Tinci Holdings Limited

2006 Annual Report

TINCI

天 賜 企 业

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Directors, Secretary and Advisers

Directors
Sir David BREWER
(Non-executive Chairman)

XU Jinfu
(Chief Executive)

WANG Keer

PAN Wen Zhong

CHENG Shifa ('Joshua')

(Non-executive)

David STEEDS
(Non-executive)

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Tinci's Business Overview

Tinci specialises in the provision of environmental engineering services. Its core business is the design and management of Flue Gas Desulphurisation (FGD) engineering projects, which involve processes to reduce or minimise the sulphur dioxide content from industrial and utility coal-fired boiler flue gases. Its main customers are industrial companies running coal-fired electricity plants and other industrial users of large-scale coal-fired boilers.

Tinci is one of the leading privately owned FGD engineering companies in Guangdong Province in Southern China and is among the top ten in China. Tinci is the only company in Guangdong Province capable of undertaking FGD projects for small, medium- and large-sized coal-fired electricity plants.

Tinci has licensed rights to use three established FGD processes from leading American and European groups, comprising wet, dry and semi-dry methods. All three processes are proven techniques in the developed economies and are licensed respectively from Environeering Environmental Co. (a subsidiary of Ducon Technologies Inc. of the USA), GEA Technology (Shanghai) Co. Ltd (a subsidiary of Niro A/S of Denmark and a member of the GEA Group of Germany), and RAGAR AG (also of Germany).

Tinci designs the FGD facilities and acts as project manager for their construction. The construction works are sub-contracted, with Tinci monitoring all stages of the construction process. Up to 31 December 2006, the Company had secured contracts for a total of 15 FGD engineering projects for small, medium- and large-sized desulphurisation projects and two waste-water-treatment projects.

Sulphur dioxide absorber, Zhanjiang Project in Guangdong Province

Tinci's research and development team has also worked with external experts and developed its own in-house FGD process, the TFGD Double Alkali process (TFGD). Under TFGD, the construction costs of the desulphurisation facilities are lowered and the lead time for their set-up is shortened. This technique is most suitable for small-sized projects and has so far been used in eight projects, five of which have been completed. Tinci applied for a patent for TFGD in China in April 2006 and expects the patent to be granted around November 2007.

In addition, the Group undertakes waste-water-treatment projects and has won contracts with Yingde City Government Water Supply Company and Dongguan Liwen Papermaking Company.

Tinci is also researching processes for the elimination of nitrogen oxides from flue gas emissions (DeNOx). The technology involved is similar to FGD, and Tinci intends to revise and adapt its existing FGD processes to exploit this market. Since the year end Tinci has signed its first DeNOx contract with Taiyun Steel Group in Shanxi Province. This contract uses technology from Haldor Topsøe A/S of Denmark.

Chief Executive Officer's Review

I am pleased to present this, the first annual report of Tinci Holdings Ltd. We have made steady progress in 2006 and increased our turnover by 24%, compared with 2005. Harsh market competition reduced operating margins but the company remains profitable.

Operating Update

The Company completed an Initial Public Offering (IPO) on AIM, a market operated by the London Stock Exchange, on 31 July 2006, which laid a firm foundation for the development of the Company. The year 2006 was a year not only of development for the Company's business but also full of challenges as new entrants to the FGD market reduced prices to unsustainable levels in order to win market share. This resulted in a lower average gross profit than in 2005 for projects in this industry, which in turn led the Company to slow down development work in the large-sized FGD (600+MW) market and to decline to bid on some build-operate-transfer (BOT) projects. These factors were the major contributors to lower operational income and profit.

Since September 2006, Tinci has strengthened the marketing of its own proprietary TFGD technology and introduced Spray Dryer Absorber (SDA) technology from NIRO A/S of Denmark, which consolidated the Company's leading position in the medium to small desulphurisation market. Meanwhile, the Company has also begun promoting DeNOx technology from Haldor Topsøe A/S to the Chinese market.

Spray Drying Absorber (SDA), Jinguan Project in Henan Province

Financial Performance

Since almost all the Group's transactions are in Renminbi (RMB), the Board has decided to publish these and future accounts in Renminbi. As the Renminbi becomes increasingly recognised as an international currency, we expect more Chinese companies to report in that currency.

In 2006, Tinci's revenues reached RMB 277 million compared with RMB 222 million for the previous year, an increase of 24%. However, the profit before taxation at RMB 12.4 million was well down on the previous year (2005 – RMB 56.3 million) although, because of the effect of tax exemption on the 2006 profit, after-tax profit was RMB 20.4 million, a decrease of 57% from the previous year's level (RMB 47.5 million). There was a cash outflow from operating activities in 2006 of RMB 24.5 million compared with an inflow of RMB 15.1 million in 2005.

Outlook

The Directors are expecting 2007 to be a difficult year for Tinci, and the Company is expected to report a loss for the first half-year in 2007. The aggressive price competition for large-scale desulphurisation projects experienced in the FGD market since late 2005 has continued into 2007, resulting in an approximate 60% decrease in profits of large-scale FGD projects. Faced with this, and given the high level of equity investment required to fund large-scale FGD projects, the management of Tinci has adopted a selective tender-bidding strategy to preserve profit margins and protect shareholders' interests.

This has led to a significant decrease in revenues for the first half of 2007 compared with the same period last year. Work has been completed on the majority of the construction work at two of the Company's largest projects – the Zhanjiang Sulphur dioxide absorber site in Guangdong Province, and the Jingyuan FGD project in Gansu Province – and, coming into the end of the first half of 2007, the Company has not won any new large-scale tenders.

The Company does expect, however, that the new entrants to FGD, who have been responsible for driving down prices, will drop out as they fail to establish a profitable market share. Consequently, the abnormally low prices bid for large projects will gradually disappear from the market in the future.

Operating expenses for the half-year of 2007 are being exacerbated by Tinci's higher than expected investment in resources in the Jinguan SDA project (in Henan province), the first SDA project to be undertaken in the Chinese market. Tinci has also withdrawn from bidding for some large FGD projects, which are now being procured in BOT mode, to ensure that current resources are directed to projects that will boost the Company's profitability and maintain market share.

The key factor in achieving higher market share in the current climate will be offering a good performance relative to the price charged for Tinci's services. Under favourable national and local environmental management policies, the medium to small desulphurisation market should speed up its expansion in 2007 and beyond.

In the years ahead, Tinci expects to continue to play an important role in China's desulphurisation market. At the beginning of 2007, the Company successfully won a DeNOx project from Shanxi Taiyuan Steel and a desulphurisation project from the Lanzhou Oil Refinery of China Oil. The winning of the DeNOx project realises the company's goal for entering the DeNOx market ahead of schedule, as it was originally timetabled for 2008. The success in wining the project from Lanzhou Oil Refinery opens the door for the Company to have the opportunity to bid and win further desulphurisation projects from China Oil in the next few years.

In 2007, Tinci will continue to innovate and develop its technology as well as to introduce new solutions to satisfy market demand and to serve different clients through technology differentiation. Tinci has clearly defined its market target and strategy. Because it has won good projects and key customers, the Company should have excellent competitive advantages in the FGD market in China.

Management and Staff

The company relies on a dedicated team of management and staff to build its business, and the Board and I would like to thank all members of staff for their contribution to the progress of the Company. I am also grateful to all shareholders, who continue to understand and support the Company.

Xu Jinfu
Chief Executive Officer
15 June 2007

Directors' Report

The directors present their first annual report together with the audited financial statements for the year ended 31 December 2006.

Incorporation

The Company was incorporated on 5 June 2006. On 14 July 2006, the Company acquired the whole of the issued share capital of World International Investment Limited ('World International'), a company registered in Hong Kong, in exchange for the issue of 49,995,000 ordinary shares of 1p in the Company.

Principal Activities and Review of Business Developments

The principal activities of the Company and its subsidiaries (the 'Group') are the design, sale and installation of environmental engineering systems to power industry customers in China. A review of the year and future developments is given in the Chief Executive Officer's Review on pages 5 to 7.

Dividends

The directors do not recommend the payment of a dividend (2005: Nil).

