



**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)



**2008**  
interim report

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The board of directors (the “Board”) of China Sciences Conservational Power Limited (the “Company”) is pleased to present the interim financial statements of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 June 2008. These unaudited interim financial statements have been reviewed by the audit committee of the Company (the “Audit Committee”) 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 2008, the Group’s turnover reached approximately HK\$55,727,000 (30 June 2007: approximately HK\$39,845,000), representing an increase of 39.86% as compared with corresponding period of 2007. Loss after taxation for the period under review was approximately HK\$19,925,000 (30 June 2007: approximately HK\$38,370,000). Loss per share was 1.63 HK cents (30 June 2007: Loss per share: 3.06 HK cents).

The increase in turnover was attributed to the increase in selling price of electricity. The loss suffered from operations was mainly caused by the increase in cost of coal despite there being an increase in selling price of electricity.

## BUSINESS REVIEW

The year of 2008 has been a new phase of development for the Company. With the discontinuation of the Group's computer hardware and maintenance support and related services, the management placed its full attention on the Group's core business: waste incineration power generation.

With the completion of the expansion of Phase I of the Company's Dongguan waste-to-energy power plant at the end of 2007, 2008 was supposedly a promising year for the Group.

However, the macro-economic conditions in early 2008 has been rather unfavourable for the industry. Oil price has been high and the supply problem of coal in China, has pushed up the price of coal significantly.

Since coal is the dominant input of the Company's business operation and the selling price of electricity is fixed by regulations, the profit margin of the Company's core business has been squeezed by the rising thermal coal prices. On the other hand, the increase in electricity tariff in January 2008 has offered some alleviation to that pressure. These are all reflected in the Group's financial figures.

With regard to the resumption of trading of the Company's shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), the progress the management has made has been extensive. As announced by the Company on 17 September 2008, trading in the shares of the Company is expected to resume on 2 October 2008 after the completion of shares and convertible bonds subscription and the placing of the Company's shares which will take place on 30 September 2008.

## PROSPECTS

In June 2008, the National Development and Reform Commission of the People's Republic of China ("PRC") took actions on coal producers by asking them to maintain their present price levels for the rest of the year. This latest attempt from the PRC government to control domestic coal prices in order to encourage power generators to maintain full output should provide some degree of relief to the Company.

Recognizing the difficulties power plants face with the rising coal prices, the PRC government also intervened and raised energy tariff further in the summer of 2008. This also offers some alleviation to the energy industry.

With the fund raising to be completed in September 2008, the management is assessing the feasibility of developing phase II of the MSW incineration power plant. In light of the recent world wide financial turmoil, the management will also be open minded about other investment opportunities that may emerge from time to time.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group had net current liabilities of approximately HK\$113,071,000 (31 December 2007: approximately HK\$98,734,000) and shareholders' funds of approximately HK\$17,139,000 (31 December 2007: approximately HK\$32,627,000). The reduction in net current assets and shareholders' funds was mainly attributable to the increase in the cost of coal for the Company's business operation.

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

On 14 January 2008, the Company redeemed a borrowing in respect of HK\$20,000,000 8.5 per cent per annum extendable convertible notes which was outstanding at the beginning of the period under review. The gearing ratio of the Group, which is calculated as net debt divided by total capital, was 95% (31 December 2007: 91%).

During the period under review and up to the date of this report, the Company had strengthened its financial position through the following fund raising activities:

- On 3 January 2008, the Company entered into a loan agreement with a company controlled and wholly owned by a substantial shareholder of the Company for a borrowing of HK\$30,000,000.
- On 27 February 2008, the Company entered into a subscription agreement (as amended and supplemented by four supplemental agreements dated 27 February 2008, 22 May 2008, 23 June 2008 and 25 September 2008) with a company controlled and wholly owned by a substantial shareholder of the Company to issue and allot 3,497,970,325 new shares in, for an aggregate amount of HK\$174,898,516 at the subscription price of HK\$0.05 per share and to issue HK\$200,000,000 convertible bonds of the Company.
- On 23 June 2008, the Company entered into a placing agreement with Metro Capital Securities Limited for private placing of 502,029,675 new shares of the Company, which will generate net proceeds of approximately HK\$24,800,000.

## FOREIGN EXCHANGE MANAGEMENT

The Group's business dealings in the PRC are subject to the foreign currency fluctuations. During the period under review, the fluctuation did not have significant adverse impact on the Group's financial position and the Group did not use any financial instruments for hedging purposes.

## CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities as at 30 June 2008.

## SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

The Group did not have any significant acquisition or disposal during the six months ended 30 June 2008 and up to the date of this report.

## EMPLOYEE AND REMUNERATION POLICY

As at 30 June 2008, the Group had 184 employees, 165 of whom were based in the PRC. Their salary and benefits were maintained at competitive levels and were determined by their duties, working experience and the prevailing market practices and conditions. Employees are rewarded by a share option scheme based on the performance of the Group and individual employees.

