



**China Sciences
Conservational Power Limited**
中科環保電力有限公司

(Incorporated in Hong Kong with limited liability)
(Stock Code: 351)

**ANNUAL REPORT
2006**



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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Liang Jun (*Chairman*)
Mr. Chan Wai Ming (*Chief Executive Officer*)
Mr. Chan Ka Fat (*Chief Financial Officer*)

Non-Executive Directors

His Royal Highness Prince Idris Abdallah Al-Senussi
Mr. Alan Grant Quasha
Mr. Tse On Kin

Independent Non-Executive Directors

Mr. Chan Chi Yuen
Mr. Tsang Kwok Wa
Mr. Zhang Xi

COMPANY SECRETARY

Ms. Cheung Yuet Fan

AUDIT COMMITTEE

Mr. Chan Chi Yuen (*Chairman*)
Mr. Tsang Kwok Wa
Mr. Zhang Xi

REMUNERATION COMMITTEE

Mr. Liang Jun (*Chairman*)
Mr. Chan Chi Yuen
Mr. Zhang Xi

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking
Corporation Limited
Wing Hang Bank Ltd.

AUDITORS

Shu Lun Pan Horwath Hong Kong CPA Limited

SOLICITORS

Cheung, Tong & Rosa
P. C. Woo & Co.

SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Secretaries Limited
26/F
Tesbury Centre
28 Queen's Road East
Hong Kong

REGISTERED OFFICE

Room 1208-1210, 12/F
Dah Sing Financial Centre
108 Gloucester Road
Wan Chai
Hong Kong

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1208-1210, 12/F
Dah Sing Financial Centre
108 Gloucester Road
Wan Chai
Hong Kong

HONG KONG STOCK EXCHANGE STOCK CODE

351

Management Discussion and Analysis

RESULTS

For the year ended 31 December 2006, the turnover of China Sciences Conservational Power Limited (the “Company”) and its subsidiaries (together, the “Group”) have reached approximately HK\$56,631,000 (2005: approximately HK\$707,003,000), representing a reduction of 92% as compared with last year. During the year, gross profit from operations was approximately HK\$868,000, representing a drop of 74% over last year’s HK\$3,381,000. Loss after taxation was approximately HK\$32,293,000 (2005: Loss after taxation: approximately HK\$270,071,000). Loss per share was 2.74 HK cents (2005: Loss per share: 26.19 HK cents).

The reduction in turnover was attributed to the interruption of the principal activity of the Group and to a realignment of the business which began in 2005.

BUSINESS REVIEW

In the year 2006, the attention of the Company was distributed accordingly on two objectives: the first goal was the resumption of trading of company shares and the second was launching of the Group’s first waste-to-energy project in Dongguan, the PRC. The contribution of that project has been realized since late 2006. The management anticipated that there will be a significant amount of income to be generated from this project.

In 2006, the Company had also undergone a number of changes in the composition of its management team, bringing in exceptional individuals and their expertise to the benefit of the Company.

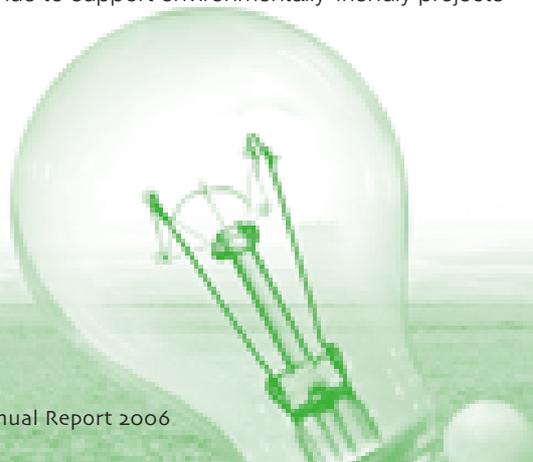
With the adoption of a higher attention towards existing internal control and corporate governance, the Group is working its way towards the resumption of company share trading with a sound infrastructure.

By the end of 2006, the Dongguan 30MW waste-to-energy power plant was nearing the end of its testing and commissioning phase. In January 2007, the plant began commercial operation. However, since July 2006, the Dongguan plant had already been generating revenue for the Company. In September 2007, the plant achieved 85% efficiency, generating up to 610,000 kWh of electricity per day. This project is a major milestone for the Group and is expected to provide stable revenue for the upcoming years.

PROSPECTS

Given the successful completion of the Group’s first waste-to-energy project, the focus of the management team will be redirected strongly on the recommencement of trading of the Company’s shares. However, this would not in any way diminish the Company’s continuing search for new business opportunities.

The context of the PRC’s latest Five Year Plan (2006-2010), which includes resource conservation and the promotion of an environmentally-friendly society, strongly suggested that the government is strategically encouraging the protection of the environment. It is a belief that the Chinese government will continue to support environmentally-friendly projects in the foreseeable future.



Management Discussion and Analysis

The PRC is a conformed participant of the mandatory emissions controls under the Kyoto Protocol (enforced in February 2005) — an agreement between nations committed to the reduction of greenhouse gas. This status meant that environmentally friendly projects in China are liable to earn credits for its reduced pollution. These credits can be traded with other participating countries of the Kyoto Protocol who have exceeded their predefined emissions levels. The Group have assigned a European consultancy company to assist in the application of these credits for future projects.

The Group expects itself to continue expanding further in this sector, either organically or by means of partnerships and joint ventures. With continued support from investors and the Chinese government, the environmental protection industry is deemed to be both economically and socially rewarding in the foreseeable future.

SEGMENT INFORMATION

In the year under review, the Group had three principal activities. These are waste incineration power generation business, computer hardware and maintenance support services and provision of software design and development.

Details of the business segments of the Group are set out on note 6 to the financial statements.

LIQUIDITY AND FINANCIAL RESOURCES

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

As at 31 December 2006, the Group had net current liabilities of approximately HK\$16,136,000 (2005: net current assets of approximately HK\$69,077,000) and shareholders' funds of approximately HK\$79,559,000 (2005: approximately HK\$108,086,000).

As at 31 December 2006, the Group had outstanding borrowings in respect of HK\$20,000,000 8.5 per cent per annum extendable convertible notes. The gearing ratio of the Group, which is calculated as total borrowings (including convertible notes) to the Group's shareholders' funds, is 3.53 (2005: 2.57).

The Company did not run any fund raising activities in 2006.

SIGNIFICANT INVESTMENTS, ACQUISITIONS AND DISPOSALS

In 14 March 2006, the Company obtained the remaining 20% equity interest in Xingning China Sciences Conservational Power Ltd 興寧中科環保電力有限公司, raising the Group's stake in it to 100%.

The Group continued to devote its resources to Dongguan China Sciences Conservational Power Co., Ltd 東莞中科環保電力有限公司, its core operations in waste incineration and energy generation.

Management Discussion and Analysis

Saved as disclosed under headings “Business review” and “Prospects” above, the Group did not have significant new investments or acquisitions during the year ended 31 December 2006 and up to the date of this report.

There are no future plans for material investments or capital assets of significance in the forthcoming year.

