



CPNE

**China Power New Energy
Development Company Limited**
中國電力新能源發展有限公司*

Incorporated in Bermuda with limited liability

Stock Code : 735



Interim Report 2007

*for identification purpose only



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Li Xiaolin (*Chairman*)

Mr. Lai Leong (*Vice-chairman & Chief Executive Officer*)

Mr. Zhao Xinyan

Mr. Wang Hao

Mr. Clive William Oxley OBE, ED

Independent Non-Executive Directors

Dr. Chow King Wai

Mr. Chu Kar Wing

Mr. Wong Kwok Tai

AUDIT COMMITTEE

Dr. Chow King Wai

Mr. Chu Kar Wing

Mr. Wong Kwok Tai

REMUNERATION COMMITTEE

Dr. Chow King Wai

Mr. Chu Kar Wing

Mr. Wong Kwok Tai

COMPANY SECRETARY

Mr. Chiang Chi Kin, Stephen

QUALIFIED ACCOUNTANT

Mr. Ho Yau Hong, Alfred

AUDITORS

CCIF CPA Limited

Certified Public Accountants

20th Floor, Sunning Plaza

10 Hysan Avenue

Causeway Bay

Hong Kong

PRINCIPAL SHARE REGISTRARS

Bank of Bermuda Buildings

6 Front Street

Hamilton HM 11

Bermuda

HONG KONG SHARE REGISTRARS

Tricor Tengis Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Hong Kong

PRINCIPAL BANKER

The Standard Chartered Bank Limited

REGISTERED OFFICE

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suites 904-5, 9th Floor

Great Eagle Centre

23 Harbour Road

Wanchai

Hong Kong

STOCK CODE

0735

WEBSITE

www.735.com.hk



INTERIM RESULTS

The Board of Directors of China Power New Energy Development Company Limited (the "Company") is pleased to present the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2007, together with the unaudited comparative figures for the six months ended 31 October 2006. These unaudited interim results have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 31 October 2007

		Unaudited for the six months ended 31 October	
		2007	2006
	<i>Note</i>	HK\$'000	<i>HK\$'000</i>
Turnover	2	416,507	26,399
Cost of sales		(326,482)	(1,592)
Gross profit		90,025	24,807
Other revenue	3	16,960	3,408
Selling and distribution costs		(3,268)	(1,997)
Administrative expenses		(57,136)	(12,463)
Other operating expenses		–	(4,431)
Operating profit	4	46,581	9,324
Finance costs		(31,292)	(10,067)
Fair value changes on investment properties		–	(8,953)
Gain on disposal of subsidiaries		821	15,857
Share of profit of associates, net		715	730
Profit before income tax		16,825	6,891
Income tax	5	(166)	2,208
Profit for the period		16,659	9,099
Attributable to:			
Equity holders of the Company		(13,838)	10,289
Minority interests		30,497	(1,190)
		16,659	9,099
Dividends		–	–
(Loss)/earnings per share attributable to the equity holders of the Company	6		
– Basic		(0.32 cents)	0.41 cents
– Diluted		N/A	N/A



CONDENSED CONSOLIDATED BALANCE SHEET

For the six months ended 31 October 2007

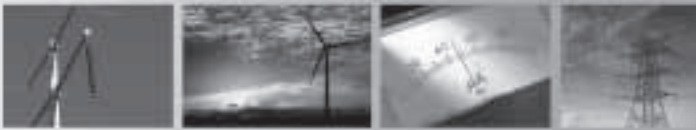
	Note	Unaudited for the six months ended 31 October 2007 Consolidated balance HK\$'000	Audited for the year ended 30 April 2007 Consolidated balance HK\$'000
Non current assets			
Property, plant and equipment	7	1,194,517	89,892
Investment properties		577,709	545,849
Leasehold land use right		66,985	11,121
Construction in progress		101,995	31,866
Deposit on acquisition of property under development		20,433	20,433
Goodwill		428,152	85,231
Investment securities		1,623	–
Interest in associates		6,834	5,968
Investment in joint venture		102,700	–
		2,500,948	790,360
Current assets			
Inventories		99,953	9,058
Properties under development		1,471,753	1,341,005
Trade receivables	8	152,947	11,167
Prepayment, deposit and other receivables		109,699	26,109
Due from related companies		66,122	64,609
Cash and bank balance		439,854	146,553
		2,340,328	1,598,501
Current liabilities			
Trade payables	9	(177,758)	(22,447)
Accruals and other payables		(75,059)	(57,261)
Due to related companies		(22,107)	(3,884)
Due to a shareholder		(9,212)	(19)
Due to minority shareholders of subsidiaries		(35,367)	(46,827)
Borrowings	10	(408,205)	(684,787)
Deferred income		–	(71)
Deposit received		(687,306)	(420,096)
Coupon liabilities		(4,964)	(5,077)
Tax payable		(21,912)	(11,604)
		(1,441,890)	(1,252,073)
Net current assets		898,438	346,428
Total assets less current liabilities		3,399,386	1,136,788
Non-current liabilities			
Borrowings	10	(1,523,294)	(271,886)
Deferred income		(3,385)	(3,421)
Deferred tax liabilities	11	(187,579)	(190,741)
		(1,714,258)	(466,048)
Net assets		1,685,128	670,740
Capital and reserves			
Share capital	12	447,102	322,102
Reserves		710,343	(476)
		1,157,445	321,626
Minority interest		527,683	349,114
Total equity		1,685,128	670,740



CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 31 October 2007

	Unaudited	
	Six months ended	
	31 October	
	2007	2006
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	577,046	(12,056)
Net cash (outflow)/inflow from investing activities	(1,383,571)	62,862
Net cash inflow/(outflow) from financing activities	1,099,826	(30,000)
INCREASE IN CASH AND CASH EQUIVALENTS	293,301	20,806
Cash and cash equivalents at beginning of the period	146,553	40,436
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	439,854	61,242
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	439,854	61,242
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	439,854	61,242



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 October 2007

	Share capital HK\$'000	Share premium HK\$'000	Employee share-based compensation reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Minority interests HK\$'000	Total HK\$'000
At 1 May 2006	249,602	-	-	-	(103,360)	(17,774)	128,468
Acquisition of subsidiaries	-	-	-	-	-	381,577	381,577
Profit for the period	-	-	-	-	10,289	(1,190)	9,099
At 31 October 2006	249,602	-	-	-	(93,071)	362,613	519,144
At 1 May 2007	322,102	115,500	18,886	6,658	(141,520)	349,114	670,740
Exchange realignment	-	-	-	7,574	-	-	7,574
Acquisition of subsidiaries	-	-	-	-	-	148,072	148,072
Employee share option benefits (Note a)	100	530	9,753	-	-	-	10,383
Issued of consideration shares (Note b)	60,900	191,600	-	-	-	-	252,500
Issued of new shares (Note c)	64,000	515,200	-	-	-	-	579,200
Profit for the period	-	-	-	-	(13,838)	30,497	16,659
At 31 October 2007	447,102	822,830	28,639	14,232	(155,358)	527,683	1,685,128

Notes:

- (a) On 8 June 2007, 84,000,000 share options were granted to directors and employees with an exercise price of HK\$0.836 per share.
- (b) (i) On 2 May 2007, 395,000,000 ordinary shares of the Company issued to China Power New Energy Limited as the purchase consideration for 44% of Tianhan Development Limited. The consideration amounted to HK\$102,700,000 (HK\$0.26 per share).
- (ii) On 1 August 2007, the Group issued 214,000,000 ordinary shares to the shareholders of Top Dragon Asia Limited and Newlead Limited as part of the purchase consideration for 40% of their ordinary share capital. The fair value of the shares issued amounted to HK\$149,800,000 (HK\$0.7 per share).
- (c) (i) On 2 May 2007, Wealth Success Limited ("Wealth Success") and the Placing Agent entered into a conditional placing agreement to place, on a fully underwritten basis, 640,000,000 existing shares of the Company held by Wealth Success to more than 6 independent third parties at a price of HK\$0.905 per share.
- On the same date, the Company and Wealth Success entered into a conditional subscription agreement to subscribe for 640,000,000 new shares at HK\$0.905 per share.
- (ii) On 7 September 2007, 1,000,000 share options were exercised by an employee with an exercise price of HK\$0.63 per share.



NOTES TO CONDENSED FINANCIAL STATEMENTS

For the six months ended 31 October 2007

(1) Basis of presentation and accounting policies

The unaudited condensed financial statements have been prepared in accordance with the Hong Kong Accounting Standard (“HKAS”) No. 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed financial statements should be read in conjunction with the annual financial statements for the year ended 30 April 2007.

The accounting policies and basis of preparation used in the preparation of these condensed financial statements are consistent with those used in the annual financial statements for the year ended 30 April 2007, except that the Group has changed its accounting policies following its adoption of the new and revised Hong Kong Financial Reporting Standards (“HKFRSs”) and HKASs which are effective for accounting periods commencing on or after 1 May 2007.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group and the Company’s objectives, policies and processes for managing capital.

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 period beginning on or after

HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	operating segment	1 January 2009

The adoption of these new or revised HKFRSs is not expected to result in material impact on the Group’s financial statements in the period of initial application.



(2) Segmental information

The Group's turnover and contribution to profit after finance costs analyzed by principal activity and geographical area of operations are as follows:

(a) Business segments

	Investment holding		General trading		Property investment		Bakery and food		Consultancy		Thermal power		Consolidated	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue:														
Sales to external customer	-	-	-	112	15,090	15,065	3,413	6,722	4,000	4,500	394,004	-	416,507	26,399
Other revenue	8,431	83	-	110	1,182	3,127	1,175	2	-	-	6,014	-	16,802	3,322
Total	8,431	83	-	222	16,272	18,192	4,588	6,724	4,000	4,500	400,018	-	433,309	29,721
Segment results	(34,674)	(5,106)	(11)	110	12,529	16,047	2,708	1,987	(303)	1,610	66,479	-	46,728	14,648
Unallocated other revenue													158	86
Unallocated expenses													(305)	(5,410)
Operating profit													46,581	9,324
Finance costs													(31,292)	(10,067)
Fair value changes on investment properties													-	(8,953)
Gain/(loss) on disposal of subsidiaries													821	15,857
Share of profit of associates, net													715	730
Profit before income tax													16,825	6,891
Income tax													(166)	2,208
Profit for the period													16,659	9,099
Attributable to:														
Equity holders of the Company													(13,838)	10,289
Minority interests													30,497	(1,190)
													16,659	9,099

(b) Geographical segments

	PRC		Hong Kong		Consolidated	
	2007	2006	2007	2006	2007	2006
	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000	Unaudited HK\$'000
Segment revenue:						
Sales to external customers	413,094	18,658	3,413	7,741	416,507	26,399
Segment results	78,793	17,657	(32,065)	(3,009)	46,728	14,648



(3) Other revenue

	Six months ended	
	31 October	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	<i>HK\$'000</i>
Interest Income	8,224	83
Writing back of provision for obsolete stock	–	110
Gain on exchange	158	3,211
Sundry income	8,578	4
	<u>16,960</u>	<u>3,408</u>

(4) Operating profit

Operating profit is arrived at after charging the following:

	Six months ended	
	31 October	
	2007	2006
	Unaudited	Unaudited
	HK\$'000	<i>HK\$'000</i>
Auditors' remuneration		
Non-audit fee	891	347
Depreciation	1,111	290
Interest on bank loans	30,835	–
Interest on other loans	456	411
Loss on writing off of fixed assets	–	527
	<u> </u>	<u> </u>



(5) Income tax

Provision for Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the current and prior period.

