WING SHAN INTERNATIONAL LIMITED
榮 山 國 際 有 限 公 司
(Stock Code: 0570)

INTERIM REPORT 2006

CORPORATE INFORMATION

Board of Directors	*Executive Directors* HE Haochang *(Chairman & Managing Director)* LAM Siu Hung *(Director & Deputy Managing Director)* SITU Min *(Chief Financial Officer & Qualified Accountant)* LI Feng *Independent Non-executive Directors* CHAN Ting Chuen, David CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Company Secretary	HUEN Po Wah
Audit Committee	CHAN Ting Chuen, David *(Chairman)* CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Remuneration Committee	CHAN Ting Chuen, David *(Chairman)* HE Haochang CHEUNG Kin Piu, Valiant NG Pui Cheung, Joseph
Registered Office	Rooms 2801-2805, China Insurance Group Building 141 Des Voeux Road Central Hong Kong
Auditors	KPMG Certified Public Accountants Hong Kong
Share Registrar and Transfer Office	Computershare Hong Kong Investor Services Limited Shop 1712-16, 17th Floor 183 Queen's Road East Hong Kong
Principal Bankers	Bank of China (Hong Kong) Limited The Hongkong & Shanghai Banking Corporation Limited
Stock Code	570
Website	http://www.wingshan.com.hk

INTERIM RESULTS

The board of directors (the "Board") of Wing Shan International Limited (the "Company") with its subsidiaries (together known as the "Group") reports that the unaudited consolidated interim results of the Group for the six months ended 30 June 2006 are as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2006 – Unaudited
(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2006	2005
	Note	**$'000**	$'000
Turnover	2	**378,473**	391,081
Cost of sales		**(518,042)**	(403,375)
Gross loss		**(139,569)**	(12,294)
Other revenue	4	**13,940**	754
Other net income	4	**3,265**	2,275
Administrative expenses		**(13,968)**	(13,904)
Impairment losses	5	**(279,261)**	(94,783)
Loss from operations		**(415,593)**	(117,952)
Finance costs	6	**(8,145)**	(9,474)
Loss before taxation	6	**(423,738)**	(127,426)
Income tax	7	**51,332**	5,607
Loss for the period		**(372,406)**	(121,819)
Attributable to:			
– Equity shareholders of the Company		**(298,456)**	(117,000)
– Minority interests		**(73,950)**	(4,819)
Loss for the period		**(372,406)**	(121,819)
Loss per share	9		
– Basic		**36.0 cents**	14.1 cents
– Diluted		**N/A**	N/A

The notes on pages 6 to 18 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2006 – Unaudited
(Expressed in Hong Kong dollars)

	Note	At 30 June 2006 $'000	At 31 December 2005 $'000
Non-current assets			
Fixed assets			
– Property, plant and equipment		**733,117**	1,041,826
– Interests in leasehold land held for own use under operating leases		**22,678**	31,821
		755,795	1,073,647
Prepayment for planned maintenance		**6,543**	6,485
Deferred tax assets		**83,345**	31,725
		845,683	1,111,857
Current assets			
Consumables		**28,075**	25,359
Trade and other receivables	11	**101,085**	101,746
Tax recoverable		**–**	25
Cash and cash equivalents		**189,080**	132,340
		318,240	259,470
Current liabilities			
Trade and other payables	12	**269,345**	135,581
Provision for staff welfare		**10**	257
Bank loans	13	**81,490**	28,846
Current portion of other loans		**79,857**	–
		430,702	164,684
Net current (liabilities)/assets		**(112,462)**	94,786
Total assets less current liabilities		**733,221**	1,206,643
Non-current liabilities			
Bank loans	13	**69,848**	100,000
Other loans		**219,778**	296,984
		289,626	396,984
Net assets		**443,595**	809,659
Capital and reserves			
Share capital		**83,015**	83,015
Reserves		**274,301**	567,670
Total equity attributable to equity shareholders of the Company		**357,316**	650,685
Minority interests		**86,279**	158,974
Total equity		**443,595**	809,659

The notes on pages 6 to 18 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2006 – Unaudited

(Expressed in Hong Kong dollars)

	Share capital $'000	Share premium $'000	Capital redemption reserve $'000	Exchange reserve $'000	Reserve fund $'000	Enterprise development fund $'000	Retained profits/ (accumulated losses) $'000	Total equity attributable to equity shareholders of the Company $'000	Minority interests $'000	Total equity $'000
At 1 January 2005	83,015	1,041,726	297	–	23,481	23,481	220,535	1,392,535	201,550	1,594,085
Loss for the period	–	–	–	–	–	–	(117,000)	(117,000)	(4,819)	(121,819)
At 30 June 2005	83,015	1,041,726	297	–	23,481	23,481	103,535	1,275,535	196,731	1,472,266
At 1 January 2006	**83,015**	**1,041,726**	**297**	**20,729**	**23,481**	**23,481**	**(542,044)**	**650,685**	**158,974**	**809,659**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(298,456)**	**(298,456)**	**(73,950)**	**(372,406)**
Exchange differences on translation of accounts of a PRC subsidiary	**-**	**-**	**-**	**5,087**	**-**	**-**	**-**	**5,087**	**1,255**	**6,342**
At 30 June 2006	**83,015**	**1,041,726**	**297**	**25,816**	**23,481**	**23,481**	**(840,500)**	**357,316**	**86,279**	**443,595**

