company's outstanding share options, convertible notes and convertible preference shares are anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings, plant and equipments HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The Group					
Cost:					
As at 1 January 2006	2,219	253	2,949	3,057	8,478
Exchange adjustments	25	3	14	15	57
Additions	18,786	208	4	35	19,033
Transfer	143,229	—	—	—	143,229
Disposals	—	(49)	(616)	—	(665)
As at 30 June 2006	164,259	415	2,351	3,107	170,132
Accumulated depreciation and impairments losses:					
As at 1 January 2006	80	18	1,934	1,288	3,320
Exchange adjustments	1	—	5	3	9
Charge for the period	50	39	143	244	476
Written back on disposal	—	(1)	(514)	—	(515)
As at 30 June 2006	131	56	1,568	1,535	3,290
Net book value:					
As at 30 June 2006	164,128	359	783	1,572	166,842

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

	Buildings, plant and equipments HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
As at 1 January 2005	—	—	3,040	2,199	5,239
Additions	500	—	575	896	1,971
Disposals	—	—	—	(200)	(200)
As at 30 June 2005	500	—	3,615	2,895	7,010
Accumulated depreciation and impairments losses:					
As at 1 January 2005	—	—	2,377	941	3,318
Charge for the period	56	—	171	267	494
Written back on disposal	—	—	—	(10)	(10)
As at 30 June 2005	56	—	2,548	1,198	3,802
Net book value:					
As at 30 June 2005	444	—	1,067	1,697	3,208

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The Company			
Cost			
As at 31 December 2005 and 30 June 2006	364	893	1,257
Accumulated depreciation:			
At 1 January 2005	330	893	1,223
Charge for the year	29	—	29
At 31 December 2005	359	893	1,252
Charge for the period	4	—	4
At 30 June 2006	363	893	1,256
Net book value:			
At 30 June 2006	1	—	1
At 31 December 2005	5	—	5

14. LAND USE RIGHTS

	The Group HK\$'000
Cost:	
As at 1 January 2005 and 2006 and 30 June 2005	—
Additions	4,155
As at 30 June 2006	4,155
Accumulated amortisation and impairment:	
As at 1 January 2005 and 2006 and 30 June 2005	—
Charge for the period	6
As at 30 June 2006	6
Net carrying value:	
At 30 June 2006	4,149
At 30 June 2005	—

Land use rights are held outside Hong Kong under a medium term lease.

15. CONSTRUCTION IN PROGRESS

	The Group	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Cost:		
At 1 January 2006/1 January 2005	298,416	—
Exchange adjustments	3,306	—
Additions	10,261	209,399
Acquisition of subsidiaries	—	89,017
Transferred to property, plant and equipment	(143,229)	—
At 30 June 2006/31 December 2005	168,754	298,416

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	570,941	571,574
	570,942	571,575
Provision for impairment of amounts due from subsidiaries	(552,177)	(552,810)
	18,765	18,765

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

16. INVESTMENT IN SUBSIDIARIES (Continued)

Particulars of the Company's principal subsidiaries as at 30 June 2006 are as follows.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Abba China Holdings Limited	Hong Kong	2 ordinary shares of HK\$1	—	100%	Investment holding
Chainstoreonline.net Limited	Hong Kong	30,000 ordinary shares of HK\$1	—	100%	Dormant
China Sciences Green Energy Investments Limited	Hong Kong	1 ordinary share of HK\$1	—	100%	Management and corporate service
Hong Tong Hai Investments Limited	Hong Kong	2 ordinary shares of HK\$1	—	100%	Investment holding
Sharpo Limited	Hong Kong	10,000 ordinary shares of HK\$1	—	100%	Management and corporate service
Sharpo Solutions Limited	The British Virgin Islands	1 ordinary share of US\$1	—	100%	Trading of computer products and the provision of maintenance support services
廣州宏中電腦科技有限公司	The People's Republic of China	HK\$760,000 (note)	—	95%	Website design, development, installation and maintenance of computer software, sale of related computer products in the People's Republic of China
東莞中科環保電力有限公司 (「東莞中科」)	The People's Republic of China	RMB110,000,000 (note)	—	90%	Waste incineration power generation business
桂林中科環保電力有限公司 (「桂林中科」)	The People's Republic of China	RMB39,495,475 (note)	—	94.12%	Waste incineration power generation business
興寧中科環保電力有限公司 (「興寧中科」)	The People's Republic of China	RMB10,620,000 (note)	—	80%	Waste incineration power generation business

Note: The statutory accounts of these subsidiaries were not audited by Shu Lun Pan Horwath Hong Kong CPA Limited.