Directors

The following directors have held office during the year and up to the date of this report:

Sir David BREWER	(Chairman) (appointed 31 July 2006)
XU Jinfu	(Chief Executive) (appointed 5 June 2006)
PAN Wen Zhong	(appointed 28 June 2006)
WANG Keer	(appointed 5 June 2006)
CHENG Shifa ('Joshua')	(Non-executive) (appointed 31 July 2006)
David STEEDS	(Non-executive) (appointed 31 July 2006)

All the directors are offering themselves for re-election at the first Annual General Meeting.

Directors' Interests in the Shares of the Company

The following are the beneficial interests (including family holdings) in the shares and options of the Company directors who served the Company during the period:

	£0.01 Ordinary shares **At 31 December 2006**	*Options to acquire ordinary shares* **At 31 December 2006**
Sir David BREWER	21,428	–
XU Jinfu	21,807,000	–
PAN Wen Zhong	–	20,280
WANG Keer	9,813,000	–

CHENG Shifa ('Joshua')	1,000,000	–
David STEEDS	22,000	–

Substantial Interests

At the date of this report, the Company had not been notified of any substantial shareholdings other than the directors' shareholdings disclosed above.

Creditor Payment Policy

The Company's policy concerning the payment of trade creditors is to:

- settle the terms of payment with suppliers when agreeing the terms of each transaction
- ensure that suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with the Company's contractual and other legal obligations

Reporting Currency

The Board has reviewed the Group's reporting currency, which was sterling for the Admission Document and the Half-Year Accounts. Almost all the Group's financial transactions are in Renminbi, which is becoming established as a major international currency. Accordingly the Board resolved to present these and future reports in Renminbi.

Financial Risk Management

The Company's operations involve purchasing components both within China and from overseas, assembling them and installing them at clients' premises. This exposes it to the usual range of financial risks facing all similar businesses, including the effects of changes in the market prices of commodities, credit risk, liquidity risk and interest-rate risk. Its exposure to financial risk and the procedures for managing this risk are set out in note 22 to the Financial Statements.

Going Concern

The directors are required to report that the business is a going concern, with supporting assumptions or qualifications as necessary.

After making enquiries, the directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Consequently, they have continued to adopt the going-concern basis in preparing the financial statements.

Auditors

The Board appointed PKF as auditors on 18 October 2006. A resolution to re-appoint PKF as auditors will be put to the members at the annual general meeting.

By order of the Board
PAN Wen Zhong
Director
15 June 2007

Corporate Governance Report
Year ended 31 December 2006

Corporate Governance is concerned with how companies are directed and controlled and in particular, with the role of the Board of Directors and the need to ensure a framework of effective accountability. The Group is committed to high standards of Corporate Governance.

Tinci Holdings Limited was listed on AIM in July 2006 and is therefore not required to comply with the provisions of the Combined Code. However, the Directors believe that good corporate governance is essential and, having considered the provisions of the code, set out below those principles which the group has adopted since incorporation and the way in which the group has applied these principles.

Directors and the Board

1. *The Board*

The Company is headed by a Board consisting of three executive and three non-executive directors. Brief biographical details of the directors are set out below.

Sir David Brewer, CMG, FCII, Non-executive Chairman

David Brewer is one of the leading UK experts on the financial services sector in China. His experience in China dates back to 1981, when he set up the Chinese office of the Sedgwick Group, making it the first Western insurance broker to open an office in China. In 1993 he was responsible for obtaining the first authorisation of an insurance broker in China. Sir David was Lord Mayor of the City of London in 2005/06. He is a non-executive director of London Asia Capital plc, which is traded on AIM.

Mr Xu Jinfu, BSc, MSc, Chief Executive Officer

Mr Xu founded Tinci in 2001 and has ultimate responsibility for its strategic planning and overall performance. He also focuses on growing existing business streams through delivery of new products and improving operational processes. He is responsible for the relationship management with Tinci's various banks. He is an experienced chief executive and entrepreneur, having established Guangzhou Tinci Hi-Tech Materials Technology Co. Ltd in 1995, which was nominated as a Top 100 Private Enterprise in Guangzhou in 2004. Mr Xu received his Bachelor of Science Degree in Organic Chemistry from the Hangzhou University and Master of Science Degree from the China Academy of Science.

Mr Pan Wen Zhong, CCPA, CCTA, Chief Financial Officer

Mr Pan is a graduate from Guangzhou Sun Yet-Sen University in Guangdong province. He is professionally qualified as a Chinese Certified Public Accountant (CCPA) and as a Chinese Certified Tax Agent (CCTA). He has been in the accounting profession in China for over fifteen years, of which ten years were spent with Guangdong Yangcheng Certified Public Accountants Company Limited. Prior to joining Tinci in November 2005, his experience with other commercial enterprises has included the Hong Kong Group in Guangzhou.

Ms Wang Keer, Chief Operating Officer

Ms Wang was a co-founder of Tinci and oversees the operations of the Company. She has particular responsibility for marketing and customer relations and also focuses on establishing marketing strategy and strengthening the Company's position in the market. Ms Wang has previously been manager of the advertising department of the Guangzhou Nanfang Daily, one of the mainstream newspapers in Guangzhou for the Shenzhen Laiyingda Group. She is a graduate of the Hunan Finance and Economy Academy.

Dr Cheng Shifa ('Joshua'), Non-executive Director

Dr Cheng is a US permanent resident based in Austin, Texas. He has acted as a senior consultant to Tinci since 2003 and is bilingual in Mandarin and English. A member of the American Chemical Society, he has numerous academic qualifications – including a PhD in Chemistry from Mississippi State University and an E-MBA from the IC2 Institute of the University of Texas – and is the author of many academic papers and abstracts. He has consulted and assisted in product development for several chemical companies and was instrumental in obtaining the Wet Limestone process licence from Ducon EEC for Tinci.

Mr David Steeds, MA, FCA, Non-executive Director

David Steeds is a UK-resident Chartered Accountant and is a director of the PFI Infrastructure Co. plc and a number of private companies. He was previously corporate development director of QinetiQ Group plc and Serco Group plc and Chief Executive of the UK Government's Private Finance Panel. He has an MA in Natural Sciences from Cambridge University.

Board Meetings

The Board meets at regular intervals and is responsible for setting strategy and policy. All Directors may take independent professional advice at the Company's expense in the furtherance of their duties.

The Board has two principal Board Committees, both of which operate within written terms of reference and the members of which are non-executive directors. Details of the present composition and the main responsibilities of these Committees are as follows:

Audit Committee

David Steeds (Chairman)
Sir David Brewer
Cheng Shifa ('Joshua')

The main responsibilities of the Audit Committee are to:

- review and advise the Board on the interim and annual financial statements
- review with the external auditors the nature and scope of their audit, the results of that audit, any control issues raised by them and by management's response
- make recommendations about the appointment and remuneration of the external auditors and any question of their resignation or removal
- monitor compliance with systems of internal controls, policies and procedures

The Committee meets at least twice each year.

Remuneration Committee

David Steeds (Chairman)
Sir David Brewer
Cheng Shifa ('Joshua')

The Committee is responsible for reviewing the scale and structure of the executive directors' and senior employees' remuneration and the terms of their service or employment contracts, including share option schemes and bonus arrangements. The remuneration and terms and conditions of the non-executive directors will be set by the entire Board.

The Committee will meet at least once a year.

2. Board Balance

The Board has three executive directors and three non-executive directors.

The Combined Corporate Governance Code ('the Combined Code') requires that a senior non-executive director other than the Chairman should be identified as a person to whom concerns can be conveyed. The Board did not consider that this aspect of the Combined Code was helpful at the present time, given the size and composition of the Board, which is considered adequate for a company of this size.

3. Appointments to the Board

The Company does not have a nomination committee because of the small size of the Group. Any appointments to the Board would be considered by the entire Board.

4. Re-election

In line with the Company's Articles of Association all the Directors will retire at the Company's first AGM in 2007 and submit themselves for re-election.

Directors' Remuneration

1. The Level and Composition of Remuneration

The Board believes that levels of remuneration should be sufficient to attract and retain the directors needed to run the Company successfully.