The notes on pages 6 to 18 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2006 – Unaudited

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Net cash generated from operations	**38,498**	73,794
Net cash generated from investing activities	**766**	673
Net cash generated from/(used in) financing activities	**17,476**	(16,484)
Increase in cash and cash equivalents	**56,740**	57,983
Cash and cash equivalents at the beginning of the period	**132,340**	98,258
Cash and cash equivalents at the end of the period	**189,080**	156,241
Analysis of balances of cash and cash equivalents		
Deposits with banks	**12,572**	17,374
Cash at bank and in hand	**176,508**	138,867
	189,080	156,241

The notes on pages 6 to 18 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

1. Basis of preparation

The interim financial report is unaudited, but has been reviewed by the audit committee of Wing Shan International Limited ("the Company") and by its auditors, KPMG, in accordance with Statement of Auditing Standards 700, "Engagements to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). KPMG's independent review report to the Board of Directors is included on pages 19 to 20.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard ("HKAS") 34 "Interim financial reporting" issued by the HKICPA. It was authorised for issuance on 15 August 2006.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated accounts as at and for the year ended 31 December 2005.

This interim financial report contains condensed consolidated accounts and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual accounts. The condensed consolidated interim accounts and notes thereon do not include all of the information required for full set of accounts prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs", which term collectively includes HKASs and Interpretations).

HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 Januray 2006. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual accounts for the year ending 31 December 2006, on the basis of HKFRSs currently in use.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

1. Basis of preparation (Continued)

The HKFRSs that will be effective or are available for voluntary early adoption in the annual accounts for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by HKICPA subsequent to the date of issuance of this interim financial report. Therefore the policies that will be applied in the Group's accounts for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual accounts. The adoption of the new and revised HKFRSs did not have any significant impact on the Group's results of operations and financial position.

The financial information relating to the financial year ended 31 December 2005 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory accounts for that financial year but is derived from those accounts. Statutory accounts for the year ended 31 December 2005 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those accounts in their report dated 18 April 2006.

2. Turnover

The principal activity of the Group is the generation and sale of electricity. Turnover represents the invoiced value, net of value added tax, of electricity supplied in Foshan City, Guangdong Province, the People's Republic of China ("PRC"). The amounts in the six months ended 30 June 2005 also included additional fuel cost surcharges of $62.2 million for electricity supplied, representing an adjustment for tariff of electricity supplied.

3. Segment reporting

The Group's results are almost entirely attributable to its generation and sale of electricity in the PRC. Accordingly, no segmental analysis is provided.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

4. Other revenue and net income

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Other revenue		
Government grants	**13,008**	–
Interest income	**932**	754
	13,940	754
Other net income		
Insurance compensation	**912**	–
Rental income	**2,316**	2,246
Others	**37**	29
	3,265	2,275

5. Impairment losses

During the six months ended 30 June 2006, the continuing increase in fuel oil price and expected decrease in future subsidies caused the Group to assess the recoverable amount of fixed assets of the Company's subsidiary, 佛山市沙口發電廠有限公司 (Foshan Shakou Power Plant Co., Ltd.) ("Shakou JV"). Based on this assessment, the carrying amount of the fixed assets was written down by $279 million. The estimates of recoverable amount were based on the value in use, determined using a discount rate of 7%. The amounts in the six months ended 30 June 2005 represented impairment of goodwill of $95 million.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

6. Loss before taxation

Loss before taxation is arrived at after charging:

	Six months ended 30 June	
	2006	2005
	$'000	$'000
(a) Finance costs		
Interest on bank advances and other borrowings wholly repayable within five years	**8,145**	9,474
(b) Other items		
Amortisation of lease prepayments	**1,031**	1,000
Depreciation		
– assets held for use under operating leases	**2,094**	2,031
– other assets	**44,958**	44,153

7. Income tax in consolidated profit and loss account

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Deferred Tax		
Origination and reversal of temporary differences	**(51,332)**	(5,607)

No provision has been made for Hong Kong Profits Tax as the Group sustained losses in Hong Kong for taxation purposes during the period. No provision for PRC enterprise income tax has been made during the period as the Company's subsidiary, Shakou JV, sustained a loss for taxation purposes.

8. Dividends

Dividends attributable to the interim period:

The directors do not recommend the payment of any interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: $nil).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

9. Loss per share

(a) *Basic*

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company for the six months ended 30 June 2006 of $298,456,000 (six months ended 30 June 2005: $117,000,000) and on the weighted average number of shares in issue during the six months ended 30 June 2006 of 830,146,244 (six months ended 30 June 2005: 830,146,244).

(b) *Diluted*

The diluted loss per share for the six months ended 30 June 2005 and 2006 is not shown as all potential ordinary shares are anti-dilutive.