## DISCLOSURE OF INTERESTS

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

As at 30 June 2008, 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 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	Approximate percentage of	
						Total	shareholding
Liang Jun	Beneficial owner	2,000,000	—	—	—	2,000,000	0.17
Chan Wai Ming	Interest of a controlled corporation and beneficial owner	2,800,000	—	70,000,000	—	72,800,000 (Note)	6.29

Note: Of these shares, 70,000,000 ordinary shares are deemed interest of Chan Wai Ming held by Smartest Assets Management Limited, a company wholly owned by him.

Save as disclosed above, as at 30 June 2008, none of the members of the Board 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 2008, 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:

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
<b>Ordinary shares</b>			
CITIC International Assets Management Limited (Note 1)	Beneficial owner	44,450,000	3.84%
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.22%
CITIC Capital 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%

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of shareholding</b>
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	128,040,000	11.06%
CITIC Group (Note 1)	Interest of a controlled corporation	134,120,000	11.59%
Ko Fong (Note 2)	Interest of a controlled corporation	7,792,970,325	673.53%
Delight Assets Management Limited (Note 2)	Beneficial owner	295,000,000	25.5%
King Castle Enterprises Limited (Note 2)	Beneficial owner	7,497,970,325	648.04%
Metro Capital Securities Limited (Note 3)	Beneficial owner	502,029,675	43.39%
Smartest Assets Management Limited (Note 4)	Beneficial owner	70,000,000	6.05%
<b>Preference shares</b>			
China Conservational Power Holdings Limited (Note 5)	Beneficial owner	80,000,000	100%

Notes:

1. CITIC Group is interested in approximately 55% 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 40% of CITIC International Assets Management Limited and 50% of CITIC Capital 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 Holdings Limited, CITIC Capital Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SFO: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 44,450,000 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 (iii) each of CITIC Pacific Limited, Forever Glory Holdings Limited, Golden Gateway Enterprises Inc. and CITIC Capital Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.
2. Ko Fong's interest in 7,792,970,325 Shares comprises (i) 295,000,000 Shares held by Delight Assets Management Limited, a company wholly and beneficially owned by him and (ii) 7,497,970,325 Shares interested by King Castle Enterprises Limited under a subscription agreement with the Company dated 27 February 2008 as amended and supplemented (Subscription Agreement).
3. Metro Capital Securities Limited, the Company's appointed placing agent, is interested in 502,029,675 new Shares pursuant to the placing agreement with the Company dated 23 June 2008 (Placing Agreement), representing approximately 43.39% of the existing issued share capital and approximately 9.73% of the total issued share capital of the Company as enlarged by the issue of new Shares under the Subscription Agreement and the Placing Agreement.
4. Smartest Assets Management Limited is a company beneficially owned by Chan Wai Ming, the chief executive officer of the Company.

5. The preference shares are issued as a consideration for acquisition of Hong Tong Hai, a wholly owned subsidiary of the Company, pursuant to the sale and purchase agreement dated 7 April 2005 between the Company and China Conservational Power Holdings Limited.

Save as disclosed above, as at 30 June 2008, 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 “Scheme”) was adopted. The purpose of the 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 Scheme was to 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, subject to early termination by way of a resolution of the shareholder of the Company in a general meeting.

The total number of shares which may be issued upon exercise of all options to be granted under the 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 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 the Scheme during the period:

	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	As at 1.1.2008	Granted during the period	Exercised during the period	Lapsed during the period	Market value per share (Note)		
								As at 30.6.2008	Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
<b>Employees</b>										
In aggregate	12.08.2004	12.08.2004 to 11.08.2014	0.3850	26,800,000	—	—	(26,800,000)	—	0.3800	—
	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	(8,000,000)	—	0.6700	—
	26.05.2005	26.05.2005 to 25.05.2015	0.6900	700,000	—	—	—	700,000	0.6800	—
	03.08.2005	03.08.2005 to 02.08.2015	0.6880	500,000	—	—	—	500,000	0.6600	—

Note: 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.

No option under the Scheme was cancelled during the six months ended 30 June 2008.

As at the date of this report, the Scheme was terminated with the passing of an ordinary resolution at the extraordinary general meeting of the Company held on 20 August 2008. The outstanding options are exercisable in accordance with the terms of the terminated Scheme. A new share option scheme was subsequently approved and adopted through the same extraordinary general meeting.

## CORPORATE GOVERNANCE

### CORPORATE GOVERNANCE PRACTICES

It is one key commitment of 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 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 2008, the Company has complied with the SEHK Code, except for the following deviation:

#### **Code Provision A.4.1**

All existing non-executive directors during the period under review do not have a specific term of appointment but are subject to retirement by rotation and re-election pursuant to the Articles of Association (“Articles”) of the Company prior to its amendment on 29 January 2008. On 29 January 2008, a resolution was proposed and approved at an extraordinary general meeting to amend the Articles such 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 less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years.