FOREIGN EXCHANGE MANAGEMENT

The Group’s business dealings in the PRC are subject to the foreign currency fluctuations. In 2006, the Company did not deem the fluctuation to be significant enough to implement a foreign exchange management system. During the year under review, the Group did not use any financial instruments for hedging purposes.

CONTINGENT LIABILITIES AND CAPITAL COMMITMENTS

As at 31 December 2006, the Group had outstanding capital commitments in respect of acquisition of property, plant and equipment of approximately HK\$31,768,000.

The Group did not have any significant contingent liabilities as at 31 December 2006.

Details of the Company’s capital commitments are set out in note 33 to the financial statements.

PLEDGE OF ASSETS

Details of the pledge of assets are set out in note 25 and 32 to the financial statements.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2006, the Group has 163 employees, 149 of whom was based in the PRC. Their salary and benefits are maintained at competitive levels and are based on their duties, working experience and the prevailing market practices. Employees are rewarded by a share option scheme based on the performance of the Group and individual employees. The Group has also participated in an approved Mandatory Provident Fund (“MPF”) scheme for eligible employees.



Directors' and Senior Management's Profile

EXECUTIVE DIRECTORS

Mr. Liang Jun (Chairman)

Mr. Liang, aged 40, was appointed as an Executive Director and Chairman of the Company on 12 June 2006 and 1 April 2007 respectively and is the chairman of the Remuneration Committee of the Company. He was appointed as Chief Executive Officer of the Company on 1 April 2007 and resigned from this position on 15 June 2007. He has over 16 years of experience in business development in China. He is a director, the company secretary and the general manager of various subsidiaries of the Company. He graduated from Tong Ji University (previously known as Tie Dao University of Shanghai) with a Bachelor's degree in telecommunications engineering. As at the date of this report, he has a personal interest of 2,000,000 ordinary shares in the capital of the Company.

Mr. Chan Wai Ming (Chief Executive Officer)

Mr. Chan, aged 47, was appointed as an Executive Director and Chief Executive Officer of the Company on 9 May 2007 and 15 June 2007 respectively. He is a director of various subsidiaries of the Company. Mr Chan possesses extensive and substantial exposure and experience in the financial sector of Hong Kong. He had been an executive director and the chief executive officer of Carico Holdings Limited, a listed public company in Hong Kong. Currently, Mr. Chan holds an aggregate of 72,800,000 ordinary shares in the capital of the Company, of which 2,800,000 shares are his personal interest and 70,000,000 shares are held through Smartest Assets Management Limited, a company controlled and wholly owned by him, which is required to be disclosed under Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO").

Mr. Chan Ka Fat (Chief Financial Officer)

Mr. Chan, aged 36, was appointed as an Executive Director and Chief Financial Officer of the Company on 19 September 2007. Mr Chan is a member of the CPA Australia and the Hong Kong Institute of Certified Public Accountants. He has extensive experience in auditing, accounting, financial planning and management, and is responsible for overseeing corporate development and financial matters of the Group. He holds a Bachelor's degree in Commerce.



Directors' and Senior Management's Profile

NON-EXECUTIVE DIRECTORS

His Royal Highness Prince Idris Abdallah Al-Senussi

Prince Idris, aged 50, and heir apparent to the Throne of Libya, was appointed as a Non-Executive Director of the Company on 18 January 2005. His professional acumen has been in the energy sector. Prince Idris has previously worked with various multinational companies in the U.S. and continental Europe in the areas of real estate, petroleum, electrical transmission lines, sewage treatment plant, oil and gas, etc. In addition, he has originated, structured and completed a number of sizable projects and investments in the Middle East, North Africa, Africa and Europe. He was educated in Europe and the United States and has extensive experience in a wide range of international businesses.

Mr. Alan Grant Quasha

Mr. Quasha, aged 58, was appointed as a Non-Executive Director of the Company on 18 January 2005. He is the founder and President of Quadrant Management, Inc., an investment management company based in New York, the United States. Mr. Quasha had been a founding partner of a law firm in New York and an attorney focusing principally on corporate and tax law from 1980 to 1990. He has over 20 years of experience in fund and investment management, the oil and energy industry and corporate restructuring. He is the Chairman of the Board of HKN, Inc., an oil and gas company listed on the American Stock Exchange and engages in exploration and production in the United States and internationally. He is also a director of Compagnie Financiere Richemont AG and a number of private companies. He was a director of the American Express Funds and during the period from 1994 to 1997, he was a member of the Board of Governors of the American Stock Exchange. Mr. Quasha has extensive and in-depth experience spanning from investment management to business consultation. Mr. Quasha received a Bachelor's degree from Harvard College, the United States, a Master of Business Administration degree from Harvard Business School, a Doctorate of Law from Harvard Law School and a Master of Laws degree from the New York University Law School.

Mr. Tse On Kin

Mr. Tse, aged 45, was appointed as the Chairman and an Executive Director of the Company on 10 March 2006 and ceased to be the Chairman and was re-designated as a Non-Executive Director of the Company on 1 April 2007. He has over 19 years of experience in corporate planning, operation and human resources and new markets development. Currently, Mr. Tse is the Chairman of New Times Group Holdings Limited, the Chairman of Kong Sun Holdings Limited and a Non-Executive Director of Climax International Company Limited, all being public listed companies in Hong Kong. He had also been an Executive Director of Mexan Limited, an Executive Director of China National Resources Development Holdings Limited and the Vice Chairman and Chief Executive Officer of Great Wall Cybertech Limited (which had undergone a scheme of arrangement with its creditors sanctioned by the Court and now known as EPI (Holdings) Limited), all being public listed companies in Hong Kong.

Mr. Tse has a Bachelor's Degree in Public Policy and Administration from York University in Canada. Ms Ho Pui Man, the Financial Controller of the Company, is the niece of Mr. Tse.



Directors' and Senior Management's Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chan Chi Yuen

Mr. Chan, aged 41, was appointed as an Independent Non-Executive Director of the Company from 30 September 2004. He is the chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Chan is currently an executive director of A-Max Holdings Limited, Kong Sun Holdings Limited and Prosticks International Holdings Limited and an independent non-executive director of Hong Kong Health Check and Laboratory Holdings Company Limited, Premium Land Limited and Tak Shun Technology Group Limited, all being public listed companies in Hong Kong. Mr. Chan was an executive director of New Times Group Holdings Limited, a public listed company in Hong Kong, since 10 May 2006 and was re-designated as a non-executive director from 25 October 2006 onwards. He was also an independent non-executive director of Golden Resorts Group Limited, a public listed company in Hong Kong, from 17 September 2004 to 28 October 2005.

Mr. Chan holds a bachelor degree with honours in Business Administration and a master of science degree in Corporate Governance and Directorship. He is a fellow member of The Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants and is an associate member of The Institute of Chartered Accountants in England and Wales. Mr. Chan is a practising certified public accountant and has extensive experience in financial management, corporate finance and corporate governance.