10. Material related party transactions

(a) *Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate*

Foshan City District Electric Power Construction Corporation ("Power Construction Corporation") is a substantial shareholder of Shakou JV. Power Construction Corporation is a part of a larger group of companies under Power Group Corporation, which are owned by the PRC government and Shakou JV has significant transactions and relationships with Power Group Corporation, its subsidiaries and associate. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among unrelated parties.

The following is a summary of principal related party transactions with Power Group Corporation, its subsidiaries and associate, which were carried out in the ordinary course of business.

		Six months ended 30 June	
		2006	2005
Name of related company	**Nature of transaction**	**$'000**	$'000
Foshan City District Electricity Fuel Supply Company	Purchase of fuel (excluding value added tax)	**447,834**	330,805
Foshan City District Electric Power Construction Corporation and its associate	Interest on loans	**4,299**	6,374
Foshan Funeng Power Supply Co., Ltd.	Lease of facilities and premises	**2,316**	2,246

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

10. Material related party transactions (Continued)

(a) *Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate (Continued)*

(i) During the period, the Group purchased fuel from 佛山市區電力燃料公司 (Foshan City District Electricity Fuel Supply Company) ("Fuel Company"). As at 30 June 2006, amount due to Fuel Company was $259.6 million (31 December 2005: $120.8 million). The Fuel Company, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. The Fuel Company supplies fuel to the Group at prices which are determined by Shakou JV and the Fuel Company from time to time, but in any event will not be higher than: i) the then prevailing market prices for sales of fuel by the Fuel Company to independent third parties; or ii) the then quotation of price of the fuel that Shakou JV could obtain from other independent supplier, whichever is lower.

(ii) During the period, Shakou JV had outstanding loans due to Power Construction Corporation and its associate pursuant to certain loan agreements entered into between Shakou JV and the respective counter parties. As at 30 June 2006, the outstanding loans amounted to approximately $299.64 million (31 December 2005: $296.98 million). As at 30 June 2006, the loans amounting to $116.35 million are interest-bearing at a fixed rate of 5.76% per annum and the remaining balances are interest-free. (31 December 2005: loans amounting to $161.02 million are interest-bearing at a fixed rate of 5.76% per annum and the remaining balances are interest-free).

As at 30 June 2006, there was overdue interest payable to these parties amounting to $4.7 million, which is interest free. There was no overdue interest payable as at 31 December 2005. According to the loan agreements, overdue interest payable is subject to an interest penalty at a rate of 0.03% per day. No provision for these interest penalties has been made for the six months ended 30 June 2006 as the lenders have subsequently waived the interest penalties on all interest payable as in previous years.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

10. Material related party transactions (Continued)

(a) *Transactions with Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), its subsidiaries and associate (Continued)*

(iii) In July 2004, Shakou JV entered into a facilities lease agreement with 佛山市福能發電廠有限公司(Foshan Funeng Power Supply Co., Ltd.) ("Funeng JV"). Funeng JV, being a fellow subsidiary of Power Construction Corporation, is a related party to the Company because Power Construction Corporation is a substantial shareholder of Shakou JV. Pursuant to the facilities lease agreement, Shakou JV leased to Funeng JV certain assets (including office premises, factory premises, land use rights and auxiliary power generation facilities) for two years commencing from the date of the agreement and Shakou JV would receive two annual rental payments of approximately $4.63 million (Rmb 4.80 million) for each of the two years.

(b) *Key management personnel remuneration*

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Short-term employee benefits	**1,030**	1,577
Post-employment benefits	**36**	83
	1,066	1,660

(c) *Transactions with other state-owned entities in the PRC*

Power Group Corporation is a state-owned entity and together with Shakou JV both operate in an economic regime currently predominated by entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities").

Apart from transactions mentioned in note 10(a), transactions with state-owned entities include but not limited to the sales of electricity.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

10. Material related party transactions (Continued)

(c) *Transactions with other state-owned entities in the PRC (Continued)*

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state-owned. The Group has established its buying, pricing strategy and approval process for purchases and sales of products and services. Such buying, pricing strategy and approval processes do not depend on whether the counterparties are state-owned entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity's pricing strategy, buying and approval processes, and what information would be necessary for an understanding of the potential effect of the relationship on the accounts, the directors are of the opinion that the following transactions require disclosure as related party transactions:

	Six months ended 30 June	
	2006	2005
	$'000	$'000
Sale of electricity to grid company	**378,473**	391,081

	At 30 June 2006	At 31 December 2005
	$'000	$'000
Trade receivables from sale of electricity	**69,732**	79,106

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

11. Trade and other receivables

	At 30 June 2006 $'000	At 31 December 2005 $'000
Trade receivables	**69,732**	79,106
Other receivables	**31,353**	22,640
	101,085	101,746

Included in trade and other receivables is a trade debtor with the following ageing analysis:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Current	**68,342**	79,106
1 to 3 months overdue	**1,390**	–
	69,732	79,106

Debts are due within 30 days from the date of billing. All of the trade and other receivables are expected to recover within one year.