	Six months ended	
	31 October	
	2007	2006
	HK\$'000	HK\$'000
Current tax		
– Hong Kong	–	282
– Mainland China enterprise income tax provided for the period	347	–
Deferred income tax	(181)	(2,490)
	166	2,208

(6) (Loss)/earnings per share

Basic

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

	Six months ended	
	31 October	
	2007	2006
Loss attributable to equity holders of the Company	(HK\$13,837,810)	HK\$10,288,739
Weighted average number of ordinary shares in issue	4,315,936,443	2,496,023,400
Basic loss per share	(HK\$0.032)	HK\$0.041

Diluted

Diluted loss per share for the period ended 31 October 2007 has not been disclosed as the potential ordinary shares outstanding during the period had an anti-dilutive effect on the basic loss for the period. Diluted profits per share were not presented for the period ended 31 October 2006 as there were no dilutive potential shares in issue during the prior period.



(7) Property, plant and equipment

	31 October 2007 HK\$'000
Opening net book value	89,892
Acquisition of subsidiaries	1,105,736
Disposal of subsidiaries	–
Loss on writing off of fixed assets	–
Depreciation	<u>(1,111)</u>
Closing net book value	<u>1,194,517</u>

(8) Trade receivables

The aged analysis of the trade receivables is as follows:

	31 October 2007 HK\$'000	30 April 2007 HK\$'000
Current to 3 months	141,144	11,117
4 to 6 months	11,803	50
7 to 12 months	–	–
Over one year	–	–
	<u>152,947</u>	<u>11,167</u>

(9) Trade payables

The aging analysis of the trade payables is as follows:

	31 October 2007 HK\$'000	30 April 2007 HK\$'000
Current to 3 months	49,813	2,170
4 to 6 months	105,183	3,590
7 to 12 months	9,640	1,156
Over one year	13,122	15,531
	<u>177,758</u>	<u>22,447</u>



(10) Borrowings

(a) Bank loans, secured

At 31 October 2007, the Group had approximately total banking facilities amounting to HK\$2,339,300,000 of which HK\$1,938,000,000 of bank loans had been utilised. The banking facilities were secured by certain assets and guarantees given by the Group and certain parties which are detailed as follows:

- (i) Investment properties and properties under development given by the Group.
- (ii) Corporate guarantee of an aggregate amount of approximately HK\$578,300,000 given by China Power International Holding Limited, the intermediate holding company of the shareholder of the Company.
- (iii) An independent third party guarantee of an aggregate amount of approximately HK\$730,900,000 given.

(b) Other loan, secured

At 31 October 2007, the loan of approximately HK\$20,600,000 was bearing interest at 6% per annum, secured by China Power International Holding and an unsecured and unguaranteed advance with no fixed term of repayment from minority interest of approximately HK\$23,000,000.

(c) Loan from a related party, unsecured

At 31 October 2007, the loan of approximately HK\$357,000,000 was unsecured and bears interest at 0.48 per month.



(11) Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method using tax rates substantively enacted by the balance sheet date.

The major deferred income tax liabilities/(assets) recognised by the Group during the current period are as follows:

	Accelerated tax depreciation <i>HK\$'000</i>	Revaluation of investment properties <i>HK\$'000</i>	Tax losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 May 2007	–	190,741	–	190,741
Acquisition of subsidiaries	–	(2,981)	–	(2,981)
Charge/(credit) to income statement	–	(181)	–	(181)
At 31 October 2007	–	187,579	–	187,579

The Group has tax losses arising in Hong Kong and Mainland China of approximately HK\$27,864,000 (2006: HK\$34,128,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred income tax assets have not been recognised in respect of these losses as these companies have been loss-making for some years.

(12) Share capital

	31 October 2007	
	Number of shares <i>'000</i>	Nominal value <i>HK\$'000</i>
Authorised:		
Ordinary shares of HK\$0.10 each	10,000,000	1,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each	4,471,023,400	447,102,340

Pursuant to an ordinary resolution passed in a special general meeting held on 1 June 2007, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of an additional 4,000,000,000 ordinary shares of HK\$0.10 each, ranking pari passu with the existing ordinary shares of the Company in all respects.



(13) Reserves

The amounts of the Group's reserves and the movements therein for the current and prior periods are presented in the consolidated statement of changes in equity on page 5 of the financial statements.

(14) Commitments

(a) Capital commitments

At 31 October 2007, the outstanding commitments not provided for in the financial statements were as follows:

	31 October 2007 HK\$'000	30 April 2007 HK\$'000
Contracted but not provided for – Acquisition of fixed assets	84,927	159,149

(b) Operating Lease

The Group leases its office premises and quarters under operating lease arrangements. Leases are negotiated for terms of 1 to 2 years.

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

	31 October 2007 HK\$'000	30 April 2007 HK\$'000
Within one year	6,050	19,599
After one year but within five years	4,640	15,200
After five years	370	569
	11,060	35,368

(15) Equity settled share-based transactions

The Company operates a share option scheme (the "Scheme"). The purpose of the Scheme is to enable the Company to grant options to eligible participants, acting thereby as an incentive or reward for their contribution to the Group. Eligible participants of the Scheme include the directors, employees, suppliers, customers and shareholders of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for ten years from date of adoption to 31 October 2012.