Mr. Tsang Kwok Wa

Mr. Tsang, aged 42, was appointed as an Independent Non-Executive Director of the Company from 19 July 2007 and is a member of the Audit Committee of the Company. He has over 20 years of experience in accounting area. Mr. Tsang is currently a member of the Hong Kong Institute of Certified Public Accountants, a member of the CPA (Australia), and a fellow member of Taxation Institute of Australia. Mr. Tsang holds a degree of Master of Commerce major in accounting from The Charles Sturt University in Australia.

Mr. Zhang Xi

Mr. Zhang Xi, aged 38, was appointed as an Independent Non-Executive Director of the Company from 10 March 2006 and is a member of both the Audit Committee and Remuneration Committee of the Company. He has over 7 years of experience in the financial sector. He is currently a CFA charter-holder. Mr. Zhang's extensive experience includes serving as an investment analyst at Worldsec International Limited between 2000 and 2002 and at UOB Kay Hian (Hong Kong) Limited since 2002. Mr. Zhang graduated with a bachelor degree in science (electrical engineering) from Shanghai Jiao Tong University in July 1991. Mr. Zhang has obtained an International Master of Business Administration (Finance) from York University in Canada in September 1998.



Former Directors' Profile

EXECUTIVE DIRECTORS

Mr. Zhu Xirong

Mr. Zhu, aged 52, was appointed as an Executive Director and Chief Financial Officer of the Company on 29 August 2007 and resigned on 12 September 2007. He has over 20 years of experience in financial and business management. Prior to joining the Group, Mr. Zhu has held the position of Chief Financial Officer in Unionmet (Singapore) Ltd., a listed public Company in Singapore. He has also held the position of General Manager of the Finance Department of Oriental Metals (Holdings) Company Limited (now known as Minmetals Resources Limited), a public listed company in Hong Kong. Mr. Zhu holds a Master's Degree in Business from Victoria University of Technology in Australia.

Mr. Ping Kim

Mr. Ping, aged 53, was appointed as an Executive Director of the Company on 10 March 2006 and resigned on 9 May 2007. He has over 25 years of experience in business development and financial planning in the energy field. He was a director of United China International Enterprises Group Limited, a company listed in Toronto from January 2003 to January 2006 and graduated from 北京職工大學, Mr. Ping has experience in the trading business in Hong Kong.

Ms. Wong King King

Ms. Wong, aged 39, was appointed as an Executive Director of the Company on 27 October 2004 and elected as Chairman of the Company on 3 October 2005, she resigned from both positions on 10 March 2006. She graduated from the faculty of economics of Beijing Normal University and was awarded a Bachelor's Degree in business from La Trobe University in 1998.

Mr. Tian Yuchuan

Mr. Tian, aged 43, was appointed as an Executive Director and Chief Executive Officer of the Company on 3 October 2005 and resigned from both positions on 10 March 2006. Mr. Tian has over 20 years' experience in multi-national businesses, corporate management, international investments and corporate finance. He graduated from Lester B. Pearson College of the Pacific in Canada in 1985 and graduated from Beijing Foreign Studies University with a Bachelor of Arts Degree in English Language and Literature.



Former Directors' Profile

NON-EXECUTIVE DIRECTORS

Mr. John Douglas Kuhns

Mr. Kuhns, aged 57, was appointed as a Non-Executive Director of the Company on 28 April 2005 and resigned on 1 April 2007. He is the founder of Kuhns Brothers, an investment company. He has spent his business career in electric power production, investment banking and venture capital. Mr. Kuhns also has considerable experience in investing and financing companies in the PRC.

Mr. Kuhns received a Bachelor of Arts degree in Sociology and in Fine Arts from Georgetown University, a Master of Fine Arts from the University of Chicago and a Master of Business Administration degree from the Harvard Business School.

Mr. Liu Hongru

Mr. Liu, aged 77, was appointed as Honorary Chairman and Non-Executive Director of the Company on 7 July 2004 and 3 October 2005 respectively, and resigned on 10 March 2006. He has held senior positions at the People's Bank of China and The Agricultural Bank of China. From 1992 to 1995, he served as the Chairman of the China Securities and Regulatory Commission. Mr. Liu was awarded an honorary doctorates degree from the City University of Hong Kong in 1996. He holds an associate doctoral degree from the University of Moscow.

Mr. Lo Wing Yat, Kelvin

Mr. Lo, aged 49, was appointed as a Non-Executive Director of the Company on 9 March 2005 and resigned on 10 March 2006. He has over 20 years of experience in legal field. Mr. Lo graduated from the University of Hong Kong with a Bachelor's degree in Law.



Former Directors' Profile

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Pui Hung

Mr. Cheung, aged 44, was appointed as an Independent Non-Executive Director of the company on 9 May 2007 and resigned on 19 July 2007. He is currently a fellow of the Hong Kong Institute of Certified Public Accountants (Practising) and a fellow of the Association of Chartered Certified Accountants. Mr. Cheung commenced practice as a Certified Public Accountant since 21 September 1993. He holds a degree of Master of Professional Accounting from The Hong Kong Polytechnic University.

Ms. Leung Po Hung, Mabel

Ms. Leung, aged 37, was appointed as an Independent Non-Executive Director of the company on 1 April 2007 and resigned on 9 May 2007. She has over 10 years of experience in the securities business.

Mr. Tai Sik Fung, George

Mr. Tai, aged 56, was appointed as an Independent Non-Executive Director of the company on 10 March 2006 and resigned on 1 April 2007. He has over 30 years of experience in Hong Kong, PRC and overseas property markets, especially in the industrial property market.

Mr. Lai Hin Wing, Henry

Mr. Lai, aged 50, was appointed as an Independent Non-Executive Director of the company on 26 October 2005 and resigned on 10 March 2006. He is a partner of Messrs. P. C. Woo & Co., a firm of solicitors and notaries in Hong Kong, who has been practising in the legal field for more than twenty-three years. Mr. Lai was admitted as a solicitor in Hong Kong, England and Wales and the State of Victoria, Australia. Mr. Lai is a Notary Public and a China Appointed Attesting Officer in Hong Kong. He graduated from the University of Hong Kong with a Bachelor of Law degree.

Mr. Chan Kin Sang, Peter

Mr. Chan, aged 56, was appointed as an Independent Non-Executive Director of the company on 26 October 2005 and resigned on 10 March 2006. Mr. Chan was admitted as a Notary Public in 1997 and as a China Appointed Attesting Officer in Hong Kong in 2000. He graduated from the University of Hong Kong with a Bachelor of Law degree in 1979.



Directors' Report

The directors submit herewith their annual report together with the audited financial statements of the Company for the year ended 31 December 2006.

CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Company is a public company incorporated in Hong Kong with limited liability.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 16 to the financial statements.

The analysis of the principal activities and geographical locations of operations of the Group during the financial year are set out in note 6 to the financial statements.

RESULTS

The results of the Group for the year ended 31 December 2006 are set out in the consolidated income statement on page 31.

The directors did not recommend the payment of a dividend for the year ended 31 December 2006.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the statement of changes in equity on page 36 and note 31 to the financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2006, the Company did not have any reserves available for distribution to shareholders as calculated in accordance with the provisions of section 79B of the Hong Kong Companies Ordinance. In addition, the Company's share premium account, in the amount of approximately HK\$459,967,000, may be distributed in the form of fully paid bonus shares.