12. Trade and other payables

	At 30 June 2006 $'000	At 31 December 2005 $'000
Creditors and accrued charges	**3,669**	10,756
Amounts due to related companies	**265,676**	124,825
	269,345	135,581

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

12. Trade and other payables (Continued)

Included in trade and other payables are trade creditors with the following ageing analysis:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Due within 1 month or on demand	**259,584**	123,258

All of the trade and other payables are expected to settle within one year. The amounts due to related companies are unsecured and interest free.

13. Bank loans – secured

At 30 June 2006, the Group's bank loans were repayable as follows:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Within one year or on demand	**81,490**	28,846
After 1 year but within 2 years	**48,506**	51,923
After 2 years but within 5 years	**21,342**	48,077
	69,848	100,000
	151,338	128,846

The banking facilities of the PRC subsidiary are secured by charges over its power generating facilities with an aggregate carrying value of $674,153,000 (31 December 2005: $1,066,173,000). Such banking facilities amount to $151,338,000 (31 December 2005: $201,923,000), out of which $151,338,000 (31 December 2005: $128,846,000) were drawn down at 30 June 2006. The bank loans are denominated in Renminbi bearing floating interest rates ranging from 4.320% to 5.184% per annum as at 30 June 2006 (31 December 2005: from 4.941% to 5.184% per annum).

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

14. Equity settled share-based transactions

The Company has a share option scheme which was adopted on 22 May 2002 whereby the directors of the Company are authorized, at their discretion, to invite employees of the Group, including directors of any company in the Group, to take up options to subscribe for shares of the Company. The exercise price of options is the highest of the nominal value of the shares, the closing price of the shares on The Stock Exchange of Hong Kong Limited at the date of grant and the average closing price of the shares on The Stock Exchange of Hong Kong Limited for the five business days immediately preceding the date of grant. The options vest after six months from the date of grant and are then exercisable within a period of five years. Each option gives the holder the right to subscribe for one ordinary share in the Company.

(a) The terms and conditions of the grants that existed during the six months ended 30 June 2006 are as follows, whereby all options are settled by physical delivery of shares:

Date granted	Exercise period	Exercise price	**At 30 June 2006 ’000**
25 July 2002	25 January 2003 to 24 January 2008	$0.35	**828**
30 July 2002	30 January 2003 to 29 January 2008	$0.35	**8,000**
19 May 2003	22 November 2003 to 21 November 2008	$0.415	**1,500**
			10,328

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

14. Equity settled share-based transactions (Continued)

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

	2006 Weighted average exercise price	**2006** Number of shares '000	2005 Weighted average exercise price	2005 Number of shares '000
At 1 January	**$0.36**	**10,328**	$0.36	14,228
Lapsed and cancelled	**–**	**–**	$0.35	(3,900)
At 30 June 2006/ 31 December 2005	**$0.36**	**10,328**	$0.36	10,328
Options vested at 30 June 2006/ 31 December 2005	**$0.36**	**10,328**	$0.36	10,328

(c) No share option was exercised during the six months ended 30 June 2006 and during last year.

15. Contingent liabilities

Shakou JV had a syndicated loan denominated in US dollar which was fully repaid on 23 March 1998. Under the loan agreement, Shakou JV is required to bear any PRC tax payable in respect of interest paid to the lenders. By a letter dated 17 March 1998, the Shakou JV's former ultimate holding company, Foshan Development Company Limited, agreed to bear any tax liabilities, including penalties, if any, which may arise from the interest paid on the syndicated loan. The estimated tax which may be payable is approximately $43 million, excluding penalties.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT (Continued)

(Expressed in Hong Kong dollars)

16. Capital commitment

Capital commitment outstanding at 30 June 2006 not provided for in the accounts was as follows:

	At 30 June 2006 $'000	At 31 December 2005 $'000
Contracted for	**54,126**	51,187

On 23 August 2005, Shakou JV placed purchase orders with an independent third party supplier to provide certain spare parts for routine large-scale inspection and overhaul of its power plant.

INDEPENDENT REVIEW REPORT

KPMG

To the board of directors of Wing Shan International Limited

Introduction

We have been instructed by the company to review the interim financial report set out on pages 2 to 18.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