2. Procedure

The Remuneration Committee is responsible for determining the remuneration, terms and conditions and bonus schemes of the executive directors.

The remuneration of the non-executive directors is determined by the Board as a whole. No director is involved in discussions about his or her own remuneration.

3. Disclosure

Details of the remuneration of the directors are set out below:

	2006				*2005*		
	Directors' Fees	**Salaries**	**Share-based Payments**	**Total**	**Directors' Fees**	**Salaries**	**Total**
	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Sir David BREWER	184,749	–	221,251	406,000	–	–	–
XU Jinfu	–	–	–	–	–	–	–
PAN Wen Zhong	–	86,400	–	86,400	–	–	–
WANG Keer	–	120,000	–	120,000	–	120,000	120,000
CHENG Shifa	153,650	–	–	153,650	–	–	–
David STEEDS	184,381	–	–	184,381	–	–	–
	522,780	**206,400**	**221,251**	**950,431**	**–**	**120,000**	**120,000**

Details of share options awarded to PAN Wen Zhong are given in note 20 to the Financial Statements.

Accountability and Audit

1. *Financial Reporting*

The Board believes that its Annual Report and financial statements present a balanced and understandable assessment of the Group's position and prospects and comply with the legal and regulatory requirements for financial reporting relevant to the Group.

2. *Internal Control*

The Directors are responsible for the Group's system of internal control. The system addresses and monitors key business and financial risks. Any such system can, however, provide only reasonable and not absolute assurance against any misstatement or loss.

The key procedures established by the Board include:

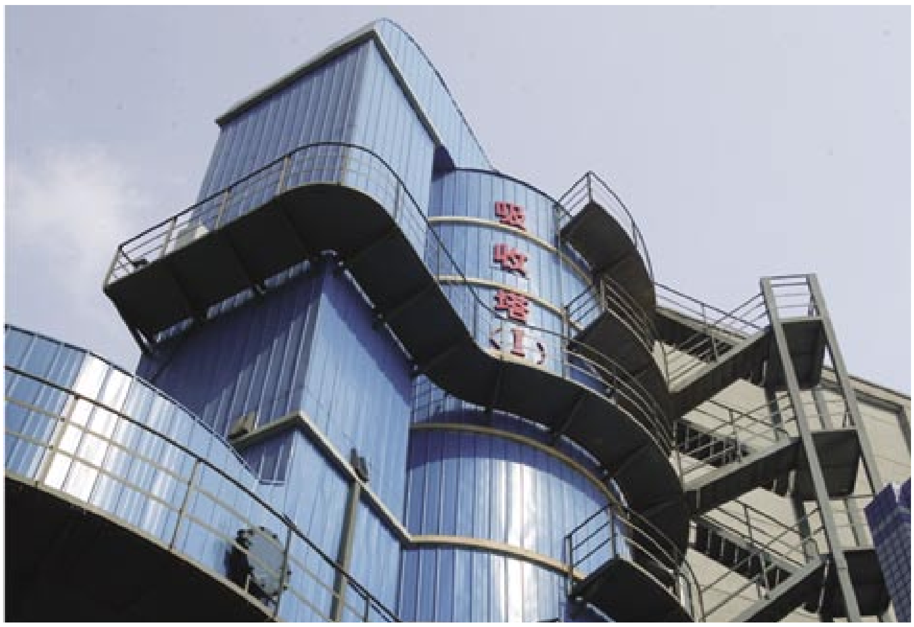
- an ongoing process to identify, evaluate and manage significant risks by way of the close personal supervision of the executive directors and regular approval at board meetings
- preparation of annual budgets, against which actual results are reported on a monthly basis
- consideration by the Audit Committee of the results of the external audit
- the independent submission of the external auditors' report to the Audit Committee

The directors will undertake a review of the effectiveness of the Group's systems of internal control on a regular basis. Any resulting actions considered appropriate will be communicated throughout the business.

3. *Audit Committee and Auditors*

The Board has a formal and transparent arrangement for considering how it should apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors. The Company has delegated authority for these matters to the Audit Committee, the current members of which are listed above.

PAN Wen Zhong
15 June 2007



Sulphur dioxide absorber tower, Huasheng Project in Hubei Province

Independent Auditor's Report to the Shareholders of Tinci Holdings Limited
Year ended 31 December 2006

We have audited the accompanying consolidated balance sheet of the Tinci Holdings Limited (the 'Company') and its subsidiaries (together the 'Group') as of 31 December 2006, and the related consolidated statements of income, cash flows, changes in shareholders' equity, and related notes for the year then ended respectively. These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Respective Responsibilities of Management and Auditors

The Directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with IFRS. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Our responsibility is to express an independent opinion, based on our audit, on those statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. The other information comprises Tinci's Business Overview, the Chief Executive Officer's Review, the Directors' Report and the Corporate Governance Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Opinion

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. It also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Group as of 31 December 2006, and of the Group's financial performance and cash flows for the year ended 31 December 2006, and have been properly prepared in accordance with IFRS.

PKF
Certified Public Accountants
Hong Kong
15 June 2007

Engineers discuss pipeline construction, Nanhai Project in Guangdong Province

Consolidated Income Statement
Year ended 31 December 2006

	Note	2006 RMB'000	2005 RMB'000
Turnover	3	**276,927**	222,310
Other revenue		**778**	324
		277,705	222,634
Raw material and consumables used		**(243,396)**	(152,724)
Staff costs and staff benefits' expenses		**(5,216)**	(3,636)
Depreciation and amortisation expense		**(1,888)**	(1,071)
Other operating expenses		**(13,424)**	(8,274)
Profit from operations		**13,781**	56,929
Finance costs		**(1,402)**	(614)
Profit before taxation	4	**12,379**	56,315
Taxation	5	**8,056**	(8,819)
Profit for the year		**20,435**	47,496

	Note	2006 RMB	2005 RMB
Earnings per share			
Basic per share	7	**0.40**	0.95
Diluted per share	7	**0.40**	0.95

Consolidated Balance Sheet
At 31 December 2006

	Note	At 31 December 2006 RMB'000	At 31 December 2005 RMB'000
Non-current assets			
Land use rights	9	**439**	451
Property, plant and equipment	10	**15,299**	14,564
Intangible assets	11	**5,184**	5,832
Total non-current assets		**20,922**	20,847
Current assets			
Inventories	13	**105,354**	55,964
Trade and other receivables	14	**8,087**	44,342
Restricted bank balances	16	**4,073**	–
Cash and cash equivalents		**58,554**	29,550
Total current assets		**176,068**	129,856
Total assets		**196,990**	150,703
Current liabilities			
Trade and other payables	15	**21,661**	14,260
Other borrowings	16	**19,468**	–
Bank borrowings	17	**19,000**	31,000
Tax liabilities		–	228
Total current liabilities		**60,129**	45,488
Non-current liability			
Deferred tax liability	18	**535**	8,591
Total liabilities		**60,664**	54,079
Net assets		**136,326**	**96,624**
Equity			
Share capital	19	**7,796**	7,356
Share premium	21	**18,078**	–
Reserves	21	**43,393**	42,644
Retained earnings		**67,059**	46,624
Total shareholders' equity		**136,326**	96,624

XU Jinfu, Chief Executive
PAN Wen Zhong, Director
15 June 2007

Consolidated Statement of Changes in Equity
Year ended 31 December 2006

	Share Capital RMB'000 (Note 20)	*Share* Premium RMB'000 (Note 22)	*Exchange* Reserve RMB'000 (Note 22)	*Share Options* Reserve RMB'000 (Note 22)	*Reverse Acquisition* Reserve RMB'000 (Note 22)	*Retained* Earnings RMB'000	Total RMB'000
Balance at 1 January 2005	7,356	–	–	–	42,644	(871)	49,129
Profit for the year	–	–	–	–	–	47,495	47,495
Balance at 31 December 2005 and 1 January 2006	7,356	–	–	–	42,644	46,624	96,624
Issuance of ordinary shares	440	30,275	–	–	–	–	30,715
Listing expenses associated with initial offering	–	(12,197)	–	–	–	–	(12,197)
Issuance of options	–	–	–	272	–	–	272
Foreign currency translation adjustments	–	–	477	–	–	–	477
Profit for the year	–	–	–	–	–	20,435	20,435
Balance at 31 December 2006	**7,796**	**18,078**	**477**	**272**	**42,644**	**67,059**	**136,326**