FINANCIAL SUMMARY

A summary of the published results and assets, liabilities and minority interests of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 88. This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group and of the Company during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 29 to the financial statements.

Details of changes and movements of preference shares are set out in note 29 to the financial statements.



Directors' Report

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

BANK BORROWINGS

Particulars of the Group's bank borrowings are set out in note 25 to the financial statements. The amount of interest capitalized during the year was approximately HK\$14,726,000.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year ended 31 December 2006 and up to the date of this report were:

	Appointment Date	Resignation Date
Executive directors ("ED")		
Liang Jun (<i>Chairman</i>)	12 June 2006	—
Chan Wai Ming (<i>Chief Executive Officer</i>)	9 May 2007	—
Chan Ka Fat (<i>Chief Financial Officer</i>)	19 September 2007	—
Zhu Xirong	29 August 2007	12 September 2007
Ping Kim	10 March 2006	9 May 2007
Tian Yuchuan	3 October 2005	10 March 2006
Wong King King	27 October 2004	10 March 2006
Non-executive directors ("NED")		
His Royal Highness Prince Idris Abdallah Al-Senussi	18 January 2005	—
Alan Grant Quasha	18 January 2005	—
Tse On Kin	10 March 2006 as ED and re-designated on 1 April 2007 as NED	—
John Douglas Kuhns	28 April 2005	1 April 2007
Liu Hongru	3 October 2005	10 March 2006
Lo Wing Yat, Kelvin	9 March 2005	10 March 2006
Independent non-executive directors ("INED")		
Chan Chi Yuen	30 September 2004	—
Tsang Kwok Wa	19 July 2007	—
Zhang Xi	10 March 2006	—
Cheung Pui Hung	9 May 2007	19 July 2007
Leung Po Hung, Mabel	1 April 2007	9 May 2007
Tai Sik Fung, George	10 March 2006	1 April 2007
Chan Kin Sang, Peter	26 October 2005	10 March 2006
Lai Hin Wing, Henry	26 October 2005	10 March 2006

Directors' Report

The Company has received annual confirmations from each of the independent non-executive directors as regards their independence to the Company and considers that each of the independent non-executive directors is independent to the Company. In accordance with Article 101A and 101B of the Company's Articles of Association, Mr. Liang Jun, Mr. Chan Wai Ming, Mr. Chan Ka Fat, Mr. Tse On Kin, Mr. Chan Chi Yuen, Mr. Tsang Kwok Wa and Mr. Zhang Xi, in so far as they are directors of the Company, shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company for the year 2007.

As at the date of this report, each of Mr. Liang Jun, Mr. Chan Wai Ming and Mr. Chan Ka Fat has a service agreement with the Company for a term of three years and is subject to retirement by rotation and re-election in accordance with the articles of association of the Company. None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on page 6 to 11 of the annual report.

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

As at 31 December 2006, the interests and short positions of the directors in the share capital and underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name of the Director	Capacity	Personal interests	Family interests	Corporate interests	Other interests	Total	Approximate percentage of shareholding
Liang Jun	Beneficial owner	2,000,000	—	—	—	2,000,000	0.17

As at 31 December 2006, save as disclosed above, none of the directors or the chief executive of the Company is a director or employee of a company which had an interest or short position in the shares and the underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Directors' Report

Save as disclosed above, none of the directors or any chief executive of the Company had an interest or short position in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she was taken or deemed to have under such provisions of the SFO) or which was required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or pursuant to the Model Code in the Listing Rules to be notified to the Company and the Stock Exchange.

The interests of the directors in the share options of the Company are separately disclosed under the section "Share options" below.

SHARE OPTIONS

On 27 May 2002, a share option scheme (the "Option Scheme") was adopted. The purpose of the Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest ("Invested Entity"); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; and (vi) any company wholly owned by any participant. The Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the Option Scheme was adopted, without prior approval from the Company's shareholders. The total number of shares issued and to be issued upon exercise of the options granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date of grant of option or the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).



Directors' Report

The following table discloses the movements in the Company's share options under the Option Scheme during the year:

Name or category of participant	Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	As at 1.1.2006	Granted during the year	Exercised during the year	Lapsed during the year	As at 31.12.2006	Market value per share (Note 1)	
									Immediately preceding the grant date of share options HK\$	Immediately preceding the exercise date of share options HK\$
Former directors										
Wong King King	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	(8,000,000)	—	0.4650	—
Tian Yuchuan	03.08.2005	03.08.2005 to 02.08.2015	0.6880	3,000,000	—	—	(3,000,000)	—	0.6600	—
Employees										
In aggregate	12.08.2004	12.08.2004 to 11.08.2014	0.3850	26,800,000	—	—	—	26,800,000	0.3800	—
	27.10.2004	27.10.2004 to 26.10.2014	0.4700	8,000,000	—	—	—	8,000,000	0.4650	—
	01.12.2004	01.12.2004 to 30.11.2014	0.6700	8,000,000	—	—	—	8,000,000	0.6700	—
	31.01.2005	31.01.2005 to 30.01.2015	0.5700	7,000,000	—	—	—	7,000,000	0.5900	—
	24.03.2005	24.03.2005 to 23.03.2015	0.8400	6,000,000	—	—	—	6,000,000	N/A (Note 2)	—
	26.05.2005	26.05.2005 to 25.05.2015	0.6900	6,100,000	—	—	(2,600,000)	3,500,000	0.6800	—
	03.08.2005	03.08.2005 to 02.08.2015	0.6880	3,500,000	—	—	(1,000,000)	2,500,000	0.6600	—

Notes:

- The share price of the Company disclosed as at the date of the grant of the share options was the closing price as quoted on the Stock Exchange of the trading day immediately prior to the date of the grant of the share options. The share price of the Company disclosed as the date of the exercise of the share options was the weighted average closing price of the shares immediately before the date on which the share options with the disclosure category were exercised.
- The trading of the Company's shares was suspended on 23 March 2005.

Directors' Report

No option under the Option Scheme was cancelled during the year.

The values of options granted during the year under review by calculation of the Black-Scholes option pricing model are set out on page 81 and 82 to the financial statements.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under sections "Directors' interests and short positions in shares and underlying shares and debentures" and "Share options" above, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, chief executive, or any of their respective spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in note 35 to the financial statements, no contract of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed in note 35 to the financial statements, there is no contract of significance between the Company or one of its subsidiaries, and a controlling shareholder of the Company or any of its subsidiaries — where a controlling shareholder is as defined in Note 16 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") — at any time during the year under review.