## 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.

Specific enquiry has been made of the directors during the period under review and they have confirmed that they have complied 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 Audit Committee performed its duties according to written terms of reference which complies with Code C.3.3 of Appendix 14 of the Listing Rules.

The unaudited consolidated results of the Group for the six months ended 30 June 2008 and the interim report have been reviewed by the Audit Committee.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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 2008.





## CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

		For the six months ended 30 June	
	Notes	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Audited) (Restated)
<b>CONTINUING OPERATION</b>			
Turnover	4	55,727	39,845
Other revenue and gains	5	15,257	2,403
Fuel costs		(37,353)	(22,717)
Depreciation and amortisation	8	(10,621)	(13,880)
Employee costs	8	(8,464)	(7,722)
Provision for impairment of trade and other receivables		—	(11,993)
Impairment loss on construction in progress	8	(2,443)	—
Provision for maintenance	8	(3,394)	—
Other operating expenses		(15,009)	(12,251)
Finance costs	7	(13,998)	(12,173)
<b>Loss before taxation</b>		<b>(20,298)</b>	<b>(38,488)</b>
Income tax	9	3	—
<b>Loss for the period from continuing operation</b>		<b>(20,295)</b>	<b>(38,488)</b>
<b>DISCONTINUED OPERATIONS</b>			
Profit for the period from discontinued operations	10	370	118
<b>Loss for the period</b>	8	<b>(19,925)</b>	<b>(38,370)</b>
<b>Attributable to:</b>			
Equity holders of the Company		(18,886)	(35,433)
Minority interests		(1,039)	(2,937)
		<b>(19,925)</b>	<b>(38,370)</b>
<b>Loss per share — attributable to equity holders of the Company</b> (expressed in HK cents per share)			
— Basic	11		
— from continuing and discontinued operations		(1.63)	(3.06)
— from continuing operation		(1.66)	(3.07)
— Diluted	11	N/A	N/A
<b>Dividend</b>	12	—	—

The accompanying notes form part of these financial statements.

## CONDENSED CONSOLIDATED BALANCE SHEET

AT 30 JUNE 2008

	Notes	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited) (Restated)
<b>Assets and liabilities</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	9,148	10,572
Concession intangible assets	3 & 13	356,661	347,836
Construction in progress		—	—
Land use rights		4,693	4,447
Goodwill		27,299	25,642
		<b>397,801</b>	<b>388,497</b>
<b>Current assets</b>			
Inventories		759	1,822
Trade and other receivables	14	29,165	25,369
Tax recoverable		—	29
Pledged bank deposits		17,062	16,026
Bank balances and cash		25,959	46,893
		<b>72,945</b>	<b>90,139</b>
Assets of a disposal group classified as held for sale	10	17	17
		<b>72,962</b>	<b>90,156</b>
<b>Current liabilities</b>			
Trade and other payables	15	54,827	71,361
Convertible notes	17	—	20,000
Convertible preference shares	18	81,752	78,570
Amount due to a minority shareholder of subsidiary		983	923
Amount due to shareholder		30,295	—
Amount due to director		15,246	15,100
		<b>183,103</b>	<b>185,954</b>
Liabilities directly associated with the assets classified as held for sale	10	2,930	2,936
		<b>186,033</b>	<b>188,890</b>
<b>Net current liabilities</b>		<b>(113,071)</b>	<b>(98,734)</b>
<b>Total assets less current liabilities</b>		<b>284,730</b>	<b>289,763</b>
<b>Non-current liabilities</b>			
Bank loans	16	259,339	251,608
Provision for maintenance	3	3,412	—
		<b>262,751</b>	<b>251,608</b>
<b>Net assets</b>		<b>21,979</b>	<b>38,155</b>

**CONDENSED CONSOLIDATED BALANCE SHEET** (Continued)

AT 30 JUNE 2008

	Notes	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited) (Restated)
<b>Equity</b>			
Share capital	19	<b>11,570</b>	11,570
Reserves		<b>5,569</b>	21,057
Equity attributable to equity holders of the Company		<b>17,139</b>	32,627
Minority interests		<b>4,840</b>	5,528
<b>Total equity</b>		<b>21,979</b>	38,155