KPMG
Certified Public Accountants

Hong Kong, 15 August 2006

MANAGEMENT DISCUSSION AND ANALYSIS

Performance Review

The Group's total turnover decreased by 3.22% to HK$378.47 million which solely representing the on-grid tariff and there were no additional fuel cost surcharges for the six months ended 30 June 2006 (six months ended 30 June 2005: HK$391.08 million which included additional fuel cost surcharges received of HK$62.17 million). The decrease mainly resulted from no additional fuel cost surcharges approved and received during the period. However, from 1 April 2006 to 30 June 2006, the on-grid tariff during the peak load demand periods has been increased to HK$0.7913 per kilowatt-hour ("kwh") including value added tax. Furthermore, government grants from the Foshan Municipality amounting to HK$13.01 million (six months ended 30 June 2005: Nil) was recognised as other revenue. On the other hand, the total cost of sales grew more markedly by 28.43% to HK$518.04 million (six months ended 30 June 2005: HK$403.38 million), primarily reflecting the increase in fuel oil cost during the period. The Group suffered gross loss of HK$139.57 million (six months ended 30 June 2005: HK$12.29 million) resulting from the continuing increase in fuel oil cost, such cost recorded a relatively high growth, and the deferral in relation to the increase in on-grid tariff. Administrative expenses were contained at HK$13.97 million (six months ended 30 June 2005: HK$13.90 million) which were only increased by 0.46%. Loss from operations amounted to HK$415.59 million (six months ended 30 June 2005: HK$117.95 million). Loss from operations included HK$279.26 million in respect of impairment loss on fixed assets during the period (six months ended 30 June 2005: impairment loss on goodwill amounting to HK$94.78 million). Finance costs continued to decline from the previous HK$9.47 million to HK$8.15 million by 14.03%. Loss before taxation widened to HK$423.74 million (six months ended 30 June 2005: HK$127.43 million) and loss per share further deepened from the previous 14.10 Hong Kong cents to 36.00 Hong Kong cents.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review

Market Review

During the period, Foshan Municipality experienced sustained electricity demand growth as a result of the persistent and strong growth of economic activities in Guangdong Province, the People's Republic of China (the "PRC"). Despite the increased power supplies from the provincial grid, electricity supply shortage persisted. The Company's subsidiary, Foshan Shakou Power Plant Co., Ltd. ("Shakou JV") which owns and operates Shakou JV power plant, and other local power plants in Foshan Municipality had to operate at maximum capacity during peak load demand periods in order to improve the tight supply situation. However, operating environment remained extremely difficult as fuel oil prices surged to newer and higher levels and hovered at such levels during the period as a result of the movements in international oil prices. Moreover, on-grid tariff adjustment continues to be inflexible under the strict control of the relevant authorities of the Guangdong Provincial Government which caused the deferral in increasing on-grid tariff.

Electricity Sales

The Group decreased its electricity sales volume by 5.35% to approximately 658.59 million kwh (six months ended 30 June 2005: 695.81 million kwh). All the electricity produced was primarily sold to the Group's sole customer, 廣東電網公司佛山供電局 (Guangdong Power Grid Company, Foshan Power Supply Bureau) for onward sales and transmissions to end-users in Foshan Municipality, Guangdong Province, the PRC. From 1 April 2006 to 30 June 2006, the on-grid tariff during the peak load demand periods has been increased to HK$0.7913 per kwh including value added tax. The average plant utilization rate for the period dropped to 52.35% (six months ended 30 June 2005: 55.31%). During the period, no major incident of mechanical breakdown or operational failure was recorded.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review (Continued)

Fuel Oil Prices

During the period, international oil prices continued to hike and fuel oil prices hovered at high levels. With the support of its fuel oil suppliers, the Group continued its strategic bulk-purchasing policy and was able to sustain a less marked increase as compared with market magnitude in fuel oil cost. The weighted average cost of heavy oil consumed by Shakou JV for the period, therefore, increased by 38.90% from the previous Renminbi 2,303 to Renminbi 3,196 per tonne. Shakou JV has decided to reduce the generation of electricity in low demand periods to balance the effect from increase in fuel oil prices.

Additional Fuel Cost Surcharges

The Group continued its strategy to reduce the full impact of increased fuel oil cost on its performance by negotiation with the relevant PRC parties of the Guangdong Provincial Government and the customer for additional fuel cost surcharges. However, no additional fuel cost surcharges have been approved or received as the result of increasing in on-grid tariff during the peak load demand periods to HK$0.7913 per kwh including value added tax. The management would endeavor its best effort to liaise and to struggle for additional fuel cost surcharges to offset the adverse impact of the increased fuel cost on the Group's operating results.

Subsidies from Local Government

After the strong request of the oil-fired power plants in the Foshan Municipality, the People's Government of Foshan Municipality has committed to give subsidies to the oil-fired power plants since the last quarter of 2005. The amount approved during the period was HK$13.01 million (six months ended 30 June 2005: Nil) which had been recognised as government grants. The management would continue to request for more subsidies from the local government in order to set off part of the impact of increased fuel oil cost on the Group's performance.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review (Continued)

Major Overhaul of Shakou JV Power Plant

On 18 July 2005, Shakou JV entered into long term spare parts supply agreement, long term reconditioning services agreement and long term technical agreement with an independent supplier for major overhaul of Shakou JV power plant. According to the agreements, two purchase orders both dated 23 August 2005 were placed by Shakou JV requesting the supplier to supply certain spare parts and perform inspection respectively to the Shakou JV power plant for the purpose of undertaking a routine large-scale inspection plus an overhaul and upgrading program for the Shakou JV power plant. Upon the completion of the purchase orders, it is expected that the power generating facilities will benefit in the following ways:

1. ability to maintain maximum capacity availabilities of the power generation facilities at all times, especially during peak load demand periods;

2. ability to maintain uninterrupted electricity supply to Foshan Municipality; and

3. avoidance of or reduction in the occurrence of unexpected failures and breakdowns.