Directors' Report

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2006, the register of interests and short positions in the shares and underlying shares of the Company kept under section 336 of the SFO showed that, the following shareholders had an interest of 5% or more in the issued share capital of the Company:

Name	Capacity	Number of Shares held	Approximate percentage of shareholding
Ordinary shares			
CITIC International Assets Management Limited (Note 1)	Beneficial owner	111,116,666 (Note 2)	9.60%
CITIC Capital Investment Holdings Limited (Note 1)	Beneficial owner	83,590,000	7.22%
CITIC Capital Markets Holdings Limited (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Forever Glory Holdings Ltd. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
Golden Gateway Enterprises Inc. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC Pacific Limited. (Note 1)	Interest of a controlled corporation	83,590,000	7.22%
CITIC United Asia Investments Limited (Note 1)	Interest of a controlled corporation	6,080,000	0.5%
CITIC International Financial Holdings Limited. (Note 1)	Interest of a controlled corporation	194,760,666	16.83%
CITIC Group (Note 1)	Interest of a controlled corporation	200,786,666	17.35%
Delight Assets Management Limited (Notes 3)	Beneficial owner	295,000,000	25.5%
Ko Fong	Interest of a controlled corporation and beneficial owner	295,000,000	25.5%
Sky Bright International Development Limited (Note 4)	Beneficial owner	78,500,000	6.78%
Wong King King	Interest of a controlled corporation and beneficial owner	78,500,000	6.78%
Metro Capital Finance Limited	Interest of a controlled corporation	70,000,000	6.05%
Preference shares			
China Conservational Power Holdings Limited (Note 5)	Beneficial owner	80,000,000	100%



Directors' Report

Notes:

1. CITIC Group is interested in 56% of the issued share capital of CITIC International Financial Holdings Limited and is interested in 100% of the issued share capital of CITIC United Asia Investments Limited. CITIC International Financial Holdings Limited is interested in 40% of CITIC International Assets Management Limited and 50% of CITIC Capital Markets Holdings Limited. CITIC Pacific Limited is interested in 100% of the issued share capital of Golden Gateway Enterprises Inc., which is interested in 100% of Forever Glory Holdings Ltd.. Forever Glory Holdings Ltd. is interested in 50% of CITIC Capital Markets Holdings Limited, CITIC Capital Markets Holdings Limited is interested in 100% of CITIC Capital Investment Holdings Limited. Accordingly, under the SFO: (i) CITIC Group and CITIC International Financial Holdings Limited are deemed to be interested in the 44,450,000 Shares held by CITIC International Assets Management Limited and the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited; (ii) CITIC International Assets Management Limited is interested in 44,450,000 Shares held by it and 66,666,666 Shares to be issued and allotted to it under the Convertible Notes; and (iii) each of CITIC Pacific Limited, Golden Gateway Enterprises Inc. and CITIC Capital Markets Holdings Limited are deemed to be interested in the 83,590,000 Shares held by CITIC Capital Investment Holdings Limited.
2. Out of the 111,116,666 Shares held by CITIC International Assets Management Limited, 66,666,666 Shares represented the shares to be issued to CITIC International Assets Management Limited pursuant to the exercise of the conversion rights under the Convertible Notes subscribed under the subscription agreement dated 24 June 2004 entered into between the Company and CITIC International Assets Management Limited.
3. Delight Assets Management Limited is wholly owned by Ko Fong.
4. Sky Bright International Development Limited is wholly owned by Wong King King.
5. These are class B preference shares of HK\$0.01 each ("Preference Shares") issued pursuant to the Sale and Purchase Agreement dated 7 April 2005 between the Company and China Conservational Power Holdings Limited ("CCPH"). These Preference Shares are convertible into ordinary shares of HK\$0.01 each in the capital of the Company at a conversion price of HK\$0.76 each within a three-year period maturing on 4 July 2008. Pursuant to this Sale and Purchase Agreement, CCPH also has the right to subscribe for 40,000,000 option shares at the price of HK\$0.76 each and any exercise of such options must be accompanied by the conversion of two Preference Shares at the same time.

Save as disclosed above, as at 31 December 2006, the directors of the Company are not aware of any other persons who have interests or short position in the shares, underlying shares of equity derivatives or debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would be required to be disclosed to the Company pursuant to Part XV of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in note 35 to the financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.



Directors' Report

MAJOR SUPPLIERS AND CUSTOMERS

The Group's largest supplier contributed 17% to the total purchases for the year and the aggregate amount of purchases attributable to the Group's top five suppliers represented 50% of the Group's total purchases.

The Group's largest customer accounted for 44% of the Group's turnover (excluding guaranteed return) and 67% of the total turnover (excluding guaranteed return) of the Group was attributable to the Group's top five customers.

None of the directors, their associates or any shareholders of the Company (which to the knowledge of the directors own more than 5% of the Company's issued share capital) had any interest in the Group's major suppliers or customers noted above.

RETIREMENT BENEFITS SCHEMES

The Group strictly complies with the Mandatory Provident Fund Schemes Ordinance in making mandatory contributions for its staff.

CORPORATE GOVERNANCE

The Company has, throughout the year ended 31 December 2006, complied with most of the applicable code provisions and principles of the Code of Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Details of the Corporate Governance Report of the Company are set out on page 21 to 28 of this annual report.

AUDITORS

Shu Lun Pan Horwath Hong Kong CPA Limited (formerly named Horwath Hong Kong CPA Limited) was first appointed as auditors of the Company on 21 March 2006 to fill the casual vacancy following the resignation of Messrs. HLB Hodgson Impey Cheng effective from 20 March 2006. Messrs. HLB Hodgson Impey Cheng were appointed as auditors of the Company in 2002. Save as aforesaid, there had been no other changes of the Company's auditors in the past three financial years.

A resolution for the re-appointment of Shu Lun Pan Horwath Hong Kong CPA Limited as the auditors of the Company for the ensuing year is to be proposed at the forthcoming annual general meeting for the year 2007.

On behalf of the Board

Liang Jun

Chairman

Hong Kong, 17 December 2007



Corporate Governance Report

CORPORATE GOVERNANCE PRACTICE

It is one of the continuing commitments of The Board of Directors (the “Board”) and of management of the Company to maintain high standards of corporate governance. The Company has adopted and applied the principles as set out in the Code on Corporate Governance Practices (the “SEHK Code”) contained in Appendix 14 to the Listing Rules. The Company considers that effective corporate governance makes significant contribution to corporate success and enhancement of shareholder value.

Throughout the year ended 31 December 2006, the Company has complied with the SEHK Code, except for the following:

Code provision of the SEHK Code	Deviation	Considered reason for deviation
A.2.1 Separation of the role of the Chairman and Chief Executive Officer	During the term of Mr. Tse On Kin’s (“Mr. Tse”) appointment as Chairman from 10 March 2006 to 1 April 2007, no Chief Executive Officer was appointed.	Mr. Tse possessed the appropriate skills and experience and the Company was in such condition that at the time of his appointment, it was considered unnecessary to appoint a Chief Executive Officer. As at the date of this report, the two roles are separated and segregated.

Code Provision A.4.1 stated that all non-executive directors (“NEDs”) should be appointed for a specific term. All NEDs of the Company during 2006 did not have a fixed term of service but are subject to retirement by rotation and re-election pursuant to the Articles of Association of the Company. The relevant Articles of Association stipulates that at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not greater than one-third) shall retire from office.