The accompanying notes form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Attributable to equity holders of the Company									
	Share capital	Share premium	Share option reserve	Capital reserve	Equity component of convertible notes	Translation reserve	Accumulated losses	Total	Minority interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
For the six months ended 30 June 2008										
At 1 January 2008 (Audited)	11,570	459,967	7,020	—	550	10,631	(457,111)	32,627	5,528	38,155
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	3,385	—	3,385	351	3,736
Release of equity component of convertible notes	—	—	—	550	(550)	—	—	—	—	—
Total income and expenses recognised directly in equity	—	—	—	550	(550)	3,385	—	3,385	351	3,736
Loss for the period	—	—	—	—	—	—	(18,886)	(18,886)	(1,039)	(19,925)
Total recognised income and expenses for the period	—	—	—	550	(550)	3,385	(18,886)	(15,501)	(688)	(16,189)
Recognition of share option payments	—	—	13	—	—	—	—	13	—	13
Share options lapsed during the period	—	—	(1,291)	—	—	—	1,291	—	—	—
At 30 June 2008 (Unaudited)	11,570	459,967	5,742	550	—	14,016	(474,706)	17,139	4,840	21,979

The accompanying notes form part of these financial statements.

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

FOR THE SIX MONTHS ENDED 30 JUNE 2007

	Attributable to equity holders of the Company									
	Share capital HK\$'000 (Note 19)	Share premium HK\$'000	Share option reserve HK\$'000	Share of convertible notes HK\$'000	Equity component of convertible preference shares HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
For the six months ended 30 June 2007										
At 1 January 2007 (Audited)	11,570	459,967	9,270	550	20,952	5,525	(428,275)	79,559	9,332	88,891
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	1,999	—	1,999	256	2,255
Loss for the period	—	—	—	—	—	—	(35,433)	(35,433)	(2,937)	(38,370)
Total recognised income and expenses for the period	—	—	—	—	—	1,999	(35,433)	(33,434)	(2,681)	(36,115)
Recognition of share option payments	—	—	137	—	—	—	—	137	—	137
Share options lapsed during the period	—	—	(917)	—	—	—	917	—	—	—
At 30 June 2007 (Audited)	11,570	459,967	8,490	550	20,952	7,524	(462,791)	46,262	6,651	52,913

The accompanying notes form part of these financial statements.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Audited) (Restated)
Net cash used in operating activities	<b>(27,910)</b>	(11,309)
Net cash generated from investing activities	<b>3,885</b>	4,188
Net cash generated from financing activities	<b>1,469</b>	5,653
Net decrease in cash and cash equivalents	<b>(22,556)</b>	(1,468)
Cash and cash equivalents at 1 January	<b>46,910</b>	7,666
Effect of foreign exchange rate changes	<b>1,622</b>	24
Cash and cash equivalents at 30 June representing bank balance and cash	<b>25,976</b>	6,222

The accompanying notes form part of these financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM 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 its shares have been suspended from trading since 29 September 2005. It has its registered office and principal place of business at Room 1208-1210, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

## 2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting".

The unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with HKFRSs.

The Group sustained a loss for the period attributable to equity holders of the Company of HK\$18,886,000 and had net current liabilities of HK\$113,071,000 as at 30 June 2008. In view of the proposed capital injection from a potential investor which would provide the Group with sufficient funds for its working capital requirement and future expansion plan, the Directors are of the opinion that the Group will have sufficient working capital to meet its normal operational requirements in the ensuing year and are satisfied that it is appropriate for the Group's condensed consolidated interim financial statements to be prepared on a going concern basis.

The unaudited condensed consolidated income statement is presented by nature of expenses which the Directors considered is more appropriate to reflect the operating results of the Group.

### 3. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007 except as described below.

During the period under review, the Group has applied, for the first time, a number of new standards, amendments and Interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on or after 1 January 2008.

HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions
HK(IFRIC) — Int 12	Service Concession Arrangements
HK(IFRIC) — Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC) — Int 12 gives guidance on the accounting by operators for public-to-private service concession arrangements and sets out the general principles on recognizing and measuring the obligations and related rights in service concession arrangements. For arrangements falling within its scope, depending on the terms of the arrangement, the infrastructure assets will, instead of being recognized as property, plant and equipment, be recognized as either (i) a financial asset; (ii) an intangible asset; or (iii) both a financial asset and an intangible asset.

The Group was granted by the Dongguan Provincial Government the concessions for operating a waste incineration power generation plant in Dongguan. Prior to 1 January 2008, the buildings, plant and equipment within the scope of the service concession were included in property, plant and equipment. As at 1 January 2008, due to the retrospective application of HK(IFRIC) — Int 12 being impracticable, the Group reclassified the buildings, plant and equipment as concession intangible assets, and amortized them over the remaining operating periods in accordance with the transitional provisions of HK(IFRIC) — Int 12. The restatement of the assets' book values for 2007 has no impact on the loss for the six months ended 30 June 2007 and accumulated losses at the beginning of the period.



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

## Provision for maintenance

As part of its obligations under the service concession, the Group assumes responsibility for maintenance of the waste incineration power generation plant and equipment. The resulting maintenance costs, except for upgrade services, are recognized as a provision according to the requirements of HKAS 37, "Provisions, Contingent Liabilities and Contingent Assets", when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated.