Consolidated Cash Flow Statement
Year ended 31 December 2006

	2006 RMB'000	*2005* RMB'000
Profit before taxation	**12,379**	56,315
Adjustments for:		
Interest income	**(324)**	(115)
Equity-settled Director's remuneration expense	**223**	–
Equity-settled share option expense	**272**	–
Interest expenses	**1,402**	614
Depreciation and amortisation expense	**1,888**	1,071
Operating profit before changes in working capital	**15,840**	57,885
Increase in inventories	**(49,390)**	(55,964)
Decrease in trade and other receivables	**2,954**	855
Increase in trade and other payables	**7,402**	12,821
Cash used in/generated from operations	**(23,194)**	15,597
Interest received	**324**	115
Interest paid	**(1,402)**	(614)
Income tax paid	**(228)**	–
Net cash outflow/inflow from operating activities	**(24,500)**	15,098
Investing activities		
Purchases of land use rights and property, plant and equipment	**(1,964)**	(14,482)
Purchases of intangible assets	–	(6,480)
Net cash (used in) investing activities	**(1,964)**	(20,962)
Financing activities		
Repayment of loan due from a related company	**33,302**	–
Net proceeds from bank loans	–	31,000
Net repayment of bank loans	**(12,000)**	–
Net proceeds from other borrowings	**19,468**	–
Movement in restricted bank balances	**(4,073)**	–
Proceeds from issue of shares capital	**30,491**	–
Share issue expenses	**(12,197)**	–
Net cash from financing activities	**54,991**	31,000
Net increase in cash and cash equivalents	**28,527**	25,136
Cash and cash equivalents as at 1 January	**29,550**	4,414
Effect of foreign exchange rates changes – net	**477**	–
Cash and cash equivalents as at 31 December	**58,554**	29,550
Analysis of Cash and Cash Equivalents		
Cash and cash equivalents	**58,554**	29,550

Notes to the financial statements

1. General Information

Tinci Holdings Ltd (the 'Company') was incorporated in Hong Kong under the Hong Kong Companies Ordinance on 5 June 2006. On 14 July 2006, the Company acquired the whole of the issued share capital of World International Investment Limited ('World International'), a company registered in Hong Kong, in exchange for the issue of 49,995,000 ordinary shares of 1p in the Company. World International itself owns the entire paid-up capital of Guangzhou Tinci Sanhe Environmental Engineering Co. Ltd ('Guangzhou Tinci'), a private wholly-owned foreign enterprise in the People's Republic of China (PRC).

The Company is a public listed company and its shares are listed on the Alternative Investment Market (AIM) of the London Stock Exchange. The principal place of business of the Company is Guangzhou, China. The principal activities of the Company and its subsidiaries (the 'Group') are described in note 3 and the Directors' Report on page 8. The consolidated financial statements are presented in Renminbi (RMB), the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the policies set out in note 2.

These financial statements present information about the Company on a stand-alone basis and as a consolidated group of companies. These financial statements are the Group's and the Company's first financial statements.

2. Principal Accounting Policies

The principal accounting policies applied in the preparation of these consolidated statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and Interpretations (IFRS).

Basis of Preparation

The measurement basis used in the preparation of the financial statements is historical cost, except for financial assets at fair value through profit or loss, which have been measured at fair value.

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

IFRIC 7	Applying the Restatement Approach under IAS 29, Financial Reporting in Hyperinflationary Economies[1]
IFRIC 8	Scope of IFRS 2[2]
IFRIC 9	Reassessment of Embedded Derivatives[3]

IFRIC 10	Interim Financial Reporting and Impairment[4]
IFRS 7	Financial Instruments[5]
Amendment to IAS 1	Presentation of Financial Statements[5]

[1] Effective for annual periods beginning on or after 1 March 2006
[2] Effective for annual periods beginning on or after 1 May 2006
[3] Effective for annual periods beginning on or after 1 June 2006
[4] Effective for annual periods beginning on or after 1 November 2006
[5] Effect for annual periods beginning on or after 1 January 2007

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material financial impact on the financial statements of the Group.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings, using the acquisition method of accounting. The results of undertakings acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

The acquisition of World International by the Company on 14 July 2007 has been accounted for as a reverse acquisition, in accordance with IFRS 3 'Business Combinations'.

The Company became the legal parent of World International by way of a share exchange agreement. According to the share exchange agreement, the shareholders of World International transferred the entire issued share capital of World International to the Company in consideration for 49,995,000 ordinary shares at 1p each. This business combination is regarded as a reverse acquisition, whereby World International, the legal subsidiary, is the acquirer and has the power to govern the financial and operating policies of the legal parent so as to obtain benefits from its activities.

The directors have accounted for the aforementioned group reconstruction as a reverse acquisition using merger-accounting principles. As a consequence, the results for the year ended 31 December 2006 comprise the full year results of World International and its subsidiaries undertakings for the year ended 31 December 2006 plus those of the Company from 14 July 2006, the date of the reverse acquisition, to 31 December 2006. The comparative figures are those of World International and its subsidiary undertakings for the year ended 31 December 2005.

Currencies

The consolidated financial statements are presented in RMB. The Directors are of the opinion that the RMB reflects the currency of the primary economic environment in which the Group operates (the 'functional currency'), as sales and purchases are denominated primarily in RMB and receipts from operations are usually retained in RMB.

The presentation currency of the Group in the Placing Document and in the interim accounts to 30 June 2006 was pounds sterling (GBP). However, as almost all the Group's transactions are denominated in RMB, the directors have decided to adopt the RMB as the presentation currency in these and future accounts. Comparative figures for 2005 have been restated accordingly.

Transactions in currencies other than RMB are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities are translated using historical rate. Gains or losses arising on retranslation are included in income statement for the year.

On consolidation, the assets and liabilities of foreign operations are translated at exchange rate prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the year unless exchange rates fluctuate significantly. Exchange differences arising are classified as equity and transferred to foreign currency translation reserve. Such translation differences are recognised as income or as expenses in the period in which the operation is disposed.

For year ended 31 December 2006, the foreign operations' financial statements have been translated from GBP and Hong Kong dollars (HKD) to RMB at the following exchange rates:

	Year-end rates		*Average rates*	
	2006	2005	**2006**	2005
RMB: GBP	**15.3232**	13.8926	**14.7505**	–
RMB: HKD	**1.0047**	1.0413	**1.0248**	–

Subsidiaries
Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or exercisable on conversion are taken into account.

Revenue Recognition
Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

i. Contract Revenue

When the outcome of a construction contract can be estimated reliably:

- Revenue from a fixed price contract is recognised using the percentage of completion method, measured by reference to the stage of completion of the contract activity at the balance sheet date, as measured by the work certified by the customers, except where this would not be representative of the stage of completion

- Revenue from a cost plus contract is recognised by reference to the recoverable costs incurred during the period plus an appropriate proportion of the total fee, measured by reference to the proportion that costs incurred to date bear to the estimated total costs of the contract
- When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable
- When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately

ii. *Rental Income*

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the periods covered by the lease term.

Land Use Rights, Property, Plant and Equipment

Land use rights and property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

The cost of an item of land use rights and property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Improvements are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditures incurred in restoring assets to their normal working condition and other repairs and maintenance costs are charged to the income statement.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful life of each component of an item of land use rights and property, plant and equipment at the following rates per annum:

Land use rights	*over the remaining lease period*
Leasehold buildings and improvements	3.33% to 20%
Motor vehicles	20%
Office equipment	20%

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net sale proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement.

Financial Instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instruments and on the trade date basis. Financial asset and financial liabilities are measured as follows:

i. Financial Assets at Fair Value through Profit or Loss

Financial instruments classified as financial assets at fair value through profit or loss include financial assets held for trading, and those designated at fair value through profit or loss at inception. These items are measured at fair value, with gains or losses recognised in the income statement.