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

17. GOODWILL

	The Group HK\$'000
Cost:	
As at 1 January 2005	78,028
Opening balance adjustment to eliminate accumulated amortisation	(54,584)
Addition arising on acquisition of subsidiaries	41,687
Exchange adjustment	781
As at 31 December 2005	65,912
Exchange adjustment	255
As at 30 June 2006	66,167
Accumulated amortisation and impairment:	
As at 1 January 2005	54,584
Opening balance adjustment to eliminate against cost	(54,584)
Impairment loss recognised	42,851
As at 31 December 2005 and 30 June 2006	42,851
Net carrying value:	
At 30 June 2006	23,316
At 31 December 2005	23,061

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before, recognition of impairment losses, the carrying amount of goodwill had been allocated to waste incineration and processing operation of 東莞中科.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the period, the Group assessed the recoverable amount of goodwill, and determined that no goodwill impairment was required. The recoverable amounts of the CGUs are determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a period of 24.5 years. The discount rate applied to cash flow projections is 17.34% and cash flows beyond 9.5 years are extrapolated using a growth rate of 2.35% which is determined with reference to the long term business prospects and the general economic outlook of PRC. Management estimated the budgeted gross margin based on the past performance and their expectations for market development.

17. GOODWILL (Continued)

The software design and development segment incurred losses since the acquisition of this segment business and the directors consider that the recoverability of carrying amount of goodwill in respect of this segment is uncertain due to increased competition. Therefore, the carrying amount of goodwill in respect of this segment amounting to HK\$54,584,000 has been impaired in prior years.

18. INVENTORIES

	The Group	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Fuel and supplies for power generation	2,122	—
Merchandise at cost	266	742
Less: provision	(266)	(266)
	2,122	476

19. TRADE AND OTHER RECEIVABLES

The Group normally allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables net of provision as at the balance sheet date is as follows:

	The Group		The Company	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Current and up to 30 days	1,235	2,068	—	—
31 to 60 days	—	95	—	—
Total trade receivables	1,235	2,163	—	—
Other receivables (net of provision)	19,101	28,111	7,735	4,959
	20,336	30,274	7,735	4,959

20. LOANS TO OFFICERS

Loans to officers, which are disclosed pursuant to section 161B of the Companies Ordinance are as follows:—

(A) LOANS MADE BY THE COMPANY

Name of borrower:	Ping Kim	
Position:	Executive director	
Terms of the loan:		
— Duration and repayment terms	Repayable on demand	
— Interest rate	Interest free	
— Security	Unsecured	
Balance of the loan:		
— at 1 January 2005	\$	Nil
— at 31 December 2005	\$	Nil
— at 30 June 2006	\$	500,000
Maximum balance outstanding:		
— during year ended 31 December 2005	\$	Nil
— during six months ended 30 June 2006	\$	500,000

21. INVESTMENTS HELD FOR TRADING

	The Group		The Company	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Listed equity securities in Hong Kong, at market value	64	56	64	56

From 1 January 2005 onwards, trading securities have been reclassified to investments held for trading in accordance with the requirements of HKAS39. The fair value of these securities is based on quoted market prices.

22. BANK BALANCES AND CASH

	The Group		The Company	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Cash and bank balances	25,346	20,267	19,350	9,056
Time deposits	—	20,023	—	20,023
Cash and bank balances	25,346	40,290	19,350	29,079

Cash at banks earns interest at floating rates based on daily bank deposit rates. The directors consider the carrying amount of cash and cash equivalents approximate their fair values.

At as 30 June 2006, cash and bank balances denominated in RMB amounted to approximately HK\$5,256,000 (At 31 December 2005: HK\$8,242,000). RMB is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Current and up to 30 days	20,260	3,217	—	—
31 to 60 days	—	—	—	—
61 to 90 days	—	—	—	—
Over 90 days	2,448	732	—	—
Total trade payables	22,708	3,949	—	—
Other payables (Note)	13,988	12,483	4,264	4,587
	36,696	16,432	4,264	4,587

Note: Included in other payables as at 30 June 2006 is an amount due to a former director, Mr. Chan Tat Chee, amounting to HK\$15,000 (At 31 December 2005: HK\$15,000). The amount due represented operating expenses paid by the director on behalf of the Group, the terms of which are unsecured, interest-free and have no fixed repayment terms.

24. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest free and repayable on demand.

25. BANK LOANS

	The Group	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Repayable after five years	223,445	211,387

The amount of bank loans in the original denominated borrowing currency is RMB230,000,000 (At 31 December 2005: RMB220,000,000). The effective interest rate for the period is 6.18% per annum. The directors estimated that the fair value of the bank loans is not significantly different from the carrying amount.

The bank loans are secured by a deposit of RMB15,000,000 equivalent to approximately HK\$14,573,000 (At 31 December 2005, RMB15,000,000 equivalent to approximately HK\$14,413,000). In addition, the Group pledged construction in progress and including plant and equipment amounted to RMB338,101,491 (At 31 December 2005, RMB308,208,723) in respect of the waste incineration project in the PRC, corresponding waste incineration licence and related income generated from the project (including waste handling income and electricity generation income) to the bank.

26. CONVERTIBLE NOTES

The convertible notes were issued by the Company on 24 August 2004. The maturity date of the convertible notes is 24 August 2006 provided that the Company may at its option, on giving not less than 30 days' prior notice to the holders of the convertible notes, extend the maturity date so that, upon the giving of such notice, the maturity date shall be 24 August 2007.

The convertible notes are convertible, at the option of the holders of the convertible notes, into ordinary shares of the Company at an initial conversion price of HK\$0.3 per share, subject to adjustments, at any time on or after 25 August 2005 and up to the close of business on maturity date.

The convertible notes bore interest at 8.5% per annum, payable quarterly in arrear. Unless previously redeemed, converted or purchased or cancelled, the convertible notes will be redeemed at 100% of their principal amount on maturity date. None of the convertible notes had been converted since their issue.

The carrying amount of the convertible notes in issue were split into the equity and liability components. The fair value of the liability component was calculated using a market borrowing rate of 10.66% at the date of grant. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in capital reserve.

26. CONVERTIBLE NOTES (Continued)

The movement on the liability component of the convertible notes is as follows:

	The Group and the Company	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Liability component at 1 January	20,176	19,856
Interest expenses	1,023	2,020
Interest paid	(843)	(1,700)
Liability component at 30 June/31 December	20,356	20,176

27. CONVERTIBLE PREFERENCE SHARES

Details of the terms of the convertible preference shares are set out in note 29. The preference shares recognised in the balance sheet is calculated as follows:

The carrying amount of the convertible preferences shares in issue were split into the equity and liability components. The fair value of the liability component was calculated using a market borrowing rate of 11.35% at the date of grant. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in capital reserve.

The movement on the liability component of the convertible preference shares is as follows:

	The Group and the Company	
	At 30 June 2006 HK\$'000	At 31 December 2005 HK\$'000
Liability component at 1 January	46,471	—
Issue of preference shares	—	76,000
Equity component at date of issue	—	(20,952)
Liability component at 1 January 2006/date of issue	46,471	55,048
Interest expenses	2,566	2,599
Conversion of preference shares to ordinary shares	—	(11,176)
Liability component at 30 June/31 December	49,037	46,471

28. DEFERRED TAX

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2005 and 30 June 2006.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 30 June 2006, the unprovided deferred tax asset of the Group and of the Company are as follows:

	The Group		The Company	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Tax effect of timing difference attributable to estimated tax losses	33,448	31,967	27,624	26,508

At the balance sheet date, the Group and the Company have unused tax losses of HK\$191,128,000 (At 31 December 2005: HK\$182,669,000) and HK\$157,850,000 (At 31 December 2005: HK\$151,476,000) respectively available for offset against future profits.

29. SHARE CAPITAL**(A) AUTHORISED SHARE CAPITAL**

	Number of ordinary shares of HK\$0.01 each		Amount	
	30 June 2006	31 December 2005	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Authorised ordinary shares: At 30 June 2006 and 31 December 2005	120,000,000,000	120,000,000,000	1,200,000	1,200,000
	Number of preference shares of HK\$0.01 each		Amount	
	30 June 2006	31 December 2005	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Authorised preference shares class A: At 30 June 2006 and 31 December 2005	10,000,000,000	10,000,000,000	100,000	100,000
Authorised preference shares class B: At 30 June 2006 and 31 December 2005	10,000,000,000	10,000,000,000	100,000	100,000

The preference shares class A and B do not carry a right to vote. On liquidation of the Company, the preference shareholders would participate only to the extent of the issue value (aggregate of par value and the premium paid) of the shares adjusted for any dividends in arrears. The preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue.