Pursuant to the Scheme, the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and options granted and yet to be exercised under any other schemes shall not exceed 30% of the issued share capital of the Company from time to time. The maximum number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period must not exceed 1% of the issued share capital of the Company at any time. The offer of a grant of options may be accepted within 21 days from the date of the offer with signed acceptance letter comprising consideration of HK\$1.00 received by the Company. The exercise period of the share options granted is determinable by the Directors, but no later than 10 years from the date of the offer. The subscription price for the shares in respect of which options are granted is determinable by the Directors, but in any case must be the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

- (a) The terms and conditions of the grant that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

Name or category of participants	Number of instruments	Date of grant	Exercisable period	Exercise price	Vesting conditions
Director Wang Hao	30,000,000	9 March 2007	26 March 2007 to 8 March 2017	HK\$0.63	Date of grant
Employees In aggregate	41,000,000	9 March 2007	22 March 2007 to 8 March 2017	HK\$0.63	Date of grant
	60,000,000	9 March 2007	23 March 2007 to 8 March 2017	HK\$0.63	Date of grant
	20,000,000	9 March 2007	28 March 2007 to 8 March 2017	HK\$0.63	Date of grant
Chairman Li Xiaolin	23,000,000	8 June 2007	26 June 2007 to 7 June 2017	HK\$0.836	Date of grant
Director Zhao Xinyan	18,000,000	8 June 2007	15 June 2007 to 7 June 2017	HK\$0.836	Date of grant
Employees In aggregate	4,000,000	8 June 2007	20 June 2007 to 7 June 2017	HK\$0.836	Date of grant
Participants In aggregate	18,000,000	8 June 2007	15 June 2007 to 7 June 2017	HK\$0.836	Date of grant
	21,000,000	8 June 2007	28 June 2007 to 7 June 2017	HK\$0.836	Date of grant
Total share options	<u>235,000,000</u>				



(b) The number and weighted average exercise prices of share options are as follows:

	31 October 2007		30 April 2007	
	Weighted average exercise price HK\$	Number of shares '000	Weighted average exercise price HK\$	Number of shares '000
Outstanding at the beginning of the period	0.63	151,000	-	-
Granted during the period	0.836	84,000	0.6300	151,000
Exercised during the period	(0.63)	(1,000)	-	-
Outstanding at the end of the period	0.70395	234,000	0.6300	151,000
Exercisable at the end of the period	0.70395	234,000	0.6300	151,000

The options outstanding at 31 October 2007 had a weighted average exercisable price of HK\$0.70395 and a weighted average remaining contractual life of 9.71 years.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share option is measured based on a Black-Scholes-Merton Option Pricing Model. The contractual life of the share option is used as an input into this model. Expectations of early exercise are incorporated into the Black-Scholes-Merton Option Pricing Model.

Fair value at measurement date	\$0.1161
Share price	\$0.836
Exercise price	\$0.836
Expected volatility	62.8%
Expected dividends	0%
Risk-free interest rate (based on Exchange of Fund Notes)	3.968%



The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share option), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based in historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

(16) Related party transactions

(a) Transactions with related companies

In addition to those disclosed elsewhere in the financial statements, the following is a summary of significant related party transactions entered into in the normal course of business between the Group and its related parties during the period.

- (i) Pursuant to the power purchase agreements entered into between the Group and the respective provincial power companies, which are regarded as state-owned enterprises, all the Group's sales of electric power were made to those electric power companies. Whilst these companies are related parties of the Group as defined under HKAS 24, the directors are of the opinion that each party is operating independently; and the tariff rates are to be agreed with the respective electric power companies, subject to the approval of the relevant government authorities.
- (ii) During the period, Zhongdian Hongze RSTP entered into a construction contract with a related company which is under common control of the management of China Power International, a substantial shareholder of the Company, at a total contract sum of approximately RMB92 million for the construction of power plant and total payments of approximately RMB82 million were made in accordance with the terms of the contract.



(iii)

Related parties	Nature of transactions	Term and pricing policies	31 October	31 October
			2007	2006
			HK\$'000	HK\$'000
Related companies	Purchases (Note (i))	(Note (iii))	615	-
	Sales (Note (i))	(Note (iii))	(3,413)	-
	Rental income (Note (ii))	(Note (iii))	(3,565)	-
	Interest expenses (Note (ii))	(Note (iii))	(420)	-
	Disposal of property, plant and equipment (Note (ii))	(Note (iii))	-	-

Notes:

- (i) Subsidiaries of a minority shareholder of a subsidiary
- (ii) Mr. Ko, a director of certain PRC subsidiaries of the Company has beneficial interests in the companies
- (iii) Agreed by parties concerned

(b) *Key management personnel remuneration*

Remuneration for key management personnel represents amounts paid to directors and individuals.

(17) Events after the balance sheet date

(a) *Major Acquisition and Connected Transactions*

On 11 October 2007, the Group entered into three formal agreements to acquire from China Power New Energy Limited (中國電力新能源有限公司) ("CP New Energy") (a) 100% of the entire issued share capital and shareholder's loan, if any, of Tianyuan Development Limited ("Tianyuan"); (b) 100% of the entire issued share capital and shareholders' loan, if any, of Tianhong Holdings Limited ("Tianhong"); and (c) 56% of the entire issued share capital of Tianhan Development Limited ("Tianhan") for a total consideration of HK\$1,630 million, which was satisfied by way of the issue of a convertible note in the principal amount of HK\$1,630 million by the Company to CP New Energy, convertible into a total of 1,283,464,400 new shares of the Company with an initial conversion price of HK\$1.27 per share. On 2 May 2007, the Group completed the acquisition of 44% of the entire issued share capital of Tianhan for a consideration of HK\$102.7 million, which was satisfied in full by way of the issue of 395 million shares in the Company. Upon completion of the above acquisitions, which took place on 25 January 2008, Tianyuan, Tianhong and Tianhan become wholly-owned subsidiaries of the Company.