At the balance sheet date, the financial assets are measured at fair value by reference to the price quotation for equivalent instruments in an active market provided by financial institutions. Any changes in fair value are recognised in the income statements.

ii. Bank and Other Borrowings

Interest-bearing bank loans and facilities are stated at cost.

iii. Trade and Other Receivables

Trade and other receivables are carried at anticipated realisable value. A provision is made for impairment of receivables based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

A provision for impairment of receivables is established when there is evidence that the Group will not be able to collect all the amounts due according to the original terms of receivables. The amount of the provision is the difference between the assets' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statements.

iv. Trade and Other Payables

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost.

The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to a third party. The Group derecognises a financial liability when, and only when, the liability is extinguished

Inventories

Contract Work in Progress

Work in progress on construction contracts is stated at cost plus profit recognised to date calculated in accordance with the percentage of completion method, including retentions payable and receivable, less a provision for foreseeable losses and progress payments received to date.

A contract is not considered complete until the defects liability period has expired and monies withheld have been received. Any expected losses on a contract are recognised immediately and are calculated as total contract revenue as compared to total contract expenses in the period the loss becomes foreseeable.

Cost includes all variable and fixed costs directly related to specific construction contracts and other costs specifically chargeable under the contract.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retentions are included within the 'Trade and Other Receivables' balance.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

Intangible Assets

Intangible assets represent the technology transfer fee paid to Environeering Environmental Co. (EEC), a Ducon Group Company, for the acquisition of the right to use its Wet Limestone Gypsum FGD technology in China. The Group is granted the right and permission to use and quote EEC Wet Limestone Gypsum FGD technology for tender and execution of the contracts, and has the rights to receive the technology documents, and upgrades and improvements of the technology by EEC. The technology transfer fee is amortised on a straight-line basis over its estimated useful life at 10% per annum.

Impairment

Assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the assets exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use. For the purpose of assessing impairment, assets are grouped at the lowest level for which they are separately identifiable cash flows.

Income Tax

The charge for taxation is based on the results for the year, adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method, on all temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred tax liabilities or assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or liability is settled, based on the tax rates and the tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilised.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the company will be required to settle the obligation.

Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value if the effect is material.

Employee Benefits
Costs of employee benefits are recognised as an expense in the year in which they are incurred. Salaries, annual bonuses, annual leave entitlements and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group.

Retirement Benefits Plan
Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed retirement benefits plans are dealt with as payments to defined contribution plans where the Group's obligations under the plans are equivalent to those arising in a defined contribution retirement benefit plan.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to insignificant risk of changes in value.

Operating Leases
Leased assets under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

Borrowing Costs
All borrowing costs are charged to the income statement in the year in which they are incurred.

Share-based Payment Transactions
The Company operates a share option scheme for granting share options, for the purpose of providing incentives and rewards to eligible employees of the Group.

The cost of share options granted to employees is measured by reference to the fair value at the date at which they are granted. It is recognised, together with a corresponding increase in equity, over the vesting period. The cumulative expense recognised at each reporting date until the end of the vesting period reflects the extent to which the vesting period has expired and the number of shares that in the opinion of the Directors of the Group at that date will ultimately vest.

Related Parties
For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities, and include entities which are under the significant influence of related

parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

Critical Accounting Estimates and Judgements

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

One of the critical estimates and judgements is in relation to the budget contract costs estimated by the management, which determine the recognition of revenue, profit and the amounts due from/to customers for contract work (see note 13). The actual costs incurred may be higher or lower than the budget costs and thus could affect the revenue and profit in future years. In general, projects have a relatively short period to completion and firm cost control is exercised to control such effects, although problems were experienced in 2006, as copper prices increased very fast and unexpectedly.

Comparatives

Comparatives figures have been restated and certain comparative figures have been reclassified to conform to the current year's presentation.

3. *Turnover and Segmental Reporting*

The principal activities of the Group during the period were developing, selling and installing large-scale flue gas desulphurisation equipment to power stations.

Turnover for the year is wholly attributable to activities undertaken in China.

For the years ended 31 December 2006 and 31 December 2005 the Group comprised only one business and one geographical segment.

Calcium sulphite sedimentation pool, Liyan Project in Shandong Province

4. *Profit before Taxation*

This is arrived at after charging/(crediting):	*The Group* *2006* **RMB'000**	*2005* RMB'000
Other items		
Auditors' remuneration	**656**	42
Staff costs including directors' emoluments (note 6)	**5,421**	3,848
Contribution to defined contribution retirement plans	**348**	200
Cost of equipment used in construction contracts	**227,172**	136,467
Equity-settled share option expense	**272**	–
Equity-settled Director's remuneration expense	**223**	–
Research and development	**200**	–
Amortisation and depreciation	**1,888**	1,071
Interest and finance charges – external parties	**1,402**	614
Net foreign exchange (gain)	**(252)**	–

5. *Taxation*

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

The charge/(credit) comprises:	*The Group* *2006* **RMB'000**	*2005* RMB'000
Current tax		
Tax paid/payable	–	228
Deferred taxation (note 18): Origination and reversal of temporary difference	**(8,056)**	8,591
	(8,056)	8,819

The main operating subsidiary of the Group, Guangzhou Tinci Sanhe Environmental Engineering Co. Ltd. ('Guangzhou Tinci') operates in the PRC and is subject to state and local income taxes in the PRC at their respective tax rates based on the taxable income reported in their statutory financial statements in accordance with applicable state and local income tax laws.

Guangzhou Tinci was issued with a Hi-Tech Enterprise Certificate on 15 June 2005, which entitled Guangzhou Tinci to a reduced foreign enterprise income tax rate of 15% from the date of issue.

Following approval by the tax bureau in 2006, Guangzhou Tinci received an exemption from PRC foreign enterprise income tax for the period from 1 July 2006 to 31 December 2007 and is further entitled to a 50% reduction from PRC foreign enterprise income tax for the three years ending 31 December 2010 (rate 7.5%).

The Group is also subject to income tax in Hong Kong through the Company and its subsidiary, World International. No provision for income tax in Hong Kong has been made as the Company and World International had no taxable income. The statutory rate of corporate tax in Hong Kong is 17.5%.

Deferred tax recognised in the income statement	*2006* **RMB'000**	*2005* RMB'000
Types of temporary differences:		
Intangible assets	**(340)**	875
Construction contract work in progress, accrued expenses, etc.	**(7,716)**	7,644
	(8,056)	**8,519**

A reconciliation between tax expense and accounting profit using the foreign enterprise income tax rate for Guangzhou Tinci is as follows:

	2006 **RMB'000**	*2005* RMB'000
Profit before taxation	**12,379**	56,315
Calculation at the effective foreign enterprise income tax rate of Guangzhou Tinci of 15% (2005: 15%)	**1,857**	8,447
Non-deductible expenses – Guangzhou Tinci	**547**	372
Non-deductible expenses – Company and World International	**229**	–
Effect of PRC tax exemption		
– current taxation	**(2,849)**	–
– deferred taxation	**(7,840)**	–
Tax (credit)/expense for the year	**(8,056)**	8,819

6. *Directors' and Employees' Emoluments*

Details of the emoluments of the Directors are set out in the Corporate Governance Report on page 13.

Information regarding directors and employees

	2006	*2005*
	No.	*No.*
The average number of persons employed by the Group (including directors) during the year was:	**127**	97

	RMB'000	*RMB'000*
Aggregate staff costs (including directors) during the year were:		
Wages and salaries	**5,421**	3,848
Social security costs	**348**	200
Other benefits	**936**	440
	6,705	4,488

7. *Earnings per Share*

Basic Earnings per Share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

The weighted average number of shares outstanding for 2005 represents the number of ordinary share (49,995,000) issued to the original shareholders of World International.