Details of the purchase orders had been disclosed in the Company's circular dated 13 September 2005.

Facility Lease Agreement

On 30 July 2004, Shakou JV and 佛山市福能發電廠有限公司 (Foshan Funeng Power Supply Co., Ltd.) ("Funeng JV"), a Sino-foreign equity joint-venture established in the PRC, entered into the Facility Lease Agreement, pursuant to which Funeng JV agreed to lease from Shakou JV certain assets (including office premises, factory premises, land use rights and auxiliary power generation facilities) for two years commencing from 30 July 2004, the date of the Facilities Lease Agreement. The consideration is to be satisfied in cash by two annual payments of approximately HK$4.63 million each. Under the request of Funeng JV, Shakou JV has allowed to extent the lease for two months.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Operational Review (Continued)

Facility Lease Agreement (Continued)

As Foshan City District Electric Power Construction Corporation ("Power Construction Corporation"), a wholly-owned subsidiary of Foshan Electric Power Construction Group Corporation ("Power Group Corporation"), is a substantial shareholder (as defined in the Listing Rules) of Shakou JV, it is a connected person of the Company within the meaning of the Listing Rules. Funeng JV, being a subsidiary of Power Group Corporation, is an associate (as defined in the Listing Rules) of Power Construction Corporation by virtue of its being a fellow subsidiary of Power Construction Corporation and thus the entering into of the Facilities Lease Agreement between Shakou JV and Funeng JV constitutes a connected transaction of the Company and the transactions arising therefrom constitute continuing connected transactions under Chapter 14A of the Listing Rules.

Since, in respect of the aggregate consideration on an annual basis under the Facilities Lease Agreement payable by Funeng JV to Shakou JV, each of the applicable percentage ratios for connected transaction purpose is less than 2.5%, the entering into the Facilities Lease Agreement is only subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules and no shareholders' approval is required. Details of the transactions had been disclosed in the Company's announcement dated 2 August 2004.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review

Liquidity and Financial Resources

The Group funded its operation largely by internal cash inflow generated from its operating activities even though suffered a significant loss for the period which included non-cash flow impairment losses on fixed assets amounting to HK$279.26 million (six months ended 30 June 2005: HK$94.78 million representing impairment of goodwill). Net cash generated from operating activities amounting to HK$38.50 million (six months ended 30 June 2005: HK$73.79 million) was mainly due to the increased trade and other payables. Net cash generated from investing activities amounted to HK$0.76 million (six months ended 30 June 2005: HK$0.67 million). During the period, the Group did not repay any other loans and bank loans but the Group drawn down HK$21.34 million bank loan (six months ended 30 June 2005: repayment of HK$47.39 million and re-financed by a new bank loan of HK$47.39 million). There was no movement in other loans, the change in book value of other loans was due to the change in exchange rate. As a result, net cash generated from financing activities amounted to HK$17.48 million (six months ended 30 June 2005: used in financing activities HK$16.48 million). Total cash and cash equivalents as at 30 June 2006 increased from HK$132.34 million to HK$189.08 million during the period.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Liquidity and Financial Resources (Continued)

As at 30 June 2006, the Group's total current assets amounting to HK$318.24 million (31 December 2005: HK$259.47 million), mainly comprised of cash and cash equivalents of HK$189.08 million (31 December 2005: HK$132.34 million), and trade and other receivables of HK$101.09 million (31 December 2005: HK$101.75 million). Total current liabilities amounting to HK$430.70 million (31 December 2005: HK$164.68 million), mainly comprised of trade and other payables of HK$269.35 million (31 December 2005: HK$135.58 million), other loans due within one year of HK$79.86 million (31 December 2005: Nil), and bank loans due within one year of HK$81.49 million (31 December 2005: HK$28.85 million). Net current liabilities amounted to HK$112.46 million (31 December 2005: Net current assets of HK$94.79 million). Under these circumstances, the Group has arranged for more favorable credit terms from its main fuel oil supplier such as the delay of payment and waiver of the interest for late payment; the repayment of current portion of other loans are under negotiation to be postponed; and then new bank loans will be drawn down to repay the bank loans while fall due. The management believes that these arrangements can make well to the liquidity and solvency of the Group.

Committed Banking Facilities

As at 30 June 2006, the Group had available committed banking facilities in Renminbi from three PRC banks for an aggregate amount of HK$151.34 million (31 December 2005: HK$201.92 million). Up to 30 June 2006, HK$151.34 million (31 December 2005: HK$128.85 million) was drawn down and the bank loans bear interest at an annual rate from 4.320% to 5.184% (31 December 2005: from 4.941% to 5.184%). Save as disclosed herein, the Group had no other bank borrowings or committed banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Charges on Group Assets

As at 30 June 2006, Shakou JV power generating facilities of an aggregate carrying value of HK$674.15 million (31 December 2005: HK$1,066.17 million) were charged to three banks in the PRC to secure the respective banking facilities for Shakou JV's working capital requirements. Apart from such, no other part of the Group's assets has been charged to banks, financial institutions or other enterprises.