Provision for maintenance obligations is measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of time value of money and the risks specific to the obligation.

Other than as described above, the adoption of the new HKFRSs had no material effect on the results and financial position of the Group. Accordingly, no prior period adjustment is required.

The effects of changes in the accounting policies are as follows:

	<b>31 December 2007 HK\$'000 (Originally stated)</b>	<b>Change HK\$'000</b>	<b>31 December 2007 HK\$'000 (Restated)</b>
Items on Balance Sheet			
Non-current assets			
Property, plant and equipment	356,197	(345,625)	10,572
Construction in progress	2,211	(2,211)	—
Concession intangible assets	—	347,836	347,836
Total effects on assets	<u>358,408</u>	<u>—</u>	<u>358,408</u>

### 3. PRINCIPAL ACCOUNTING POLICIES (Continued)

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

		<b>Effective for annual periods beginning on or after</b>
HKAS 1 (Revised)	Presentation of financial statements	1 January 2009
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKFRS 2 Amendment	Share-based payment — Vesting conditions and cancellation	1 January 2009
HKAS 32 and HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation	1 January 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 13	Customer loyalty programmes	1 July 2008
HK(IFRIC) — Int 15	Agreements for the Construction of Real Estate	1 January 2009
HK(IFRIC) — Int 16	Hedges of a Net Investment in a Foreign operation	1 October 2009

The Group has not early adopted any of these new or revised standards and interpretations, and 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 their initial application.

**4. TURNOVER**

Turnover represents the revenue received and receivable for waste incineration power generation:

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
		(Restated)
From continuing operation:		
Waste incineration power generation income	<b>52,981</b>	37,707
Waste handling fees	<b>2,746</b>	2,138
	<b>55,727</b>	39,845

**5. OTHER REVENUE AND GAINS**

	<b>For the six months ended 30 June</b>	
	<b>2008</b>	2007
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
		(Restated)
From continuing operation:		
VAT tax refund on waste incineration power generation income	<b>9,872</b>	—
Gain on disposal of a subsidiary	<b>1,333</b>	—
Bank interest income	<b>65</b>	1
Gain on disposal of trading securities	—	140
Net exchange gains	<b>3,986</b>	2,157
Others	<b>1</b>	105
	<b>15,257</b>	2,403
From discontinued operations:		
Net exchange gains	<b>336</b>	147
Others	<b>34</b>	—
	<b>370</b>	147

## 6. SEGMENT INFORMATION

The Group has only one continuing business segment which is waste incineration, processing and power generation business in the PRC. The Group's computer hardware and maintenance support and related services business segments were discontinued during the period.

### For the six months ended 30 June 2008 (Unaudited)

	Continuing operation	Discontinued operations	Consolidated HK\$'000
	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support and related services HK\$'000	
<b>Results</b>			
Turnover	55,727	—	55,727
Segment results	(18)	34	16
Unallocated corporate income and expenses (net)			(5,946)
Finance costs			(13,998)
Loss before taxation			(19,928)
Income tax			3
Loss for the period			(19,925)
Minority interests			1,039
Loss for the period attributable to equity holders of the Company			(18,886)

**6. SEGMENT INFORMATION** (Continued)**For the six months ended 30 June 2008 and as at 30 June 2008 (Unaudited)**

	Continuing operation	Discontinued operations	
	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support and related services HK\$'000	Consolidated HK\$'000
<b>Balance Sheet</b>			
Segment assets	445,206	17	445,223
Unallocated corporate assets			25,540
Consolidated total assets			<u>470,763</u>
Segment liabilities	315,548	2,930	318,478
Unallocated corporate liabilities			130,306
Consolidated total liabilities			<u>448,784</u>
Capital expenditure	4,658	—	
Depreciation and amortisation	<u>10,229</u>	<u>—</u>	

**6. SEGMENT INFORMATION** (Continued)**For the six months ended 30 June 2007 (Audited)**

	Continuing operation	Discontinued operations	Consolidated HK\$'000
	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support and related services HK\$'000	
<b>Results</b>			
Turnover	39,845	—	39,845
Segment results	(20,909)	(29)	(20,938)
Gain on disposal of trading securities			141
Unallocated corporate income and expenses (net)			(5,400)
Finance costs			(12,173)
Loss before taxation			(38,370)
Income tax			—
Loss for the period			(38,370)
Minority interests			2,937
Loss for the period attributable to equity holders of the Company			(35,433)