(b) *Long Tu Property transactions*

Also on 11 October 2007, Star Bright International Limited, a wholly-owned subsidiary of the Company, entered into an agreement with Mr. Tian Bin (“Mr. Tian”), an independent third party, in relation to the acquisition by the Group of the entire issued share capital and shareholder’s loans, if any, of Silver Portal Holdings Limited for a consideration of RMB199 million (or approximately HK\$204.6 million) which was paid and/or satisfied by way of the following:

- (i) as to RMB150 million (or approximately HK\$154 million), to be paid and/or satisfied by way of transferring 100% of the issued share capital and shareholder’s loan of King Vantage Limited to Mr. Tian or his nominees;
- (ii) as to RMB18 million (or approximately HK\$18.6 million), to be paid and/or satisfied by way of transferring the ownership and associated rights of the property comprising units A, B, D, G and H on the 17th Floor of a commercial building located at No.257, Si Ping Road, Hong Dau District, Shanghai, PRC to Mr. Tian or his nominees; and
- (iii) as to RMB31 million (or approximately HK\$32 million), to be paid and/or satisfied by cash.

The above transaction was completed on 16 January 2008.

(c) *Subscription for new shares*

On 15 August 2007, the Company entered into subscription agreements with Shining East Investment Limited (“Shining East”) a wholly-owned subsidiary of Overseas Oil & Gas Corporation, Ltd., which itself is a wholly-owned subsidiary of China National Offshore Oil Corporation (together with its subsidiaries, the “CNOOC Group”), the parent company of CNOOC Limited (whose shares are listed on the Main Board of the Stock Exchange, stock code: 883) and Thrivetrade Limited (“Thrivetrade”) an independent third party pursuant to which the Company has conditionally agreed to allot and issue:

- (i) 900,000,000 new shares to Shining East; and
- (ii) 400,000,000 new shares to Thrivetrade each at the price of HK\$0.81 per subscription shares.



On 5 November 2007, Shining East completed the subscription of 900,000,000 new shares and Thrivetrade completed the subscription of 400,000,000 new shares.

The shareholding structure of the Company as at 5 November 2007 was as follows:

Name of Shareholder	Shareholding	
	<i>Number of Shares</i>	<i>%</i>
Wealth Success and Parties acting in concert	1,003,026,000	17.38
CP New Energy and Parties acting in concert	720,000,000	12.48
Shining East and Parties acting in concert	900,000,000	15.60
Thrivetrade and Parties acting in concert	400,000,000	6.93
Public Shareholders	<u>2,747,997,400</u>	<u>47.61</u>
Total	<u>5,771,023,400</u>	<u>100.00</u>



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 31 October 2007, the Group recorded a turnover of approximately HK\$416.507 million (six months ended 31 October 2006: HK\$26.399 million). For the period under review the Group achieved a gross profit of HK\$90.025 million. However, administrative expenses, consisting principally of share subscription commissions and related expenses, and employee share option benefits, reduced the operating profit to HK\$46.581 million. Finance costs, principally the payment of interest on loans acquired in respect of property development and a thermal power station, totaled HK\$31.292 million. After settlement of minority interests, the Group suffered a loss of HK\$13.838 million, that is loss HK0.32 cents per share (six months ended 31 October 2006: profit HK0.41 cents).

REVIEW OF OPERATIONS AND FUTURE PROSPECTS

During the period under review, the Group achieved an unaudited turnover of approximately HK\$416.5 million, an increase of approximately 1,366% as compared to an unaudited turnover of approximately HK\$26.4 million for the six months ended 31 October 2006. The increase was mainly derived from the revenue from the power generating business of approximately HK\$394 million which resulted from the completion of the acquisition of Tianwo Holdings Limited, Tianwo Development Limited, 東莞東城東興熱電有限公司 (Dongguan Dong Cheng Dong Xin Heat and Power Company Limited*) ("Dongguan Dong Cheng") and 東莞市科偉環保電力有限公司 (Dongguan City Kewei Environmental Power Company Limited*) during the period (2006: Nil).

The Group's operating results for the period can be summarised as follows:

- (a) profit of approximately HK\$66.5 million from power generating business;
- (b) profit of approximately HK\$12.5 million from property investment;
- (c) profit of approximately HK\$4.6 million from bakery and food business;
- (d) loss of approximately HK\$0.3 million from consultancy business; and
- (e) loss of approximately HK\$34.7 million from investment holding.



It has been emphasized in various announcements and circulars of the Company that the Group has placed and will continue to place its main focus on the power generating business, in particular, environmentally-friendly energy projects, and will gradually discontinue or wind down its other businesses if they become or remain unprofitable.

In furtherance of the Company's commitment to focus its future business direction on environmentally-friendly energy projects, the Group has started to phase itself out of the business of property development whilst the Company will continue to engage in the business of property investment. By entering into the agreement on 11 October 2007 in relation to the disposal of 51% of the entire issued share capital of Rich Crown International Industries Limited and the units at 7th floor of a commercial building in Shanghai, the PRC (the "Major Disposal"), the Group was able to dispose of all of its businesses in the property development sector and at the same time enlarge its interests in the businesses of property investment in a more streamlined and consolidated way instead of having investment properties scattered around the Shanghai area. The consideration for the Major Disposal was 100% of the entire issued capital of Silver Portal Holdings Limited ("Silver Portal").