PREFERENCE SHARES CLASS A

The term of the preference shares class A is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares class A may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding on the third anniversary of the date of issue of the issue value and any dividends in arrears. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term using the following formula:—

$$\frac{\text{Number of preference shares}}{\text{Adjusting factor}} = \text{Number of ordinary shares to be issued}$$

29. SHARE CAPITAL *(Continued)***(A) AUTHORISED SHARE CAPITAL** *(Continued)***PREFERENCE SHARES CLASS A** *(Continued)*

Adjusting factor is calculated as the higher of (i) 90% of the average of the closing price of the Company's ordinary shares on the Stock Exchange for the five trading days up to and including the conversion date (or, if such day is not a trading day, the last trading day before the conversion day); and (ii) HK\$0.50, provided that if trading in the ordinary shares is suspended on any day during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading in the ordinary shares is not suspended up to and including the conversion date but subject to a minimum value equivalent to the then nominal value of an ordinary share.

During the period, none of the preference shares class A have been issued.

PREFERENCE SHARES CLASS B

The term of the preference shares class B is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares class B may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding on the third anniversary of the date of issue of the issue value and any dividends in arrears. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term at a ratio of HK\$0.76 to an adjusting factor. The adjusting factor is calculated as follows:

Beginning on the date of issue and ending on (and including) the first anniversary of the date of issue	HK\$0.76
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Beginning from the day after the first anniversary of the date of issue and ending on (and including) the third anniversary of the date of issue	The higher of (i) 90% of the average of the closing prices on the Stock Exchange for one ordinary share for the five trading days up to and including the conversion date; and (ii) HK\$0.50, provided that if trading of the ordinary shares is suspended on any date during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading of the ordinary shares is not suspended up to and including the conversion date.
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29. SHARE CAPITAL *(Continued)***(B) ISSUED AND FULLY PAID SHARE CAPITAL**

Issued and fully paid ordinary shares:

	Number of shares	Par value HK\$'000
As at 1 January 2005 of HK\$0.01 each	812,897,100	8,129
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004	50,000,000	500
New issue and allotment of shares for acquisition of 39% interest in 東莞中科	70,000,000	700
New issue and placing of shares pursuant to the placing and underwriting agreement dated 23 March 2005	90,000,000	900
New issue and placing of shares pursuant to the subscription letter dated 23 March 2005 (as amended by the supplemental agreement dated 4 May 2005)	30,000,000	300
New issue and placing of shares pursuant to the placing agreement dated 8 September 2005	65,000,000	650
Exercise of share options issued under 2002 Share Option Scheme	11,630,000	116
Conversion of convertible preference shares	20,000,000	200
Exercise of share options issued under New Share Options	7,500,000	75
At 31 December 2005 and 30 June 2006 of HK\$0.01 each	1,157,027,100	11,570

30. SHARE OPTIONS**2002 SHARE OPTION SCHEME**

On 27 May 2002, a new share option scheme (the "2002 Share Option Scheme") was adopted by the Company. The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the option granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of options or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or in part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).

30. SHARE OPTIONS (Continued)

2002 SHARE OPTION SCHEME (Continued)

(a) The movements in the Company's share options under the 2002 Share Option Scheme during the six months ended 30 June 2006 are as follows:

Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	At 1 January 2006	Lapsed during the period	At 30 June 2006	Estimated fair value of the share options HK\$ (Note (c))
23.2.2004	23.2.2004 to 22.2.2014	0.2744	—	—	—	N/A
12.8.2004	12.8.2004 to 11.8.2014	0.3850	26,800,000	—	26,800,000	N/A
27.10.2004	27.10.2004 to 26.10.2014	0.4700	16,000,000	(8,000,000)	8,000,000	N/A
1.12.2004	1.12.2004 to 30.11.2014	0.6700	8,000,000	—	8,000,000	N/A
31.1.2005	31.1.2005 to 30.1.2015	0.5700	7,000,000	—	7,000,000	0.1110
24.3.2005	24.3.2005 to 23.3.2015	0.8400	6,000,000	—	6,000,000	0.1824
26.5.2005	26.5.2005 to 25.5.2015	0.6900	6,100,000	(2,400,000)	3,700,000	0.1045
3.8.2005	3.8.2005 to 2.8.2015	0.6880	6,500,000	(3,500,000)	3,000,000	0.0995
			<u>76,400,000</u>	<u>(13,900,000)</u>	<u>62,500,000</u>	