We have set out in this report the status of the Company’s compliance with Appendix 23 to the Listing Rules.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by directors.

Given the time lapse between the period under review and the date of this report, it is no longer practicable to make specific enquiry of the directors of 2006 and confirmed that they have complied with the code throughout the year ended 31 December 2006. However, specific enquiry has been made of the current directors and they have confirmed that as at the date of this report they are complying with the code.



Corporate Governance Report

BOARD OF DIRECTORS

The Board currently comprises of three Executive Directors, three Non-Executive Directors and three Independent Non-Executive Directors. The biographical details of each director are shown on pages 6 to 8.

As at 31 December 2006, the board composition consisted of two Executive Directors, five Non-Executive Directors and three Independent Non-Executive Directors. For the year ended 31 December 2006 and up to the date of this report, the board composition of the Company has undergone a series of changes. These changes can be found on page 13.

The number of board meetings held during the financial year of 2006 and its record of individual attendance is shown on page 28.

It is the function of the Board to assume the responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company by directing and supervising the Company's affairs.

Other duties include but are not limited to:—

- maintaining effective control of the Company;
- giving strategic direction to the Company;
- reviewing, approving and monitoring fundamental financial and business strategies, plans and major corporate actions;
- ensuring that the Company complies with relevant laws, regulations and codes of business practice; and
- ensuring that the Company communicates with shareholders and the relevant stakeholders transparently and promptly.

Although the Board may and have delegated some of their responsibilities to various committees and principal divisions, it acknowledges that it remains ultimately accountable for the performance and affairs of the Company.

The Board members do not have any family, financial or business relations with each other. Details of backgrounds and qualifications of the Chairman, the Chief Executive Officer and other Directors are set out on pages 6 to 8.

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The identities of the Chairman and Chief Executive Officer for the year ended 31 December 2006 and up to the date of this report are as follows:

From	Period		Chairman	Chief Executive Officer	Segregated/ Unsegregated
		To			
1 January 2006	9 March 2006		Wong King King	Tian Yuchuan	Segregated
10 March 2006	31 March 2007		Tse On Kin	—	Unsegregated
1 April 2007	14 June 2007		Liang Jun	Liang Jun	Unsegregated
15 June 2007	—		Liang Jun	Chan Wai Ming	Segregated

Currently, the Chairman and Chief Executive Officer of the Company are Mr. Liang Jun and Mr. Chan Wai Ming respectively. The two roles were segregated by the Company from 15 June 2007.

The key role of the Chairman is to provide leadership to the Board. In performing his duties, the Chairman shall ensure that the Board functions effectively in the discharge of its responsibilities. The Chairman also has the responsibility of taking the lead to ensure that the Board acts in the best interests of the Company and the Group.

The key role of the Chief Executive Officer is to be responsible for the day-to-day management and operations of the Company and business of the Group. His duties mainly include:

- Providing leadership and supervising the effective management of the Company;
- Monitoring and controlling the financial and operational performance of various divisions; and
- Implementing the strategy and policies adopted by the Company, setting and implementing objectives and development plans.



Corporate Governance Report

NON-EXECUTIVE DIRECTORS

The Company's board composition has undergone a number of changes during 2006 and up to the date of this report. The appointments and resignations of non-executive directors can be found on page 13.

For all non-executive directors that were appointed during the year of 2006 and up to the date of this report, they have no specific term of service. The two exceptions were the appointments of:—

- Mr. Zhang Xi (appointed on 10 March 2006) and
- Mr. Tai Sik Fung, George (appointed on 10 March 2006 and resigned on 1 April 2007)

For Mr. Zhang Xi and Mr. Tai Sik Fung, their initial length of service was one year duration. Pursuant to the Articles of Association of the Company, all non-executive directors hold office until the next annual general meeting of the Company and will retire at that general meeting and be eligible for re-election.

REMUNERATION OF DIRECTORS

A remuneration committee was established in 2006 and as at 31 December 2006 it was comprised of Mr. Tse On Kin, Mr. Tai Sik Fung, George and Mr. Zhang Xi.

It is the function of the remuneration committee of the Company to make recommendations to the Board on policies relating to the remuneration of other directors. In accordance with the Listing Rules, the majority of the members of the remuneration committee are Independent Non-Executive Directors.

In August 2006, the remuneration committee has adopted new written terms of reference. Its duties and responsibilities include but are not limited to:—

- determining the specific remuneration packages of all executive directors and senior management;
- reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- reviewing and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment; and
- consulting with the Chairman where to position the Company relative to comparable companies in terms of remuneration level and board composition.



Corporate Governance Report

The written terms of reference of the remuneration committee comply with the Listing Rules, namely Code B.1.3 of Appendix 14.

From	Period	To	Remuneration Committee Members
26 October 2005		9 March 2006	Wong King King (<i>Chairman</i>) Lai Hin Wing, Henry Chan Kin Sang, Peter
10 March 2006		31 March 2007	Tse On Kin Tai Sik Fung, George Zhang Xi
1 April 2007		8 May 2007	Liang Jun Leung Po Hung, Mabel Zhang Xi
9 May 2007		—	Liang Jun (<i>Chairman</i>) Chan Chi Yuen Zhang Xi

As at the date of this report, the remuneration committee members are made up of Mr. Chan Chi Yuen, Mr. Liang Jun and Mr. Zhang Xi. Mr. Liang Jun is the chairman of the remuneration committee.

The number of remuneration committee meetings held during the financial year of 2006 and its record of individual attendance is shown on page 28.

In 2006, the Board accepted the recommendations of the remuneration committee in regard to the emolument and reimbursement of Executive Directors.

NOMINATION OF DIRECTORS

The Company does not have a nomination committee for the year ended 31 December 2006 and up to the date of this report.

Since the Board follows a formal, considered and transparent procedure for the appointment of new directors, the Board does not have to establish a nomination committee to review new appointments of directors, senior executives as well as management succession plans for executive directors and senior executives. The appointment of a new director is a collective decision of the Board, taking into consideration the candidate's qualification, expertise, experience, integrity and commitment to his/her responsibilities within the Group. Consequently, the Board deems it unnecessary that a nomination committee should be formed.



Corporate Governance Report

During the year under review, the Board underwent a series of changes. The appointment of each newly appointed director has been properly approved by the Board.

AUDITORS' REMUNERATION

Shu Lun Pan Horwath Hong Kong CPA Limited (formerly named Horwath Hong Kong CPA Limited) was first appointed as auditors of the Company on 21 March 2006 to fill the casual vacancy following the resignation of Messrs. HLB Hodgson Impey Cheng effective from 20 March 2006.

During the year under review, the fee in respect of audit and non-audit services provided by the external auditors to the Company is as follows: for the interim audit for the six months ended 30 June 2006 and annual audit for the year ended 31 December 2006, the audit fee to Horwath Hong Kong CPA Limited was HK\$1,000,000. For a special audit service, the audit fee to CCIF CPA Limited was HK\$614,823. There was no non-audit service fee paid to external auditor during the year under review.

