

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended 30th September, 2006

1. GROUP REORGANISATION

The Company was incorporated in the Cayman Islands on 8th October, 2002 as an exempted company with limited liabilities under Companies Law of the Cayman Islands. Pursuant to the reorganisation, as disclosed in the Company's prospectus dated 27th May, 2005, prepared for the purpose of listing its shares on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Reorganisation"), the Company became the holding company of Excellent Overseas Limited ("Excellent Overseas") and its subsidiaries on 18th May, 2005.

The Company together with its subsidiaries are hereinafter collectively referred to as the Group.

The shares of the Company were listed on the Main Board of the Stock Exchange on 10th June, 2005.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange.

The Group resulting from the Reorganisation referred to in Note 1 above is regarded as a continuity entity. Accordingly, the unaudited condensed consolidated financial statements have been prepared on the merger basis as if the Company had been the holding company of the companies comprising the Group and the group structure as at 10th June, 2005 had been in existence from the beginning of 1st April, 2004.

These condensed consolidated financial statements should be read in conjunction with the annual report of the Company for the year ended 31st March, 2006 ("2006 Annual Report").

The accounting policies and methods of computation used in preparation of these condensed consolidated financial statements are consistent with those used in the 2006 Annual Report.

3. TURNOVER

Turnover represents revenue generated from provision of engineering systems contracting services and the amount received and receivable for consumables and spare parts sold, as after sales services incidental and ancillary to the engineering systems, during the period.

Business segments

For management purposes, the Group is currently organised into two operating divisions – provision of engineering systems contracting services and sale of consumables and spare parts. These divisions are the basis on which the Group reports its primary segment information.

Segment information about these businesses is presented below.

| | For the six months ended | |
|---|---------------------------------|------------------------|
| | 30th September, | |
| | 2006 | 2005 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Turnover | | |
| Provision of engineering systems contracting services | 138,379 | 84,345 |
| Sale of consumables and spare parts | 34,632 | 22,710 |
| | <u>173,011</u> | <u>107,055</u> |
| Segment results | | |
| Provision of engineering systems contracting services results | 7,367 | 486 |
| Sale of consumables and spare parts results | 7,449 | 5,240 |
| | <u>14,816</u> | <u>5,726</u> |
| Unallocated corporate revenue | 14,010 | 1,024 |
| Unallocated corporate expenses | (32,700) | (27,522) |
| Finance costs | (892) | (217) |
| | <u>(4,766)</u> | <u>(20,989)</u> |
| Loss before taxation | (4,766) | (20,989) |
| Taxation | – | 389 |
| | <u>(4,766)</u> | <u>(20,600)</u> |
| Loss for the period | <u>(4,766)</u> | <u>(20,600)</u> |

3. TURNOVER (*continued*)

Geographical segments

The Group's operations are principally located in Hong Kong, the other regions of PRC, Taiwan and the Southeast Asia.

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

| | Sales revenue by geographical market For the six months ended 30th September, | |
|----------------|--|---------------------|
| | 2006 (Unaudited) | 2005 (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 16,677 | 8,299 |
| PRC | 35,609 | 55,121 |
| Taiwan | 4,595 | 19,405 |
| Southeast Asia | 115,147 | 24,143 |
| Others | 983 | 87 |
| | <u>173,011</u> | <u>107,055</u> |

4. OTHER INCOME

| | For the six months ended 30th September, | |
|---|---|---------------------|
| | 2006 (Unaudited) | 2005 (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Commission | 48 | 183 |
| Exchange gains | 12,460 | — |
| Impairment on available-for-sale investment | (866) | — |
| Interest income | 616 | 228 |
| Other income | 1,435 | 455 |
| Service income | 317 | 158 |
| | <u>14,010</u> | <u>1,024</u> |

5. TAXATION

For the six months ended
30th September,
2006 2005
(Unaudited) (Unaudited)
HK\$'000 HK\$'000

The charge comprises:

Hong Kong Profits Tax

| | | |
|---------------------------------|---|-------|
| – Current period | – | 158 |
| – Overprovision in prior period | – | (547) |
| | – | (389) |

Deferred taxation

| | | |
|--|---|-------|
| | – | – |
| | – | (389) |

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits in Hong Kong during the period. Hong Kong Profits Tax is calculated at 17.5% on the estimated assessable profit for the six months period ended 30th September, 2005.