The share options lapsed due to the resignation of employees during the period. All the above share options granted under the 2002 Share Option Scheme were vested immediately upon the date of the grant.

30. SHARE OPTIONS (Continued)

2002 SHARE OPTION SCHEME (Continued)

(b) Details of the share options outstanding are as follows:

	30 June 2006		31 December 2005	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the period	76,400,000	0.5316	62,430,000	0.4364
Granted during the period	—	—	29,500,000	0.6914
Exercised during the period	—	—	(11,630,000)	0.3731
Lapsed during the period	(13,900,000)	0.5629	(3,900,000)	0.6882
Outstanding and exercisable at the end of the period	62,500,000	0.5247	76,400,000	0.5316

The weighted average share price at the date of exercise for share options exercised during the period was HK\$Nil (2005: HK\$0.7375).

(c) Fair value of share options and assumptions

In 2005, the Company relied on the transitional provision of HKFRS 2 and therefore share options granted and vested prior to 1 January 2005 have not been measured in estimated fair value. Therefore, the estimated fair values for these share options granted have not been disclosed. The fair values of other share options granted were calculated using the Black-Scholes-Merton Option Pricing Model and the inputs into the model were as follows:

Weighted average share price	HK\$0.6880
Weighted average exercise price	HK\$0.6914
Weighted average expected volatility	62.68%
Expected life	3 years
Weighted average risk free rate (based on Exchange Fund Notes)	3.16%
Expected dividend yield	Nil

The expected volatility is based on the historic volatility of the Company's share price over the previous 150 trading days. Expected dividend yield is based on historical dividend payment records.

30. SHARE OPTIONS (Continued)**NEW SHARE OPTIONS**

Pursuant to the sales and purchase agreement of acquiring 51% interest in 東莞中科 (through acquisition of 100% of interest in Hong Tong Hai Investments Limited), the Company issued 50,000,000 share options ("New Share Options") for a total consideration of HK\$1. The New Share Options have an exercise price of HK\$0.76 per share to subscribe for one ordinary share of the Company. The holders of New Share Options can exercise the New Share Options at any time during the period from (and including) the completion date of acquisition on 5 July 2005 to (and including) the day immediately preceding the third anniversary of that date on 4 July 2008, provided that the exercise of New Share Options must be accompanied by the conversion of two preference shares at the same time. The New Share Options are transferable subject to the requirements of the Listing Rules and transfer of one New Share Option shall be accompanied by the transfer of two preference shares.

After the grant of the New Share Options on 5 July 2005, 7,500,000 New Share Options were exercised during the year 2005 with weighted average share price of HK\$0.74 at the dates of exercise. After the exercise, the outstanding and exercisable number of New Share Options at 30 June 2006 and 31 December 2005 is 42,500,000. During the period, none of the New Share Options have been exercised.

The estimated fair value of the New Share Options granted at measurement date was HK\$6,287,000 (HK\$0.1257 each) and was calculated using Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

Share price	HK\$0.75
Exercise price	HK\$0.76
Expected volatility	50.84%
Expected life	3 years
Risk free rate (based on Exchange Fund Notes)	3.36%
Expected dividend yield	Nil

The expected volatility is based on the historic volatility of the Company's share price over the previous 150 trading days. Expected dividend yield is based on historical dividend payment records.