Silver Portal is the beneficial owner of 100% of 北京銀滔企業管理有限公司 (Beijing Silver Portal Enterprises Management Company Limited*) ("Beijing Silver Portal") which in turn is the beneficial owner of 100% of 北京融澤投資有限公司 (Beijing Rong Ze Investment Company Limited*) ("Beijing Rong Ze") which is the beneficial owner of 上海龍圖實業發展有限公司 (Shanghai Long Tu Enterprise Development Company Limited*) ("Shanghai Long Tu"). Shanghai Long Tu has the ownership and associated rights (including the land use rights and the development rights) of the Long Tu Property. The Long Tu Property, which is located at No 216, Si Ping Road, Shanghai, PRC, is a commercial property under development having a site area of about 13,000 square meters and a total floor area of about 16,000 square meters. The Group intends to let out the Long Tu Property for rental income after completion of its development, when it will be accounted for as an investment property and classified as a non-current asset.

Shareholders approved the Major Disposal transaction at the special general meeting held on 24 December 2007.



As part of its business plan, the Group identified and acquired several power plant projects during the period under review.

On 9 May 2007, the Group entered into agreements (which were completed on 1 August 2007) to acquire the entire issued share capital and shareholders' loans, if any, of Skycosmos Investment Limited (天宇投資有限公司*) ("Skycosmos") and Worldtron Limited (華創有限公司*) ("Worldtron") for an aggregate consideration of HK\$438 million. Skycosmos holds 40% of the entire issued share capital of 東莞東城東興熱電有限公司 (Dongguan Dong Cheng Dong Xin Heat and Power Company Limited*) ("Dongguan Dong Cheng"), which is principally engaged in the operation of a natural gas and oil generating plant in Dongguan, Guangdong, the PRC. Worldtron holds 40% of the entire issued share capital of 東莞市科偉環保電力有限公司 (Dongguan City Kewei Environmental Power Company Limited*), which is principally involved in the operation of a waste incineration power plant in Dongguan, Guangdong, the PRC. As was disclosed in the Company's announcement of 17 January 2008, the Group intends to acquire an additional 40% equity interest in Dongguan Dong Cheng. The negotiations with respect to the above proposed acquisition are ongoing and no final terms and conditions have yet been finalized. The Company will issue relevant announcement(s) to inform shareholders of the Company of the proposed acquisition should the final terms and conditions have been agreed upon.

On 11 October 2007, the Group entered into three formal agreements to acquire from China Power New Energy Limited (中國電力新能源有限公司) ("CP New Energy") (a) 100% of the entire issued share capital and shareholder's loan, if any, of Tianyuan Development Limited ("Tianyuan"); (b) 100% of the entire issued share capital and shareholders' loan, if any, of Tianhong Holdings Limited ("Tianhong"); and (c) 56% of the entire issued share capital of Tianhan Development Limited ("Tianhan") for a total consideration of HK\$1,630 million, which was satisfied by way of the issue of a convertible note in the principal amount of HK\$1,630 million by the Company to CP New Energy, convertible into a total of 1,283,464,400 new shares of the Company with an initial conversion price of HK\$1.27 per share. On 2 May 2007, the Group completed the acquisition of 44% of the entire issued share capital of Tianhan for a consideration of HK\$102.7 million, which was satisfied in full by way of the issue of 395 million shares in the Company. Upon completion of the above acquisitions, which took place on 25 January 2008, Tianyuan, Tianhong and Tianhan become wholly-owned subsidiaries of the Company.



Tianyuan holds the entire issued share capital of CPI (Fujian) Power Development Limited (中電(福建)電力開發有限公司) which is the sole legal and beneficial owner and lawful operator of 福建沙溪口水力發電廠 (Fujian Shaxikou Hydro Power Generating Plant*), a hydroelectric power generating plant, situated on the Men Jiang River in Fujian Province, which was completed in around December 1994. The plant has four hydro-power generators, each with a capacity of 75MW, generating up to a total of 300MW of electricity.

The principal asset of Tianhong is its 90% shareholding in 甘肅中電酒泉風力發電有限公司 (Gansu China Power Jiuquan Wind Electric Power Company Limited*) which has a special franchise to build, own and operate the Guazhou County Power Project which is a wind power generating business with a capacity of 100MW. Construction of the power plant is in its final stages and completion is expected shortly.

Tianhan's principal asset is its 100% shareholding in 中電國際新能源(上海)控股有限公司 (China Power International New Energy (Shanghai) Holding Company Limited*) ("Shanghai Co."). In January 2007, Shanghai Co. agreed to invest in 24% of the registered capital of 上海東海風力發電有限公司 (Shanghai Dong Hai Wind Power Electric Generating Company Limited*) which has the special right to set up, own and operate a 100MW sea wind electric generating project near Dong Hai Bridge, Shanghai, PRC. The Group completed the acquisition of 44% of the entire issued share capital of Tianhan on 2 May 2007 for a consideration of HK\$102.7 million, which was satisfied in full by way of the issue of 395 million shares in the Company.

As part of its business plan, the Group will continue to explore and evaluate new businesses and investment opportunities which could be of good potential and/or long-term benefit to the Group. At present, the Group is evaluating and considering other power plants and projects in the environmental domain, some of which are presently owned by China Power and/or its related parties, for future possible acquisitions.

Negotiations with respect to the possible acquisitions of the above projects are at a preliminary stage and no final terms and conditions have yet been concluded as at the date of this announcement. Further announcement will be made in compliance with the requirements of the Listing Rules.