Capital Structure and Gearing Ratio

The Group continues to finance its non-current assets principally by a mix of long-tem loans and shareholders' equity. The Group's non-current portion of long-term loans amounted to HK$289.63 million (31 December 2005: HK$396.98 million). Total long-term loans mainly consisted: (1) the aggregate outstanding balance of the unsecured long-term Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate; and (2) Renminbi term loans due to three PRC banks. The long-term Renminbi loans due to Shakou JV's PRC joint-venture partner and its associate were primarily employed to re-finance Shakou JV's investment in its fixed assets, principally power generating facilities, and were repayable within 10 years commencing from 1997 and 1998. The applicable interest rates for the period were 5.76% (31 December 2005: 5.76%) per annum. Gearing ratio, being the aggregate amount of the non-current portion of long-term bank loans and other loans as a percentage of equity attributable to equity shareholders of the Company, increased from the previous 61.01% to 81.06%. The increase in gearing ratio was mainly owing to the decrease in shareholders' equity of the Company.

Net Assets

The Group's net assets value excluding minority interests amounted to HK$357.32 million (31 December 2005: HK$650.69 million). Therefore, net assets excluding minority interests per share dropped from the previous HK$0.78 to HK$0.43 primarily resulted from the loss for the period attributable to equity shareholders of the Company amounting to HK$298.46 million.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Review (Continued)

Contingent Liabilities

Shakou JV had a syndicated loan denominated in US dollar which was fully repaid on 23 March 1998. Under the loan agreement, Shakou JV is required to bear any PRC tax payable in respect of interest paid to the lenders. By a letter dated 17 March 1998, the Shakou JV's former ultimate holding company, Foshan Development Company Limited, agreed to bear any tax liabilities, including penalties, if any, which may arise from the interest paid on the syndicated loan. The estimated tax which may be payable is approximately HK$43.00 million, excluding penalties.

Exchange Rate Risk

In the course of the period, the Group's revenue, operating costs, finance costs, debt servicing and capital expenditure were substantially denominated in Renminbi. Currently the exchange rate of Renminbi against Hong Kong dollars has been relatively stable so no financial instrument has been used for the purpose of hedging exchange rate risk during the period.

Employees and Remuneration Policies

On 30 June 2006, the Group employed 175 staff (31 December 2005: 173) including directors of the Company. The remuneration policy for the Group's employees are reviewed and approved by the Board together with the remuneration committee on a periodical basis. The Group remunerates its employees based on industry practice. The remuneration packages principally comprise of salary, discretionary performance bonuses based on individual merits and share option scheme.

BUSINESS RISK ASSESSMENT

The major operating expense of the Group is fuel oil cost. Due to the continuing rise in fuel oil prices, the fuel oil cost increased significantly from the past and remained at such high levels. As a result, this caused the Group to suffer from a gross loss. Strong global growth may lead to continuous high oil prices. The predicted ongoing rise in oil prices will be a critical factor to the Group. The on-grid tariff adjustment remained inflexible because it is determined by mutual agreement with the sole customer and also subject to the approval by the relevant authorities of the Guangdong Provincial Government, such as Guangdong Provincial Price Bureau.

The management continues its strategy to reduce the full impact of increased fuel oil cost on its performance by negotiating with the relevant PRC parties of the Guangdong Provincial Government and the sole customer for increase in on-grid tariff. The management will also request for more subsidies from the Foshan Municipality. If possible, the management would endeavor its best effort to liaise and to struggle for additional fuel cost surcharges to offset the adverse impact of the increased fuel cost on the Group's operating results.

In fact, the increase in on-grid tariff is not in line with the increase in fuel oil prices. It is probably because of the fact that the pace of increase in fuel oil prices is far faster than the increase in on-grid tariff. In case such situation is going on, it will constitute a significant adverse impact on the liquidity, but above all, the gross loss on top of the results of the Group.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2006 (six months ended 30 June 2005: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS

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

Long positions in shares and underlying shares of the Company:

	Number of Ordinary Shares				Approximate
Name of Directors	Personal Interests (held as beneficial owner)	Corporate Interests (interests of controlled corporation)	Underlying Shares Pursuant to Share Options *(Note 2)*	Total Interests	Percentage of Total Interests to Issued Share Capital (%)
HE Haochang	–	6,117,079 *(Note 1)*	4,200,000	10,317,079	1.24
SITU Min	–	–	3,800,000	3,800,000	0.46
LI Feng	–	–	1,500,000	1,500,000	0.18
CHAN Ting Chuen, David	828,000	–	–	828,000	0.10
NG Pui Cheung, Joseph	–	–	828,000	828,000	0.10

Notes:

1. These shares were held by Main Fortune International Limited which is 50% owned by Mr. HE Haochang.

2. These represent interests of options granted to the directors under the Share Option Scheme to acquire for shares of the Company, further details of which are set out hereinafter.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS (Continued)