**6. SEGMENT INFORMATION** (Continued)**For the six months ended 30 June 2007 and as at 30 June 2007 (Audited)**

	Continuing operation	Discontinued operations	Consolidated HK\$'000
	Waste incineration power generation business HK\$'000	Computer hardware and maintenance support and related services HK\$'000	
<b>Balance Sheet</b>			
Segment assets	400,504	85	400,589
Unallocated corporate assets			18,626
Consolidated total assets			419,215
Segment liabilities	283,928	2,922	286,850
Unallocated corporate liabilities			79,452
Consolidated total liabilities			366,302
Capital expenditure	7,347	—	
Depreciation and amortisation	13,513	13	
Provision for impairment of trade and other receivables	10,214	—	

## 7. FINANCE COSTS

	For the six months ended 30 June	
	2008 HK\$'000 (Unaudited)	2007 HK\$'000 (Audited)
From continuing operation:		
Interest on bank borrowings wholly repayable after five years	10,375	8,465
Interest on convertible notes	—	850
Interest on convertible preference shares	3,182	2,858
Interest on amount due to director	146	—
Interest on amount due to shareholder	295	—
	<b>13,998</b>	<b>12,173</b>



**8. LOSS FOR THE PERIOD**

	<b>For the six months ended 30 June</b>	
	<b>2008 HK\$'000 (Unaudited)</b>	2007 HK\$'000 (Audited) (Restated)
The Group's loss for the period is arrived at after charging/(crediting):—		
Amortisation of concession intangible assets	<b>8,653</b>	13,345
Depreciation of property, plant and equipment	<b>1,927</b>	498
Amortisation of land use rights	<b>41</b>	37
Auditor's remuneration	<b>189</b>	653
Loss on disposal of property, plant and equipment	<b>79</b>	38
Provision for impairment on trade and other receivables	<b>—</b>	11,993
Impairment loss on construction in progress	<b>2,443</b>	—
Provision for maintenance (Note 3)	<b>3,394</b>	—
Fuel costs	<b>37,353</b>	22,717
Operating lease rentals in respect of equipment	<b>95</b>	26
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	<b>8,054</b>	7,288
— Equity-settled share-based payments	<b>13</b>	137
— Contributions to defined contribution retirement scheme	<b>397</b>	297
	<b>8,464</b>	7,722
Net exchange gains	<b>(4,322)</b>	(2,304)
Gain on disposal of a subsidiary	<b>(1,333)</b>	—

Note: The disclosures presented in this note include those amounts charged/(credited) in respect of the discontinued operations.

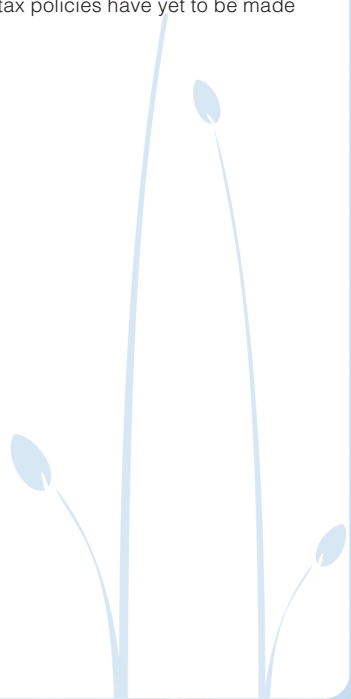
## 9. INCOME TAX

No provision for Hong Kong profits tax has been made as the companies operating in Hong Kong had no assessable profit for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

No provision for PRC enterprise income tax ("EIT") has been made as the companies operating in the PRC had no assessable profit for the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress promulgated the Corporate Income Tax Law of the PRC ("the New Tax Law"), which became effective on 1 January 2008. Further, on 6 December 2007, the State Council released the Implementation Rules to the Corporate Income Tax Law.

According to the New Tax Law, the standard EIT rate for enterprises in the PRC will be reduced from 33% to 25% with effect from 1 January 2008. However, a "new and high technology enterprise" will continue to be entitled to a reduced EIT rate of 15%. The detailed application of the newly introduced preferential tax policies have yet to be made public.



**10. DISCONTINUED OPERATIONS**

The Group's computer hardware and maintenance support and related services businesses were discontinued during the period due to the underachievement of these segments. In order to better utilise its resources, the Group has focused on the development of its waste incineration power generation business.