6. LOSS FOR THE PERIOD

For the six months ended
30th September,
2006 2005
(Unaudited) (Unaudited)
HK\$'000 HK\$'000

Loss for the period have been

arrived at after charging the following items:

| | | |
|---|-------|-------|
| Depreciation and amortisation | 2,339 | 869 |
| Expenses incurred on the listing of the Company's shares on the Stock Exchange | – | 6,353 |
| Finance costs | 892 | 217 |
| Impairment loss in respect of irrecoverable trade receivables | 9,399 | 5,015 |
| Write down for inventories | – | 77 |

7. DIVIDENDS

The Directors do not recommend the payment of an interim dividend for the six months ended 30th September, 2006 (for the six months ended 30th September 2005: a special interim dividend of HK 2 cents per ordinary share).

8. LOSS PER SHARE

The calculation of the basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK\$4,766,000 and the weighed average number of 300,000,000 shares in issue during the period.

The comparative basic loss per share is based on the loss attributable to equity holders of the Company of approximately HK\$20,600,000 and the weighed average number of 272,131,148 shares in issue during the period.

No dilutive loss per share is presented for the respective six months ended 30th September, 2006 and 2005 as the exercise of the potential ordinary shares would result in reduction in loss per share in both periods.

9. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately HK\$222,000 (for the six months ended 30th September, 2005: HK\$3,818,000) on acquisition of property, plant and equipment.

10. PREPAID LEASE PAYMENTS

The prepaid lease payments represents leasehold land in Hong Kong and are analysed for reporting purposes as non-current asset and current asset.

11. AVAILABLE-FOR-SALE INVESTMENT

The available-for-sale investment represents listed securities outside Hong Kong, at fair value.

12. INVENTORIES

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|------------------------------|--|--|
| Consumables and spare parts | 5,829 | 4,910 |
| Machinery under installation | 5,274 | 20,379 |
| | <u>11,103</u> | <u>25,289</u> |

13. TRADE DEBTORS AND BILLS RECEIVABLE

The Group has a policy of allowing credit period ranging from three to twelve months to its trade customers.

In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted, such as the balance of the contract sum being paid by way of instalments over a period up to 18 months.

An aged analysis of trade debtors and bills receivable is as follows:

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|----------------------------------|--|--|
| Within 30 days | 29,480 | 8,793 |
| Between 31 to 60 days | 3,983 | 45,203 |
| Between 61 to 90 days | 8,664 | 1,194 |
| Between 91 to 180 days | 14,611 | 1,490 |
| Between 181 to 365 days | 29,904 | 27,906 |
| Over 1 year | 52,456 | 85,411 |
| Over 2 years | 50,472 | 15,040 |
| | <hr/> | <hr/> |
| | 189,570 | 185,037 |
| Less: impairment loss recognised | (50,892) | (41,493) |
| | <hr/> | <hr/> |
| | 138,678 | 143,544 |
| | <hr/> | <hr/> |

14. TRADE CREDITORS AND BILLS PAYABLE

An aged analysis of the trade creditors is as follows:

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|-------------------------|--|--|
| Within 30 days | 12,186 | 192 |
| Between 31 to 60 days | 1,198 | 39,892 |
| Between 61 to 90 days | 14,980 | 2,497 |
| Between 91 to 180 days | 4,305 | 4,570 |
| Between 181 to 365 days | 18,051 | 10,496 |
| Over 1 year | 5,969 | 20,262 |
| Over 2 years | 10,338 | 1,948 |
| | <hr/> | <hr/> |
| | 67,027 | 79,857 |
| | <hr/> | <hr/> |

15. OTHER CREDITORS AND ACCRUED CHARGES

Included in other creditors and accrued charges is amount of approximately HK\$56,773,000 (31st March, 2006: approximately HK\$36,727,000) in respect of deposits received for provision of engineering systems contracting services.

16. SHARE CAPITAL

| | 30th September, 2006 | | 31st March, 2006 | |
|---|------------------------------------|-------------------------|----------------------------------|-----------------------|
| | (Unaudited) Number of shares | (Unaudited) HK\$'000 | (Audited) Number of shares | (Audited) HK\$'000 |
| Authorised ordinary shares of HK\$0.10 each | | | | |
| At beginning of the period/year | 1,000,000,000 | 100,000 | 3,500,000 | 350 |
| Creation of shares on 18th May, 2005 | — | — | 996,500,000 | 99,650 |
| At end of the period/year | <u>1,000,000,000</u> | <u>100,000</u> | <u>1,000,000,000</u> | <u>100,000</u> |
| Issued and fully paid ordinary shares of HK\$0.10 each | | | | |
| At beginning of the period/year | 300,000,000 | 30,000 | 1 | 1 |
| Issue of shares on 18th May, 2005 (Note a) | — | — | 149,999,999 | 14,999 |
| Issue of shares on 7th June, 2005 (Note b) | — | — | 75,000,000 | 7,500 |
| Issue of shares on 8th June, 2005 (Note c) | — | — | 75,000,000 | 7,500 |
| At end of the period/year | <u>300,000,000</u> | <u>30,000</u> | <u>300,000,000</u> | <u>30,000</u> |