Other than as disclosed above, none of the directors and chief executives of the Company had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations as recorded in the register which were required to be kept by the Company under 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. None of directors or their spouses or children under the age of 18, had been granted any right to subscribe for the equity or debt securities of the Company or any of its associated corporations, or had exercised any such right during the period.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

On 30 June 2006, the interests and short positions of the shareholders, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register which were required to be kept by the Company under section 336 of the SFO were as follows:

	Number of Ordinary Shares				Percentage of Issued Capital
	Personal Interest	Corporate Interest	Family Interest	Other Interest	(%)
Hensil Investments Group Limited	–	315,000,000 *(Note 1)*	–	–	37.95
Foshan Development Company Limited	–	315,000,000 *(Note 1)*	–	–	37.95
YIP Siu Chun	290,196,037 *(Note 2)*	–	–	–	34.96
Oakwood Enterprise Limited	–	–	–	290,196,037 *(Note 2)*	34.96
KWAN Tik Hoi	–	–	290,196,037 *(Note 2)*	–	34.96

SUBSTANTIAL SHAREHOLDERS' INTERESTS (Continued)

Notes:

1. The 315,000,000 shares are held by Hensil Investments Group Limited, which is wholly-owned by Foshan Development Company Limited. By virtue of its interest in Hensil Investments Group Limited, Foshan Development Company Limited is deemed to be interested in such 315,000,000 shares held by Hensil Investments Group Limited.

2. The 290,196,037 shares are held by Madam YIP Siu Chun as beneficial owner. Oakwood Enterprise Limited has given notification in respect of its interest in 290,196,037 shares held by Madam YIP Siu Chun. By virtue of his relationship as the spouse of Madam YIP Siu Chun, Mr. KWAN Tik Hoi is deemed to be interested in the 290,196,037 shares held by Madam YIP Siu Chun.

Save as disclosed above, the register which was required to be kept under section 336 of the SFO showed that the Company had not been notified of any interests or short positions in the shares and underlying shares of the Company as at 30 June 2006.

SHARE OPTION SCHEME

The Company adopted a share option scheme (the "Scheme") dated 22 May 2002 for any eligible employee or director of any member of the Group. Details of the Scheme have been disclosed in the Company's most recent published annual report. As at 30 June 2006, only the following directors and chief executives had personal interests in the share options to subscribe for the shares of the Company:

Name of Directors/ Chief Executives	No. of Options Outstanding as at 1 January 2006	Date of Grant	Period during which Options Exercisable	Exercise Price per Share (HK$)	Market Value per Share at Date of Grant (HK$)	No. of Options Outstanding as at 30 June 2006
HE Haochang	4,200,000	30/7/2002	30/1/2003 – 29/1/2008	0.35	0.33	4,200,000
SITU Min	3,800,000	30/7/2002	30/1/2003 – 29/1/2008	0.35	0.33	3,800,000
LI Feng	1,500,000	22/5/2003	22/11/2003 – 21/11/2008	0.415	0.395	1,500,000
NG Pui Cheung, Joseph*	828,000	25/7/2002	25/1/2003 – 24/1/2008	0.35	0.345	828,000
Total	10,328,000					10,328,000

* *Independent non-executive director*

Notes:

1. No share option has been granted during the period.

2. No share option has been exercised, cancelled or lapsed during the period.

3. The vesting periods of the options are from the date of the options granted until the commencement of the exercise period.

4. Market value is the closing price at date preceding the date of options granted.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND DEBENTURES

Saved as disclosed in above section headed "Share Option Scheme" of this report, at no time during the period were there any rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any directors or their respective spouses or children under 18 years of age, or were there any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

CODE OF CORPORATE GOVERNANCE PRACTICES

To the knowledge of the Board, the Company has complied throughout the six months ended 30 June 2006 with the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except to the Code Provision A.2.1 that, the roles of Chairman and Chief Executive Officer (defined as Managing Director by the Company) should be separate and should not be performed by the same individual. Mr. HE Haochang is the Chairman and Managing Director of the Company. The reason of the combined position of the Company's Chairman and Managing Director is that the Group's principal activities are the generation and sale of electricity in Foshan Municipality, Guangdong Province, the PRC. The Chairman familiarizes and has good communication channels with the leaders of the relevant PRC parties. In addition, the Chairman possesses the ability to handle the different corporate cultures between Hong Kong and PRC enterprises. The principle of segregation of duty has been carried out among members of the Board for the purposes of balance of power and all directors are freely to brief on issues arising at the Board meeting. The Board believes that the structure outlined above is beneficial to the Company and its business.

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the directors of the Company and in accordance with information provided, all the directors have complied with the provisions under the Model Code.

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

During the six months ended 30 June 2006, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares.

By Order of the Board
HE Haochang
Chairman and Managing Director

Hong Kong, 15 August 2006

As at the date of this report, the Board comprises of 7 directors, of whom Mr. HE Haochang, Mr. LAM Siu Hung, Mr. SITU Min, Mr. LI Feng are the executive directors; and Mr. CHAN Ting Chuen, David, Mr. NG Pui Cheung, Joseph and Mr. CHEUNG Kin Piu, Valiant are the independent non-executive directors.