The profit for the period from the discontinued operations is analysed as follows:

	<b>For the six months ended 30 June</b>	
	<b>2008 HK\$'000 (Unaudited)</b>	2007 HK\$'000 (Audited) (Restated)
Other revenue	<b>370</b>	147
Other operating expenses	<b>—</b>	(29)
Profit before taxation	<b>370</b>	118
Income tax	<b>—</b>	—
Profit after taxation	<b>370</b>	118
Profit for the period from discontinued operations	<b>370</b>	118

The major classes of assets and liabilities classified as held for sale are as follows:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited) (Restated)
<b>Assets:</b>		
Bank balances and cash and assets classified as held for sale	<b>17</b>	17
<b>Liabilities:</b>		
Trade and other payables, being liabilities directly associated with the assets classified as held for sale	<b>(2,930)</b>	(2,936)
Net liabilities directly associated with the discontinued operations	<b>(2,913)</b>	(2,919)

**11. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY****(a) Loss**

The calculation of basic loss per share from continuing and discontinued operations attributable to equity holders of the Company is based on the following data:

	<b>For the six months ended 30 June</b>	
	<b>2008 HK\$'000 (Unaudited)</b>	2007 HK\$'000 (Audited) (Restated)
Loss for the period attributable to equity holders of the Company	<b>(18,886)</b>	(35,433)
Less:		
Profit for the period from discontinued operations used in the calculation of basic loss per share	<b>(370)</b>	(118)
Loss for the period used in the calculation of basic loss per share from continuing operation	<b>(19,256)</b>	(35,551)

**(b) Weighted average number of ordinary shares**

1,157,027,100 ordinary shares were in issue during the six months ended 30 June 2008 and 30 June 2007.

**11. LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY**

(Continued)

**(b) Weighted average number of ordinary shares** (Continued)

	<b>For the six months ended 30 June</b>	
	<b>2008 HK cents (Unaudited)</b>	2007 HK cents (Audited) (Restated)
Basic (loss)/profit per share from:		
— continuing operation	<b>(1.66)</b>	(3.07)
— discontinued operations	<b>0.03</b>	0.01
Total loss per share	<b><u>(1.63)</u></b>	<u>(3.06)</u>

**(c)** Diluted loss per share has not been presented for the six months ended 30 June 2008 as the potential dilutive ordinary shares resulting from the exercise of the Company's outstanding share options and convertible preference shares are anti-dilutive.

Diluted loss per share has not been presented for the six months ended 30 June 2007 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.

**12. DIVIDEND**

No dividend has been paid or declared by the Company during the six months ended 30 June 2008 (six months ended 30 June 2007: Nil).

The Directors do not recommend the payment of an interim dividend in respect of the period (six months ended 30 June 2007: Nil).

**13. PROPERTY, PLANT AND EQUIPMENT AND CONCESSION INTANGIBLE ASSETS**

There were no significant changes in the Group's property, plant and equipment and concession intangible assets during the period ended 30 June 2008. Except for the reclassifications of buildings, plant and equipment with a total carrying amount of HK\$358,408,000 to intangible assets as a result of the change in accounting policy described in Note 3 and concession intangible assets, there were no other significant changes in the Group's property, plant and equipment during the comparative period.

**14. TRADE AND OTHER RECEIVABLES**

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Trade receivables	<b>13,311</b>	11,456
Less: Allowance for doubtful debts	<b>(3,008)</b>	(3,008)
Trade receivables, net	<b>10,303</b>	8,448
Other receivables	<b>172,708</b>	167,990
Less: Allowance for doubtful debts	<b>(153,846)</b>	(151,069)
Other receivables, net	<b>18,862</b>	16,921
	<b>29,165</b>	25,369

The Group normally allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables is as follows:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Trade receivables — Current and up to 30 days	<b>10,303</b>	8,448

The Directors consider the carrying amounts of trade and other receivables approximate their fair values.

**15. TRADE AND OTHER PAYABLES**

The ageing analysis of trade payables is as follows:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Current and up to 30 days	<b>5,843</b>	7,290
31 to 60 days	<b>5,040</b>	2,606
Over 90 days	<b>696</b>	2,002
Total trade payables	<b>11,579</b>	11,898
Other payables	<b>43,248</b>	59,463
	<b>54,827</b>	71,361

**16. BANK LOANS**

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Wholly repayable after five years	<b>259,339</b>	251,608

The amount of bank loans in the original denominated borrowing currency is RMB228,000,000 (31 December 2007: RMB235,500,000). The average effective interest rate for the period is 7.91% (six months ended 30 June 2007: 7.11%) per annum. The Directors estimated that the fair value of the bank loans is not significantly different from the carrying amount.

**16. BANK LOANS** (Continued)

The bank loans are secured by a deposit of RMB15,000,000 equivalent to HK\$17,062,000 (31 December 2007, RMB15,000,000 equivalent to HK\$16,026,000). In addition, the Group pledged the infrastructure assets of the concession intangible assets amounted to RMB297,833,792 (31 December 2007, RMB330,664,060) 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.

**17. 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 (the "Noteholders"), extend the maturity date so that, upon the giving of such notice, the maturity date shall be 24 August 2007. The maturity date has been extended to 14 January 2008.

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

The convertible notes bear interest at 8.5% per annum, payable quarterly in arrears. 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 fair value of the liability component was calculated at the issuance date using a market borrowing rate of 10.66% at the date of grant. The residual amount is assigned as the equity component and is included in shareholders' equity.