AUDIT COMMITTEE

The Company has an audit committee which was established in compliance with Rule 3.21 of the Listing Rules. The main purpose of the audit committee is to review and provide supervision over the Group's financial reporting process and internal controls. The audit committee comprises three Independent Non-Executive Directors of the Company.

Prior to August 2006, the audit committee's terms of reference are aligned with the recommendations set out in 'A Guide for Effective Audit Committee' issued by the Hong Kong Institute of Certified Public Accountants.

In August 2006, the audit committee has adopted new written terms of reference. Its duties and responsibilities include but are not limited to:—

- making recommendation to the Board on the appointment, reappointment and removal of the external auditors;
- reviewing and monitoring the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;
- monitoring the integrity of financial statements of the Company; and
- reviewing the Company's financial controls, internal control and risk management systems.

The written terms of reference of the audit committee comply with the Listing Rules, namely Code C.3.3 of Appendix 14.



Corporate Governance Report

During the year under review and up to the date of this report, the composition of the Audit Committee underwent a series of changes as shown below:

From	Period	To	Audit Committee Members
1 January 2006		9 March 2006	Chan Chi Yuen (<i>Chairman</i>) Lai Hin Wing, Henry Chan Kin Sang, Peter
10 March 2006		31 March 2007	Chan Chi Yuen (<i>Chairman</i>) Tai Sik Fung, George Zhang Xi
1 April 2007		8 May 2007	Chan Chi Yuen (<i>Chairman</i>) Zhang Xi Leung Po Hung, Mabel
9 May 2007		18 July 2007	Chan Chi Yuen (<i>Chairman</i>) Cheung Pui Hung Zhang Xi
19 July 2007		—	Chan Chi Yuen (<i>Chairman</i>) Tsang Kwok Wa Zhang Xi

No audit committee meeting was held during the year under review.



Corporate Governance Report

The audit committee had reviewed and approved the financial statements for the year ended 31 December 2006.

	Meetings Attended/Held in 2006	
	Board	Remuneration Committee
No. of meetings held during the year 2006	23	2
Executive Directors		
Tian Yuchuan	1	
Wong King King	1	
Tse On Kin	22	
Ping Kim	21	
Liang Jun	10	
Non-Executive Directors		
His Royal Highness Prince Idris Abdallah Al-Senussi		
Alan Grant Quasha		
John Douglas Kuhns		
Liu Hongru		
Lo Wing Yat, Kelvin		
Independent Non-Executive Directors		
Chan Chi Yuen	10	
Lai Hin Wing, Henry	1	
Chan Kin Sang, Peter	1	
Tai Sik Fung, George	11	2
Zhang Xi	11	2

INTERNAL CONTROL

Appropriate systems of internal control, policies and procedures have been maintained, within reasonable cost, to ensure that financial information is both relevant and reliable. The systems of internal control are assessed on an ongoing basis by the Company's Board of Directors and/or external accountants.

DIRECTORS' AND AUDITOR'S ACKNOWLEDGEMENT

All Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2006.

Shu Lun Pan Horwath Hong Kong CPA Limited, the auditors of the Company, acknowledges its reporting responsibilities in the independent auditors' report on the financial statements for the year ended 31 December 2006.

Independent Auditor's Report



Shu Lun Pan Horwath Hong Kong CPA Limited

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TO THE SHAREHOLDERS OF CHINA SCIENCES CONSERVATIONAL POWER LIMITED (中科環保電力有限公司)

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Sciences Conservational Power Limited (the "Company") and its subsidiaries (hereinafter referred to as the "Group") set out on pages 31 to 87, which comprise the consolidated and Company balance sheets as at 31 December 2006 the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, 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 conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report

OPINION

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 December 2006 and of the loss and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

SIGNIFICANT UNCERTAINTY – ONGOING PROCEEDINGS BY THE INDEPENDENT COMMISSION AGAINST CORRUPTION

As further explained in note 37 to the financial statements, on 29 September 2005, the Independent Commission against Corruption (the "ICAC") issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by ICAC for the purpose of investigation. According to a press release by the ICAC dated 20 February 2006, two former Directors of the Company who held office until 26 October 2005, were charged with alleged conspiracy to defraud the Company involving Company's funds (the "Charges"). The alleged offences took place between January 2004 and April 2005. At the date of this report, save as set out in note 37 to the financial statements, the Company is not aware of other development of the Charges, and hence any possible impact on the Group's operations and financial position.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to the fact that because our opinion dated 3 December 2007 on the state of affairs of the Company and of the Group as at 31 December 2005 and of the loss and cash flows of the Group for the year then ended was disclaimed for the scope limitation based on reasons summarised in the basis of opinion section therein, the comparative amounts shown in these financial statements may not be comparable with the amounts for the current year.

FUNDAMENTAL UNCERTAINTY RELATING TO GOING CONCERN

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the basis of preparation of financial statements made by the Directors. As explained in note 3(b) to the financial statements, the Group sustained a loss attributable to equity holders of approximately HK\$31,688,000 during the year ended 31 December 2006 and had net current liabilities of approximately HK\$16,136,000 as at 31 December 2006. The financial statements have been prepared on a going concern basis, the validity of which depends upon the advances of HK\$15,000,000 obtained from a shareholder who is also chief executive officer of the Company and possible further funding from potential investors. The circumstances relating to this fundamental uncertainty are described in note 3(b) to the financial statements.

SHU LUN PAN HORWATH HONG KONG CPA LIMITED

Certified Public Accountants

17 December 2007

Li Pak Ki

Practising Certificate number P01330



Consolidated Income Statement

For the year ended 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Turnover	5	56,631	707,003
Cost of sales		(55,763)	(703,622)
Gross profit		868	3,381
Other revenue		2,923	630
Administrative expenses		(29,053)	(57,271)
Provision for impairment of trade and other receivables		(57)	(168,322)
Provision for impairment of goodwill		—	(42,851)
Loss from operations	7	(25,319)	(264,433)
Finance costs	8	(6,974)	(4,693)
Share of results of associate		—	(945)
Loss before taxation		(32,293)	(270,071)
Income tax	9	—	—
Loss after taxation		(32,293)	(270,071)
Attributable to:			
Equity holders of the Company		(31,688)	(269,656)
Minority interests		(605)	(415)
		(32,293)	(270,071)
Dividends	11	—	—
Loss per share			
— Basic	12	(2.74) cents	(26.19) cents
— Diluted	12	N/A	N/A

The accompanying notes form part of these financial statements.



Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	265,259	5,158
Land use rights	14	4,220	—
Construction in progress	15	92,572	298,416
Goodwill	17	23,916	23,061
		385,967	326,635
Current assets			
Inventories	18	489	476
Trade and other receivables	19	23,547	30,274
Amount due from a director	20	500	—
Investments held for trading	21	76	56
Pledged bank deposits	32	14,948	14,413
Bank balances and cash	22	7,666	40,290
		47,226	85,509
Current liabilities			
Trade and other payables	23	41,857	16,432
Convertible notes	26	20,604	—
Amount due to a minority shareholder of a subsidiary	24	901	—
		63,362	16,432
Net current (liabilities)/assets		(16,136)	69,077
Total assets less current liabilities		369,831	395,712
Non-current liabilities			
Bank loans	25	229,195	211,387
Convertible notes	26	—	20,176
Convertible preference shares	27	51,745	46,471
		280,940	278,034
Net assets		88,891	117,678



Consolidated Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Equity			
Share capital	29	11,570	11,570
Reserves		67,989	96,516
Equity attributable to equity holders of the Company		79,559	108,086
Minority interests		9,332	9,592
Total equity		88,891	117,678

These financial statements were approved and authorised for issue by the board of directors on 17 December 2007.