31. RESERVES**The Company**

	Share capital HK\$'000 (Note 29)	Share premium HK\$'000	Share option reserve HK\$'000	Equity component of convertible notes HK\$'000	Equity component of convertible preference shares HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000
For the six months ended 30 June 2006							
At 1 January 2006	11,570	459,967	9,198	550	20,952	(520,607)	(18,370)
Net loss for the year	—	—	—	—	—	(9,050)	(9,050)
Recognition of share option payments	—	—	178	—	—	—	178
Share options lapsed during the period	—	—	(377)	—	—	377	—
At 30 June 2006	11,570	459,967	8,999	550	20,952	(529,280)	(27,242)
For the six months ended 30 June 2005 (unaudited)							
At 1 January 2005							
— As previously reported	8,129	236,593	—	—	—	(135,681)	109,041
— Prior year adjustments on effects of changes in accounting policies	—	—	2,316	550	—	(2,545)	321
As restated	8,129	236,593	2,316	550	—	(138,226)	109,362
Net loss for the period	—	—	—	—	—	(10,610)	(10,610)
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	—	—	—	—	27,000
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	—	—	—	—	37,800
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,580	—	—	—	—	91,780
Exercise of share options	31	790	—	—	—	—	821
At 30 June 2005	10,560	391,563	2,316	550	—	(148,836)	256,153

31. RESERVES (Continued)

The Company did not have any reserves available for distribution to shareholders as at 30 June 2006 and 31 December 2005. The Company's share premium account may be distributed in the form of fully paid bonus shares.

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance. Other reserves are dealt with in accordance with the relevant accounting policies set out in note 3.

32. PLEDGED BANK DEPOSITS

At 30 June 2006, the Group had pledged bank deposits of RMB15,000,000 equivalent to approximately HK\$14,573,000 (At 31 December 2005: RMB15,000,000, equivalent to approximately HK\$14,413,000) to secure certain bank loans granted to the Group.

33. CAPITAL COMMITMENT

Capital commitments outstanding as at the balance sheet date not provided for in the financial statements are as follows:

	The Group	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Authorised and contracted for in respect of acquisition and construction of property, plant and equipment	34,813	107,684

34. OPERATING LEASE COMMITMENTS

As at 30 June 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	30 June 2006 HK\$'000	31 December 2005 HK\$'000
Within one year	1,107	2,122
In the second to fifth years inclusive	325	674
	1,432	2,796

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Members of key management during the period comprised the directors only whose remuneration is set out in note 10 to the financial statements.

36. FINANCIAL RISK MANAGEMENT**(A) FINANCIAL RISK FACTORS**

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign exchange risk and liquidity risk. These risks are evaluated and monitored by the Group in accordance with the financial management policies and practices described below.

(I) INTEREST RATE RISK

The Group's income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 25.

(II) CREDIT RISK

The Group has no significant concentrations of credit risk. It has policies in place to ensure that the sales of goods are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

(III) FOREIGN EXCHANGE RISK

The Group's principal operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(IV) LIQUIDITY RISK

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(B) FAIR VALUE ESTIMATION

All financial instruments are carried at amounts not materially different from their fair values as at 30 June 2006.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

37. OTHER MATTERS

BACKGROUND

As previously disclosed in the 2005 financial statements, on 29 September 2005, the Independent Commission against Corruption (the "ICAC") issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by ICAC for the purpose of investigation. The Company's shares have been suspended for trading on the Stock Exchange since 29 September 2005.

According to a press released by the ICAC dated 20 February 2006, two former Directors of the Company who held office until 26 October 2005, were charged with alleged conspiracy to defraud the Company involving Company's funds (the "Charges"). The alleged offences took place between January 2004 and April 2005.

The Company is neither a party to any Charges nor is the Company in any way implicated under the Charges. Except for the above, there are no other legal proceedings known to the Company that might involve or concern the Company, nor its present or past officers in relation to the above event.

MEASURES TAKEN BY THE COMPANY

Management has continued to execute the measures as adopted in the prior year to minimise the uncertainties due to the Incident and to safeguard the interests of the Group, its shareholders and customers during the period, and has concluded that such measures are sufficient and effective and no material internal control weaknesses exist.

In respect of the Charges laid by the ICAC, as the proceedings are still ongoing, the Company considers it is inappropriate to make any comment thereon at this stage. If and when the Company obtains further information on the Charges, the Company may seek legal advice as to what appropriate steps it should take, after considering all relevant factors including the status of any legal proceedings ongoing at that time.

Based on the information available to the Company as at the date of approval of these financial statements, the Directors of the Company believe that the Charges would not have a significant adverse impact to the financial and trading position of the Group.

In the absence of further information about the Charges, the Directors of the Company are however unable to determine, on a reasonable and proper basis, the financial impact that might arise in respect of the Charges.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 December 2007.