**17. CONVERTIBLE NOTES** (Continued)

Pursuant to a settlement agreement signed between the Company and the Noteholders date 14 January 2008, both parties agreed that the Company redeems the convertible notes in consideration of HK\$20,000,000 and discharge all of the Company' s liabilities and obligations, including but not limited to interests payment obligations, under the convertible notes. The Company redeemed the Convertible notes in full on the same date.

	<b>Six months ended 30 June 2008 HK\$'000 (Unaudited)</b>	Year ended 31 December 2007 HK\$'000 (Audited)
At 1 January 2008/1 January 2007	<b>20,000</b>	20,604
Waiver of interest	—	(604)
Redemption	<b>(20,000)</b>	—
At 30 June 2008/31 December 2007	<b>—</b>	20,000

**18. CONVERTIBLE PREFERENCE SHARES**

Details of the terms of the convertible preference shares are set out in Note 19(a)(ii).

	<b>Six months ended 30 June 2008 HK\$'000 (Unaudited)</b>	Year ended 31 December 2007 HK\$'000 (Audited)
At 1 January 2008/1 January 2007	<b>78,570</b>	51,745
Interest	<b>3,182</b>	5,873
Reclassification from equity	—	20,952
At 30 June 2008/ 31 December 2007	<b>81,752</b>	78,570

The maturity date of the convertible preference shares is 5 July 2008 (Note 22).

**19. SHARE CAPITAL****(a) Authorised share capital**

	Number of ordinary shares		Amount	
	of HK\$0.01 each			
	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
<b>Authorised ordinary shares:</b>				
At 30 June 2008 and 31 December 2007	<u>120,000,000,000</u>	<u>120,000,000,000</u>	<u>1,200,000</u>	<u>1,200,000</u>
	Number of preference shares		Amount	
	of HK\$0.01 each			
	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)	30 June 2008 HK\$'000 (Unaudited)	31 December 2007 HK\$'000 (Audited)
<b>Authorised preference shares class A:</b>				
At 30 June 2008 and 31 December 2007	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>100,000</u>
<b>Authorised preference shares class B:</b>				
At 30 June 2008 and 31 December 2007	<u>10,000,000,000</u>	<u>10,000,000,000</u>	<u>100,000</u>	<u>100,000</u>

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.

## 19. SHARE CAPITAL (Continued)

### (a) Authorised share capital (Continued)

#### (i) *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:—

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

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.

**19. SHARE CAPITAL** (Continued)**(a) Authorised share capital** (Continued)**(ii) 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      HK\$0.76  
and ending on (and including)  
the first anniversary of the date  
of issue

Beginning from the day after the      The higher of (i) 90% of the average  
first anniversary of the date of      of the closing prices on the Stock  
issue and ending on (and      Exchange for one ordinary share  
including) the third anniversary      for the five trading days up to and  
of the date of issue      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.

**19. SHARE CAPITAL** (Continued)**(b) Issued and fully paid share capital**

	<b>Number of shares</b>	<b>Nominal value</b> HK\$'000
Ordinary shares of HK\$0.01 each At 31 December 2007 and 30 June 2008	<u>1,157,027,100</u>	<u>11,570</u>

**20. OPERATING LEASE COMMITMENTS**

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	<b>30 June 2008 HK\$'000 (Unaudited)</b>	31 December 2007 HK\$'000 (Audited)
Within one year	<u>1,692</u>	<u>1,863</u>
In the second to fifth years inclusive	<u>1,587</u>	<u>3,381</u>
	<u><b>3,279</b></u>	<u>5,244</u>

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.

## **21. 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.

During the period, the Group had the following material transactions and balances with connected and related parties:

- i) On 3 January 2008, the Company entered into a loan agreement with a substantial shareholder of the Company for a borrowing of HK\$30,000,000.
- ii) On 27 February 2008, the Company entered into a conditional subscription agreement (as amended) with a substantial shareholder of the Company to issue and allot 4,000,000,000 new shares in the Company at the subscription price of HK\$0.05 per share, and to issue HK\$200,000,000 convertible bonds of the Company for an aggregate amount of HK\$400,000,000 at the conversion price of HK\$0.05 per share.

## **22. POST BALANCE SHEET EVENT**

On 11 June 2008, the Company received a notice from China Conservational Power Holdings Limited, the holder of Company's 80,000,000 convertible preference shares that it will exercise the redemption right on 5 July 2008 to redeem these convertible preference shares. As at the date of this report, the redemption had not been made.

## **23. COMPARATIVE FIGURES**

As stated in Note 3, the unaudited condensed consolidated income statement is presented by nature of expenses. Certain comparative figures have been reclassified to conform with this presentation and also the adoption of HK(IFRIC)-INT12.

## **24. APPROVAL OF THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

The condensed consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 September 2008.