Notes:

- (a) On 18th May, 2005, an aggregate of 149,999,999 shares were issued and allotted to Polestar Assets Limited ("Polestar"), at the direction of Mr. Chang Ei Eu ("Mr. Chang") and Ms. Hsieh Ming Chiu ("Ms. Hsieh"), as consideration for the transfer of the entire issued share capital of Excellent Overseas to the Company and Mr. Chang transferred to Polestar the subscriber share in the Company. In consideration of Mr. Chang's transfer of the subscriber share and his and Ms. Hsieh's direction for the allotment and issue of 149,999,999 shares to Polestar as aforesaid, Polestar allotted and issued 7 shares and 2 shares of US\$1 each to Mr. Chang and Ms. Hsieh respectively.
- (b) On 7th June, 2005, 75,000,000 shares was capitalised and issued to Polestar.
- (c) On 8th June, 2005, 75,000,000 new shares of the Company of HK\$0.10 each were issued at HK\$0.88 per share for cash through an initial public offering by way of placing and public offer.

17. SHARE OPTION SCHEME

Pre-IPO share option scheme

A pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) was approved and adopted by the Company on 30th March, 2005.

The maximum number of shares which may be issued under the Pre-IPO Share Option Scheme shall be 15,000,000 shares. The Pre-IPO Share Option Scheme is not subject to any vesting condition precedent and the exercise period shall commence from the day following 6 months after 10th June, 2005 and end on 30th March, 2010 (both dates inclusive). Upon acceptance of the pre-IPO share option, each participant shall pay HK\$1 to the Company by way of consideration for the grant.

The exercise price is HK\$0.65 per share and there is no restriction on the number of pre-IPO share options granted under the Pre-IPO Share Option Scheme to any grantee.

On 30th March, 2005, 1,720,000 and 13,280,000 pre-IPO share options were granted under the Pre-IPO Share Option Scheme to a director and employees of the Group respectively for an aggregate consideration of HK\$47. No charge was recognised in the condensed consolidated income statement in respect of the value of pre-IPO share options granted. None of these pre-IPO share options have been exercised, lapsed or cancelled by a director or employees during the six months ended 30th September, 2006.

Other share options scheme

Another share option scheme (the “Share Option Scheme”) was approved and adopted by the Company on 20th May, 2005.

Under the Share Option Scheme, the Directors may, at their discretion, grant to any eligible person as defined under the Share Option Scheme to take up options to subscribe for shares of the Company at a subscription price to be determined by the Directors and notified to each grantee but in any case shall not be less than the higher of (1) the closing price of the shares as stated in the Stock Exchange’s daily quotations sheet on the date on which the Directors approve the making of the offer for the grant option (the “Date Of Grant”), which must be a trading day; (2) the average of closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five trading days immediately preceding the Date Of Grant; or (3) the nominal value of a share. Upon acceptance of the share option, the grantee shall pay HK\$1.00 to the Company by way of consideration for the grant.

The total number of shares in respect of which options may be granted under the Share Option Scheme and any other share option schemes of the Company shall not exceed 30,000,000 shares, being 10% of the total number shares in issue as at the date of listing of the Company’s shares unless separate approval is obtained. Details of the Share Option Scheme are set out in the prospectus dated 27th May, 2005 issued by the Company.

At 30th September, 2006, there were no share options granted under the Share Option Scheme.

18. PLEDGE OF ASSETS

At the balance sheet date, the bank credit facilities of the Group were secured by the followings:

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|-------------------------------|--|--|
| Bank deposits | 6,857 | 6,750 |
| Property, plant and equipment | 1,921 | 2,091 |
| Trade receivables | – | 207 |
| | <u>8,778</u> | <u>9,048</u> |

19. CONTINGENT LIABILITIES

At the balance sheet date, the Group had the following contingent liabilities:

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|-------------------|--|--|
| Performance bonds | – | 5,639 |

20. OPERATING LEASE COMMITMENTS

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

| | 30th September, 2006 (Unaudited) HK\$'000 | 31st March, 2006 (Audited) HK\$'000 |
|---------------------------------------|--|--|
| Within one year | 811 | 535 |
| In the second to fifth year inclusive | 124 | – |
| | <u>935</u> | <u>535</u> |