It has been the intention of the Group to allot and issue new Shares and/or convertible debt securities of the Company which may be used to satisfy part or all of the consideration for the above potential acquisitions, should they materialize. As and when considered to be appropriate, the Company may consider raising further funds by means of rights issues and/or open offers and/or otherwise as may be considered to be effective and appropriate. Further announcements will be made in respect thereof as and when required by the Listing Rules.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 October 2007, the Group had cash and cash equivalents of HK\$439.9 million and has borrowings amounting to HK\$1,931.5 million. The Group believes that its liquid asset value and future revenue will be sufficient to fund existing working capital requirements. The gearing ratio of the Group, based on total borrowings to shareholders' equity, was 167% as at 31 October 2007 (2006: 500%).

Significant foreign currency exposure was not expected by the Group since most of the revenue generated from the sales and the payment for purchases of materials, equipment and salaries are made in Hong Kong dollars, Renminbi or US dollars. No financial instruments for hedging purposes are used by the Group.

EMPLOYEE AND REMUNERATION POLICIES

As at 31 October 2007, the Group had 200 employees in Hong Kong and the PRC (2006: 25). Remuneration is determined by reference to market rates and the performance, qualifications and experience of individual employees. The Group also provides employees with year-end double pay, a contributory provident fund, performance-related bonuses and medical insurance.

CONTINGENT LIABILITIES

As at 31 October 2007, the Group did not have any significant contingent liabilities.

* *For identification purposes only*



DIRECTORS' INTERESTS IN SHARES

As at 31 October 2007, the interests of the directors of the Company in the shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (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 Companies (the "Model Code"), were as follows:

(i) LONG POSITION IN SHARES

Ordinary shares of HK\$0.1 each of the Company:

Director	Nature of interest	Number of shares interested or deemed to be interested	Percentage holdings of the Company's issued share capital as at 31 October 2007
Mr. Lai Leong	Corporate (<i>Note</i>)	1,003,026,000	22.44%

Note: These shares were held through Wealth Success Limited, a company beneficially owned by Mr. Zhu Yu Cai (a former executive director of the Company) and Mr. Lai Leong as to 52% and 48%, respectively.



(ii) LONG POSITION IN UNDERLYING SHARES – SHARE OPTIONS

Pursuant to the Company's share option scheme, the Company has granted to three Directors options to subscribe for Shares, details of which as at 31 October 2007 were as follows:

Name of Director	Date of grant	Exercise period	Exercise price	Number of Shares subject to outstanding option as at the 31 October 2007	Approximate percentage of the issued share capital of the Company as at 31 October 2007
Mr. Wang Hao	09.03.2007	09.03.2007-08.03.2017	0.63	30,000,000	0.51%
Mr. Zhao Xinyan	15.06.2007	15.06.2007-07.06.2017	0.836	18,000,000	0.31%
Mr. Li Xiaolin	26.06.2007	26.06.2007-07.06.2017	0.836	23,000,000	0.39%

Notes:

1. The vesting period of the share options is from the date of grant until the commencement of the exercise period.
2. The above options represent the personal interests held by Mr. Wang Hao, Mr. Zhao Xinyan and Ms. Li Xiaolin respectively as beneficial owners.

Save as disclosed above, as at 31 October 2007, none of the directors or chief executives of the Company or their associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporation(s) (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have been taken under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.



SUBSTANTIAL SHAREHOLDERS

As at 31 October 2007, the following interests of 5% or more of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO:

Name	Nature of interest	Number of shares interested or deemed to be interested	Percentage holding
Wealth Success Limited	Beneficial owner	1,003,026,000 (Note 1)	22.44%
Mr. Lai Leong	Corporate	1,003,026,000 (Note 1)	22.44%
Mr. Zhu Yi Cai	Corporate	1,003,026,000 (Note 1)	22.44%
China Power New Energy Limited	Beneficial owner	2,003,460,400 (Note 2)	44.81%
Tianying Holding Limited	Interest of a controlled corporation	2,003,460,400 (Note 2)	44.81%
China Power International Holding Limited	Interest of a controlled corporation	2,003,460,400 (Note 2)	44.81%
China Power Investment Group Limited (中國電力投資集團公司)	Interest of a controlled corporation	2,003,460,400 (Note 2)	44.81%
State-owned Assets Supervision and Administration Commission of The State Council, the PRC (中國國務院國有資產監督管理委員會)	Interest of a controlled corporation	2,003,460,400 (Note 2)	44.81%



Name	Nature of interest	Number of shares interested or deemed to be interested	Percentage holding
Shining East Investments Limited	Beneficial owner	900,000,000 (Note 3)	20.13%
Overseas Oil & Gas Corporation, Limited	Interest of a controlled corporation	900,000,000 (Note 3)	20.13%
China National Offshore Oil Corporation	Interest of a controlled corporation	900,000,000 (Note 3)	20.13%
Thrivetrade Limited	Beneficial owner	400,000,000 (Note 4)	8.95%
Mr. Cheung Chung Kiu	Interest of a controlled corporation	400,000,000 (Note 4)	8.95%
Trophy Fund	Beneficial owner	292,300,000	6.53%
Citigroup Inc.	Person having a security interest in shares	224,858,000	5.03%

Notes:

1. These shares are held by Wealth Success, a company which is beneficially owned by Mr. Zhu Yi Cai and Mr. Lai Leong as to 52% and 48% respectively. Such interest is also disclosed as the interest of Mr. Lai Leong in the above section headed "Interests of Directors".
2. China Power New Energy Limited is a wholly-owned subsidiary of Tianying Holding Limited which in turn is a wholly-owned subsidiary of China Power International Holding Limited. China Power International Holding Limited is a wholly-owned subsidiary of China Power Investment Corporation.