	2006	*2005*
Profit attributable to equity holders of the Company (RMB'000)	**20,435**	47,496
Weighted average number of ordinary shares in issue (thousands)	**51,240**	49,995
Earnings per share (RMB per share)	**0.40**	0.95

Diluted Earnings per Share

The Company has one category of dilutive potential ordinary shares – share options. Calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to outstanding share options. It is compared with the number of shares that would have been issued assuming the exercise of the share options.

Calculation of Diluted Earnings per Share

	2006	*2005*
Profit attributable to equity holders of the Company (RMB'000)	**20,435**	47,496
Weighted average number of ordinary shares in issue (thousands)	**51,240**	49,995
Adjustment for share options (thousands)	**41**	–
Weighted average number of ordinary shares for diluted earnings (thousands)	**51,281**	49,995
Diluted earnings per share (RMB per share)	**0.40**	0.95

8. *Retirement Schemes*

The employees of the Group's subsidiary in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute a specified percentage of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions. During the year ended 31 December 2006, the aggregate amount of employer's contribution made by the Group was RMB 348,000 (2005: RMB 200,000).

9. *Land Use Rights*

The land use rights represent a pre-paid operating lease. The leasehold land is situated in the PRC and is held by the Group under a lease term of 38.6 years.

	2006 **RMB'000**	*2005* RMB'000
Cost:		
At 1 January	**451**	–
Additions	–	451
At 31 December	**451**	451
Amortisation :		
At 1 January	–	-
Charge for the year	**12**	-
At 31 December	**12**	-
Net book value:		
At 1 January	**451**	-
At 31 December	**439**	451

10. Property, Plant and Equipment

	Leasehold Buildings and Improvements RMB'000	*Office Equipments* RMB'000	*Motor Vehicles* RMB'000	*Total* RMB'000
Cost:				
At 1.1.2005	–	696	472	1,168
Additions	12,448	903	680	14,031
At 31.12.2005	12,448	1,599	1,152	15,199
Aggregate depreciation:				
At 1.1.2005	–	95	117	212
Charge for the year	–	295	128	423
At 31.12.2005	**–**	**390**	**245**	**635**
Net book value:				
At 31.12.2005	12,448	1,209	907	14,564
Cost:				
At 1.1.2006	12,448	1,599	1,152	15,199
Additions	1,287	676	–	1,963
At 31.12.2006	13,735	2,275	1,152	17,162
Aggregate depreciation:				
At 1.1.2006	–	390	245	635
Charge for the year	598	400	230	1,228
At 31.12.2006	**598**	**790**	**475**	**1,863**
Net book value:				
At 31.12.2006	**13,137**	**1,485**	**677**	**15,299**

11. Intantangible Assets

	RMB'000
Cost:	
At 1 January 2005	-
Additions	6,480
At 31 December 2005 and 31 December 2006	**6,480**
Accumulated amortisation:	
At 1 January 2005	–
Charge for the year	648
At 31 December 2005	648
Charge for the year	648
At 31 December 2006	**1,296**
Net book value:	
At 31 December 2006	**5,184**
At 31 December 2005	5,832

Intangible assets represent the technology transfer fee paid to Environeering Environmental Co. (EEC), a Ducon Group Company, for the acquisition of the right to use its Wet Limestone Gypsum FGD technology in China. The Group is granted the right and permission to use and quote EEC Wet Limestone Gypsum FGD technology for tender and execution of the contracts, and has the rights to receive the technology documents, and upgrades and improvements of the technology by EEC. The technology transfer fee is amortised on a straight-line basis over its estimated useful life at 10% per annum.

12. Investment in Subsidiaries

	The Company	
	2006	*2005*
	RMB'000	RMB'000
Unlisted shares, at cost	1	–

Details of the Company's subsidiaries, which are all wholly owned, are as follows:

Name of company	*Place of incorporation and operation*	*Issued and fully paid share capital/paid-up registered capital*	*Principal activities*
World International Investment Limited	Hong Kong	HK$1 ordinary share	Investment holding
Guangzhou Tinci Sanhe Environmental Engineering Co. Ltd ('Guangzhou Tinci')	The People's Republic of China	RMB 50,000,000 registered capital	Environmental engineering services

Guangzhou Tinci is a wholly owned foreign enterprise established in the People's Republic of China.

13. Inventories

	2006	*2005*
	RMB'000	RMB'000
Contract work in progress – amounts due from customers (note a)	**105,354**	55,964
Contract costs incurred to date	**357,974**	156,423
Profits recognised to date (less recognised losses)	**110,712**	70,858
	468,686	227,281
Less: Progress billings	**363,332**	171,317
Net contract work in progress	**105,354**	55,964

(a) Represents construction costs incurred on projects in excess of that billed to clients.

There are no retentions on construction projects in progress included in progress billings.

14. Trade and Other Receivables

	The Group		*The Company*	
	2006	*2005*	***2006***	*2005*
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables (a)	**4,525**	733		–
Sundry debtors, deposits and pre-payments (a)	**3,560**	9,450	**24**	–
Notes receivable (a)	–	550	–	–
Amounts due from subsidiaries	–	–	**8,302**	–
Amounts due from directors (c)	**2**	307	–	–
Amounts due from director's wife (d)	–	–	**32**	–
	8,087	11,040	**8,358**	–
Amount due from a related company (b)	–	33,302	–	–
	8,087	44,342	**8,358**	–

(a) The carrying value of trade receivables, sundry debtors, deposits and prepayments and notes receivable approximate their fair value.

(b) The amount due from Tinci High-Tech Materials Company Limited, the former parent company of Guangzhou Tinci Sanhe Environmental Engineering Company Limited, was unsecured, interest-free and had no fixed repayment terms. The carrying amount approximated the fair value.

(c) The amounts due from Wang Keer, Director, are unsecured, interest-free and have no fixed repayment terms. The carrying amount approximates the fair value.

(d) The amounts due from Pan Ying, wife of Mr Xu Jin Fu, Director, are unsecured, interest-free and have no fixed repayment terms. The carrying amount approximates the fair value.

15. Trade and Other Payables

	The Group		*The Company*	
	2006	*2005*	***2006***	*2005*
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables (a)	**554**	3,629	–	–
Accrued charges and other creditors (a)	**20,969**	10,070	**547**	–
Amount due to director (b)	**38**	561	**38**	–
Amount due to director's wife (c)	**100**	–	–	–
	21,661	14,260	**585**	–

(a) The carrying value of trade payables, accrued charges and other creditors and amount due to director are approximate to their fair value.

(b) The amount due to Mr Xu Jin Fu, Director, is unsecured, interest-free and has no fixed repayment terms. The carrying amount approximates the fair value.

(c) The amount due to Ms Pan Ying, wife of Mr Xu Jin Fu, is unsecured, interest-free and has no fixed repayment terms. The carrying amount approximates the fair value.

16. Other Borrowings

The other borrowings represent bills payable which are secured by a charge over bank deposits of RMB 4,073,000.

17. Bank Borrowings

	The Group	
	2006	*2005*
	RMB'000	RMB'000
Bank loan:		
Current portion	**19,000**	31,000
Non-current portion	–	–
	19,000	31,000

The bank borrowings are secured by Directors' personal guarantees, land use rights and leasehold buildings. Interest is calculated at 6% to 7% per annum.

The land use rights and leasehold buildings that were being pledged are shown as below:

(i) Land use rights of 8 Kangda Lu, Huangpu Qu, which is owned by Tinci Hi-Tech Materials Company Limited, a company controlled by Mr Xu Jin Fu.

(ii) Leasehold building situated at 8 Kangda Lu, Huangpu Qu which is owned by Tinci Hi-Tech Materials Company Limited, a company controlled by Mr Xu Jin Fu.

(iii) Room 1801 to 3, 1805, 1807, 1809 to 12, 1816, 1818 to 20, 1822, 1828, 1830, 1913, 1915, 1917 and 1918, 111–115 Siyoxin Road, Dongshan Qu, GuangZhou, PRC

18. Deferred Taxation

Recognised Deferred Tax Liabilities

	The Group	
	2006	*2005*
	RMB'000	RMB'000
Intangible assets	**5,184**	5,832
Construction contract work in progress, accrued expenses, etc.	**50,226**	51,441
	55,410	57,273
Expected to be settled:		
– within 1 year	**50,874**	52,089
– within 1 to 4 years	**1,944**	1,944
– ouside 4 years	**2,592**	3,240
	55,410	57,273
At the effective foreign enterprise tax rate of Guangzhou Tinci expected to apply to the period when the asset is recovered or liability settled (note 5)	**535**	8,591
Net recognised deferred tax liabilities	**535**	8,591

Sulphur dioxide absorber, Jinling Project in Shandong Province

19. Share Capital

	Number of shares	Amount RMB
Authorised		
5 June 2006 – on incorporation	200,000,000	204,000,000
19 June 2006 – increase (note a)	3,560,000	363,120
	203,560,000	204,363,120
19 June 2006 – conversion to ordinary shares with nominal value of GBP 0.01 per share at the exchange rate of HK$14.54:GBP1 (note a)	140,000,000	204,363,120
At 31 December 2006	**140,000,000**	**204,363,120**
Issued and fully paid		
5 June 2006 – issue 2 ordinary shares of HK$0.1 each on incorporation	2	–
19 June 2006 – issue and allot 7,268 ordinary share of HK$0.1 each	7,268	741
	7,270	**741**
19 June 2006 – conversion to ordinary shares with nominal value of GBP£0.01 per share (note a)	5,000	741
14 July 2006 – issue and allot 49,995,000 ordinary shares of £0.01 each (note b)	49,995,000	7,356,060
	50,000,000	**7,356,801**
31 July 2006 – issue by way of placement (note c)	2,928,613	435,586
31 July 2006 – issue to Sir David Brewer (note d)	21,428	3,187
At 31 December 2006	**52,950,041**	**7,795,574**

Notes

(a) By special resolutions passed on 19 June 2006, the authorised share capital was increased to HK$20,356,000 by the creation of 3,560,000 new ordinary shares of HK$0.1 each. Each of the ordinary shares of HK$0.1 in the capital of the Company, both issued and unissued, was then converted to shares with a nominal value of .0.01each at the exchange rate of HK$14.54:GBP1

(b) Pursuant to a share exchange agreement entered into on 14 July 2006, the Company acquired the entire issued share capital of World International Investment Limited for a consideration which was satisfied by the issue and allotment to the Vendors of 49,995,000 Ordinary Shares, each of which was credited as fully paid.

(c) On 31 July 2006, trading of the Ordinary Shares of the Company commenced on AIM, a market operated by the London Stock Exchange. 2,928,613 new Ordinary Shares were issued in the Placing at the Placing Price of placing per share.

(d) On 31 July 2006, 21,428 new Ordinary Shares were issued to Sir David Brewer at the Placing Price as part of his remuneration as non-executive Chairman of the Company.

20. Share Options

On 25 July 2006, the Company granted options over 410,837 ordinary shares to the Directors and senior employees of the Group. Unless otherwise cancelled or amended, the share options will remain in force for 10 years from 25 July 2006. The purpose of granting the share options is to provide incentives and/or rewards to eligible persons for their contribution to, and continuing efforts in promoting the interests of, the Group.

The weighted average value per option granted in 2006 by the Company was RMB 4.75, estimated as at the date of grant based on the Black-Scholes option pricing model using the following assumptions:

Share price at the option grant date	£0.30
Exercise price	£0.30
Risk-free interest rate per annum	4.5%
Expected average stock price volatility	35%
Expected option life	10 years

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. Such an option-pricing model requires the input of highly subjective assumptions, including the expected stock-price volatility. The volatility could not be determined by reference to historical volatility, but instead was derived by reference to publicly available information concerning the volatility of listed manufacturing companies. Because the share options of the Company have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Black-Scholes option-pricing model does not necessarily provide a reliable measure of the fair value of the share options of the Company.

Number, Terms and Conditions of the Options Granted by the Company

	Number of options granted on 25 July 2006	*Value of options at grant date RMB'000*
Conditions		
Options granted to Directors	**20,280**	96
Options granted to employees other than Directors	**390,557**	1,854
	410,837	1,950

Notes

(a) The Group has recognised these share options in the income statement with a corresponding increase in share option reserve in equity in 2006.

Cost of share options recognised under IFRS 2 in 2006	***2006 RMB'000***
In respect of options granted to a director	**13**
In respect of options granted to employees other than directors	**259**
	272

The following share options were outstanding under the share option scheme:

		Share options granted during the year and outstanding as at 31 December 2006				
Name of participant	*Date of grant*	*At 1 January 2006*	*Granted during the year*	*At 31 December 2006*	*Exercise period of share options*	*Exercise price of share options £*
Directors	25 July 2006	–	20,280	20,280	25 July 2008 to 11 July 2015	0.30
Other employees						
In aggregate	25 July 2006	–	390,557	390,557	25 July 2008 to 11 July 2015	0.30
		–	410,837	410,837		

The weighted average remaining contractual life for the share options outstanding at the balance sheet date was 10 years.

21. Reserves

The movements of reserves are set out in the statement of changes in equity.

Share Premium

The balance in share premium represents the premium arising on issue of shares by way of share placement less expenses incurred and the premium on shares issued to Sir David Brewer, Director.

Reverse Acquisition Reserve

The reverse acquisition reserve arose as a result of the reverse acquisition of the Company by World International on 14 July 2006. The reserve represents the difference between the nominal value of shares of World International (RMB 50,000,000) and the nominal value of the Company's shares issued (RMB 7,356,060).

Share Options Reserve

The share options reserve represents the fair value of the share options at the date of grant charged to the income statement over the vesting period in accordance with IFRS 2 Share Based Payments

Exchange reserve

This reserve arose on translating the financial statements of foreign operations to RMB on consolidation.

22. Financial Risk Management Objectives and Policies

Risk management is integral to the business of the Company. The Group has a system of controls in place to create an acceptable balance between the cost of risks occurring and the cost of managing the risks. The management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. This section provides details of the Group's exposure to financial risks and describes the methods used by management to control such risk.

Credit risk

Credit risk is the potential financial loss resulting from the failure of a customer or counterparty in setting their financial and contractual obligations to the Company, as and when they fall due.

The Group's primary exposure to credit risk arises through its trade receivables and contract work in progress. The management has a credit policy in place and exposure to credit risk is monitored on an ongoing basis. Other financial assets of the Group with exposure to credit risk include cash and deposits that are placed with financial institutions that are regulated.

At the balance sheet date, the Group has a certain concentration of credit risk as 91% of contract work in progress due from customers relates to two projects.

Liquidity Risk

The Company monitors its liquidity risk and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and to mitigate the effects of fluctuations in its cash flows.

Foreign Exchange Risk

The Group's businesses are principally conducted in Renminbi (RMB). The Group is exposed to foreign currency risk with respect to pound sterling, the Euro and the US dollar. Foreign exchange risk mainly arises from the acquisition of construction equipment from overseas and from recognised assets and liabilities and net investments in foreign operations.

The Group did not use any forward contract or currency borrowing to hedge its exposure to foreign currency risk.

Fair Value Estimation

The fair value of the Group's trade receivables is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The carrying amounts of the Group's financial assets, including cash and cash equivalents, inventories, other receivables and financial liabilities, including trade and other payables and borrowings approximate their fair values.

23. Related Party Transactions

Save as disclosed elsewhere in these financial statements, the Group has the following related party transactions:

(a) Details disclosed in relation to amount due from related parties are as follows:

	Balance outstanding		
Name	*2005* RMB'000	*Maximum during the year* RMB'000	*2006* **RMB'000**
Ms Wang Keer	307	1,680	**2**
Ms Pan Ying	32	32	–
Tinci High-Tech Materials Company Ltd	33,302	33,302	–

(b) Details disclosed in relation to amount due to related parties are as follows:

	Balance outstanding		
Name	*2005* RMB'000	*Maximum in the year* RMB'000	*2006* **RMB'000**
Mr Xu Jin Fu	561	561	**38**
Ms Pan Ying	–	100	**100**

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at 18th Floor, Wuyangxincheng Plaza, No. 111–115 Siyouxin Road, Guangzhou, China on 12 July 2007 at 4.00 pm Hong Kong time for the purpose of transacting the following business:

Ordinary Business

1. To receive and adopt the Company's annual report and financial statements for the year ended 31 December 2006, together with the directors' report and the auditors' report on those financial statements.
2. To re-elect Sir David Brewer as a Director of the Company.
3. To re-elect Mr XU Jinfu as a Director of the Company.
4. To re-elect Ms WANG Keer as a Director of the Company.
5. To re-elect Mr PAN Wen Zhong as a Director of the Company.
6. To re-elect Mr CHENG Shifa as a Director of the Company.
7. To re-elect Mr David STEEDS as a Director of the Company.
8. To re-appoint PKF LLP Certified Public Accountants as auditors of the Company to hold office until the next General Meeting at which financial statements are laid before the Company and to authorise the Directors to fix their remuneration.