Accordingly, Tianying Holding Limited, China Power International Holding, China Power Investment Group Limited and State-owned Assets Supervision and Administration Commission of the State Council, the PRC (中國國務院國有資產監督管理委員會) are deemed to be interested in 720,000,000 Shares beneficially owned by China Power New Energy Limited.



On 11 October 2007, the Group entered into Agreements with China Power New Energy Limited with respect to the Power Project Acquisitions, the total consideration of which was HK\$1,630,000,000 and will be satisfied by way of the issue of the convertible note by the Company to China Power New Energy Limited and/or its nominees in the principal amount of HK\$1,630,000,000, convertible into a total of 1,283,464,400 new Shares with an initial conversion price of HK\$1.27 per Share. Assuming full conversion of the convertible note, China Power New Energy Limited will be interested in 2,003,464,400 Shares which will represent 28.40% of the issued share capital of the Company as enlarged by the new Shares to be issued under the said conversion.

3. On 5 November 2007, Shining East Investments Limited, a wholly-owned subsidiary of Overseas Oil & Gas Corporation, Ltd., which itself is a wholly-owned subsidiary of China National Offshore Oil Corporation (together with its subsidiaries, the “CNOOC Group”), the parent company of CNOOC Limited (whose shares are listed on the Main Board of the Stock Exchange, stock code: 883), completed the subscription for 900,000,000 Shares.
4. On 5 November 2007, Thrivetrade Limited, a company which is wholly and beneficially owned by Mr. Cheung Chung Kiu, completed the subscription for 400,000,000 Shares.

Save as disclosed above, as at 31 October 2007, no person, other than the directors of the Company whose interests were set out in the section headed “Directors’ interests in shares” above, had registered an interest or a short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed shares during the six months ended 31 October 2007.

SHARE OPTION SCHEME

On 31 October 2002, a share option scheme (the “Scheme”) which is in compliance with the amended Chapter 17 of the Listing Rules was adopted by the Company.

The Company operates the Scheme. The purpose of the Scheme is to enable the Company to grant options to eligible participants, as an incentive or reward for their contribution to the Group. Eligible participants of the Scheme include the directors, employees, suppliers, customers and shareholders of the Group. Unless otherwise terminated or amended, the Scheme will remain in force for ten years from the date of adoption to 31 October 2012.



Details of the Scheme of the Company are set out in note 15 to the financial statements respectively and disclosed under the heading “Equity settled share-based transactions” below.

EQUITY

Pursuant to an ordinary resolution passed in a special general meeting held on 1 June 2007, the authorised share capital of the Company was increased to HK\$1,000,000,000 by the creation of an additional 4,000,000,000 ordinary shares of HK\$0.10 each, ranking *pari passu* with the existing ordinary shares of the Company in all respects.

The Company’s issued and fully paid share capital as at 31 October 2007 amounted to HK\$447,102,340 divided into 4,471,023,400 ordinary shares of HK\$0.10 each.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the best knowledge of the directors of the Company, there was sufficient public float of not less than 25% of the Company’s issued shares as required under the Listing Rules throughout the six months ended 31 October 2007.

CORPORATE GOVERNANCE

The Company has complied with the Code Provisions on Corporate Governance (the “Code Provision(s)”) as set out in Appendix 14 of the Listing Rules throughout the six months ended 31 October 2007 except for the following deviations:

Pursuant to code provision A.4.1, the non-executive directors should be appointed for a specific term and subject to re-election. At present, the independent non-executive directors of the Company are not appointed for any specific terms but will be subject to retirement by rotation in accordance with the Bye-laws of the Company. The Board will review the present arrangement and propose amendments, if necessary, to its existing Bye-laws to ensure compliance with the Code Provision.



AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements as set out in Appendix 14 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. To comply with the new requirement under the Code of Corporate Governance Practices, new terms of reference for the audit committee was adopted on 25 August 2005. The audit committee comprises the three independent non-executive directors of the Company. The present members of the audit committee are Dr. Chow King Wai, Mr. Chu Kar Wing and Mr. Wong Kwok Tai. Mr. Chu Kar Wing is the chairman of the committee.

The Group's interim report for the six months ended 31 October 2007 has been reviewed by the Audit Committee.

REMUNERATION COMMITTEE

The Company has a remuneration committee which was established with written terms of reference on 25 August 2005 pursuant to the provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Listing Rules. The primary role of the remuneration committee is to ensure that there is a formal and transparent procedure adopted by the Company for developing policies on, and for overseeing, the remuneration packages of all the directors of the Company. The remuneration committee comprises the three independent non-executive directors of the Company. The present members of the remuneration committee are Dr. Chow King Wai, Mr. Chu Kar Wing and Mr. Wong Kwok Tai. Mr. Chu Kar Wing is the chairman of the committee.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted its code of conduct (the "Own Code") for dealings in securities of the Company by directors on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code and the Own Code throughout the six months ended 31 October 2007.



INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend in respect of the six months ended 31 October 2007 (six months ended 31 October 2006: Nil). No dividend was paid during the period under review.

DISCLOSURE OF INFORMATION ON THE COMPANY AND THE STOCK EXCHANGE'S WEBSITE

This interim report will be published on the websites of the Company (<http://www.735.com.hk>) and the Stock Exchange (<http://www.hkex.com.hk>).

By Order of the Board

Li Xiaolin

Chairman

Hong Kong, 28 January 2008