Special Business

9. That the Directors be and they are generally and unconditionally authorised to exercise all the powers of the Company to allot ordinary shares of 0.01each in the capital of the Company ('the Ordinary Shares'), such authority to expire on the day falling 15 months after the date of the passing of this resolution or, if earlier, at the conclusion of the Annual General Meeting of the Company to be held in 2008, unless and to the extent that such authority is renewed or extended prior to such date, provided that the Company may make an offer or agreement before the expiry of this authority which would or might require Ordinary Shares to be allotted after such expiry and the Directors may allot Ordinary Shares pursuant to such an offer or agreement as if the authority conferred hereby had not expired.

By order of the Board
Excel Asia (Hong Kong) Limited
Company secretary
15 June 2007

Registered office:
10th Floor, Chiyu Bank Building
78 Des Voeux Road Central
Hong Kong

Notes

(a) A shareholder entitled to attend and vote at the meeting may appoint one or more proxies to attend and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

(b) A form of proxy is enclosed with this notice for your use in respect of the business set out above. To be valid, the form of proxy together with the power of attorney or other authority (if any) under which it is signed (or a notary certified or an office copy of such power of authority) must be lodged at the Company's registered office or with the Company's Registrars, Computershare Investor Services plc, at least forty-eight hours before the time appointed for the meeting.

Form of Proxy

I/We ____

of ____

being a member of the above named Company, hereby appoint the Chairman of the meeting or as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at18th Floor, Wuyangxincheng Plaza, No. 111–115 Siyouxin Road, Guangzhou, China on 12 July 2007 at 4.00 pm, and at any adjournment thereof.

Please delete as appropriate below to indicate how you wish your votes to be cast:

Resolution 1

To receive and adopt the Company's annual report and financial statements for the year ended 31 December 2006. FOR /AGAINST

Resolution 2

To re-elect Sir David BREWER as a director of the Company FOR /AGAINST

Resolution 3

To re-elect Mr XU Jinfu as a director of the Company FOR /AGAINST

Resolution 4

To re-elect Ms WANG Keer as a director of the Company FOR /AGAINST

Resolution 5

To re-elect Mr PAN Wen Zhong as a director of the Company FOR /AGAINST

Resolution 6

To re-elect Mr David STEEDS as a director of the Company FOR /AGAINST

Resolution 7

To re-elect Mr CHENG Shifa as a director of the Company FOR /AGAINST

Resolution 8

To re-appoint PKF Certified Public Accountants as auditors and to authorise the Directors to fix their remuneration FOR / AGAINST

Resolution 9

To authorise the Directors to allot Ordinary Shares in the Company FOR /AGAINST

Signature ____

Date ____________________________________ 2007

Number of shares held ________________________________

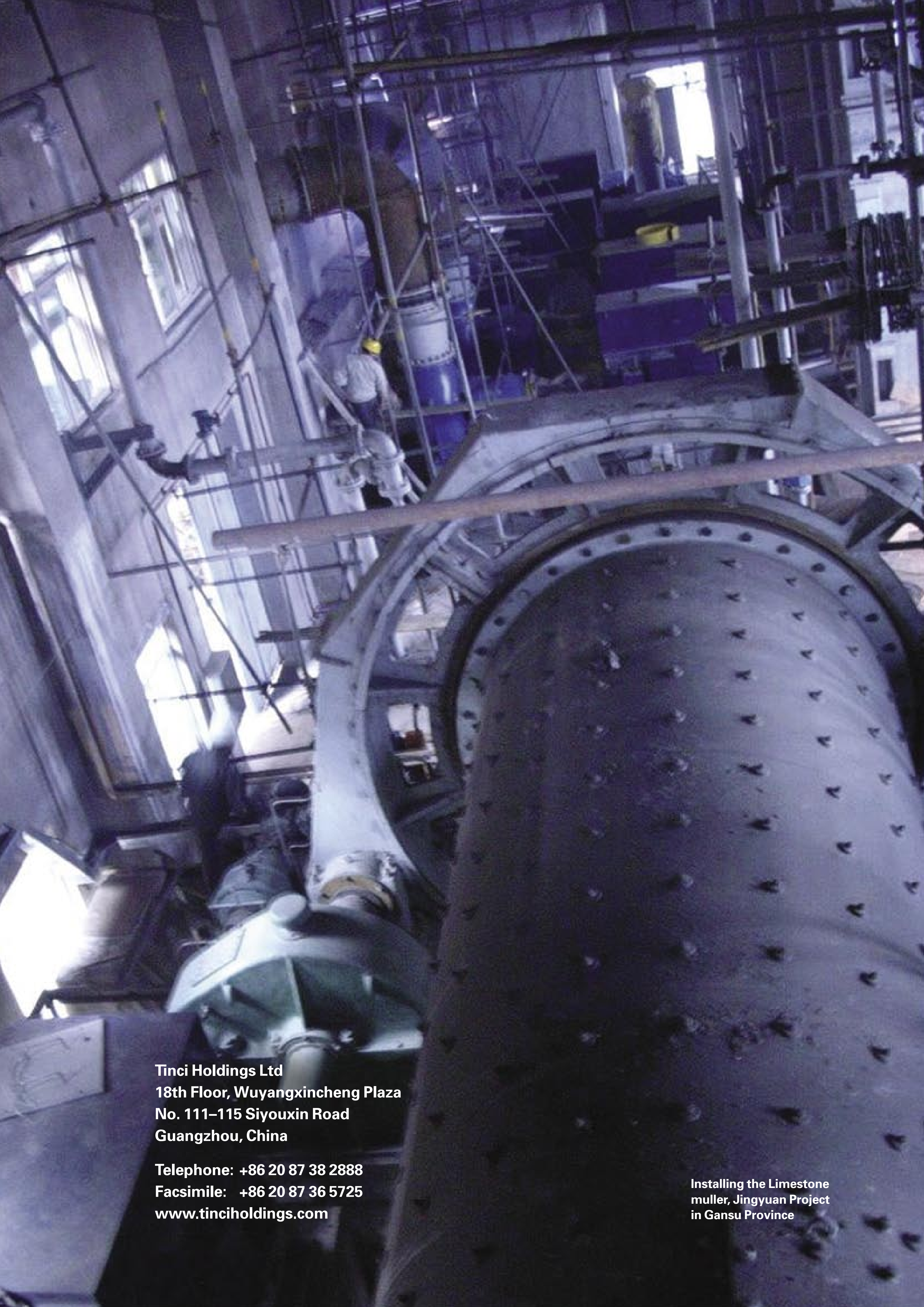
Notes

(a) A member may appoint a proxy of his/her own choice. If such an appointment is made, delete the words 'the Chairman of the meeting' and insert the name of the person appointed proxy in the space provided.

(b) In the case of joint holders, the signature of any holder will be sufficient, but the names of all the joint holders should be stated.

(c) If this form is returned without any indication as to how the person appointed proxy shall vote, he/she will exercise his/her discretion as to how he/she votes or whether he/she abstains from voting.

(d) To be valid, this form must be completed and deposited at the Company's Registrars, Computershare Investor Services plc, PO Box 82, Bristol BS99 7NH not less than 48 hours before the time fixed for holding the meeting or adjourned meeting.



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Installing the Limestone muller, Jingyuan Project in Gansu Province