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.



Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Assets and liabilities			
Non-current assets			
Property, plant and equipment	13	—	5
Investments in subsidiaries	16	18,765	18,765
		18,765	18,770
Current assets			
Trade and other receivables	19	5,518	4,959
Amount due from a director	20	500	—
Investments held for trading	21	76	56
Bank balances and cash	22	6,591	29,079
		12,685	34,094
Current liabilities			
Trade and other payables	23	2,728	4,587
Convertible notes	26	20,604	—
		23,332	4,587
Net current (liabilities)/assets		(10,647)	29,507
Total assets less current liabilities		8,118	48,277
Non-current liabilities			
Convertible notes	26	—	20,176
Convertible preference shares	27	51,745	46,471
		51,745	66,647
Net liabilities		(43,627)	(18,370)

Balance Sheet

At 31 December 2006

	Note	2006 HK\$'000	2005 HK\$'000
Equity			
Share capital	29	11,570	11,570
Reserves	31	(55,197)	(29,940)
Total equity		(43,627)	(18,370)

These financial statements were approved and authorised for issue by the board of directors on 17 December 2007.

Liang Jun
Director

Chan Wai Ming
Director

The accompanying notes form part of these financial statements.



Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity shareholders of the Company									
	Share capital HK\$'000 (Note 29)	Share premium HK\$'000	Share option reserve HK\$'000	Equity component of convertible notes HK\$'000	Equity component of convertible preference shares HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2005										
– As previously reported	8,129	236,593	–	–	–	–	(124,781)	119,941	7	119,948
– Prior year adjustments on effects of changes in accounting policies	–	–	2,316	550	–	–	(2,545)	321	–	321
– As restated	8,129	236,593	2,316	550	–	–	(127,326)	120,262	7	120,269
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	–	–	–	–	–	2,831	–	2,831	225	3,056
Net loss for the year	–	–	–	–	–	–	(269,656)	(269,656)	(415)	(270,071)
Total recognised income and expenses for the year	–	–	–	–	–	2,831	(269,656)	(266,825)	(190)	(267,015)
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	–	–	–	–	–	27,000	–	27,000
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	–	–	–	–	–	37,800	–	37,800
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,580	–	–	–	–	–	91,780	–	91,780
New issue and placing of 65,000,000 shares on 8 September 2005	650	47,459	–	–	–	–	–	48,109	–	48,109
Recognition of convertible preference shares	–	–	–	–	20,952	–	–	20,952	–	20,952
Conversion of convertible preference shares	200	10,978	–	–	–	–	–	11,178	–	11,178
Recognition of share option payments	–	–	7,825	–	–	–	–	7,825	–	7,825
Recognition of share premium for exercise of share options	–	943	(943)	–	–	–	–	–	–	–
Exercise of share options	191	9,814	–	–	–	–	–	10,005	–	10,005
Share of net assets by minority interest of a subsidiary	–	–	–	–	–	–	–	–	9,775	9,775
At 31 December 2005	11,570	459,967	9,198	550	20,952	2,831	(396,982)	108,086	9,592	117,678

Statement of Changes in Equity

For the year ended 31 December 2006

	Attributable to equity shareholders of the Company									
	Share capital HK\$'000 (Note 29)	Share premium HK\$'000	Share option reserve HK\$'000	Equity component of convertible notes HK\$'000	Equity component of convertible preference shares HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2006	11,570	459,967	9,198	550	20,952	2,831	(396,982)	108,086	9,592	117,678
Exchange difference arising on translation of financial statements of foreign entities recognised directly in equity	—	—	—	—	—	2,694	—	2,694	345	3,039
Net loss for the year	—	—	—	—	—	—	(31,668)	(31,668)	(605)	(32,293)
Total recognised income and expenses for the year	—	—	—	—	—	2,694	(31,668)	(28,994)	(260)	(29,254)
Recognition of share option payments	—	—	467	—	—	—	—	467	—	467
Share option lapsed during the year	—	—	(395)	—	—	—	395	—	—	—
At 31 December 2006	11,570	459,967	9,270	550	20,952	5,525	(428,275)	79,559	9,332	88,891

The accompanying notes form part of these financial statements.



Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000
Operating activities		
Loss before taxation	(32,293)	(270,071)
Adjustment for:		
Provision for impairment of goodwill	—	42,851
Share of results of an associate	—	945
Unrealised holding (gain)/loss on investment	(20)	68
Gain on disposal of investments held for trading	—	(78)
Interest income	(419)	(33)
Interest expenses	—	21
Interest on obligations under finance leases	—	53
Depreciation and amortisation of property, plant and equipment	951	1,267
Amortisation of land use rights	42	—
Loss on disposal of property, plant and equipment	129	340
Provision for inventories	—	266
Provision for impairment of trade and other receivables	57	168,322
Bad debts written off	60	2,369
Equity-settled share-based payment	467	1,538
Interest on convertible notes	1,700	2,020
Interest on convertible preference shares	5,274	2,599
Effect of foreign exchange rate changes	(2,573)	2,263
Operating loss before changes in working capital	(26,625)	(45,260)
Increase in inventories	(13)	(322)
Decrease/(increase) in trade and other receivables	6,610	(71,965)
Increase in amount due from a director	(500)	—
Increase/(decrease) in trade and other payables	25,426	(36,100)
Increase in amount due to a minority shareholder of a subsidiary	901	—
Cash from/(used in) operations	5,799	(153,647)
Interest paid	—	(21)
Interest on obligations under finance leases	—	(53)
Interest on bank loan	(14,726)	(3,700)
Interest on convertible notes	(1,272)	(1,700)
Interest received	419	33
Net cash used in operating activities	(9,780)	(159,088)

Consolidated Cash Flow Statement

For the year ended 31 December 2006

	2006 HK\$'000	2005 HK\$'000
Investing activities		
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	—	(1,950)
Purchase of property, plant and equipment	(20,522)	(5,314)
Payments for land use rights	(4,262)	—
Payments for construction in progress	(8,909)	(205,699)
Increase in pledged bank deposits	—	(14,413)
Proceeds from disposal of investments held for trading	—	1,142
Proceeds from disposal of property, plant and equipment	43	1,437
Purchase of investments held for trading	—	(124)
Net cash used in investing activities	(33,650)	(224,921)
Financing activities		
New bank loan	9,965	211,387
Capital element of finance leases rentals paid	—	(1,010)
Proceeds from issue of shares	—	166,889
Proceeds from exercise of share options	—	10,005
Net cash from financing activities	9,965	387,271
Net (decrease)/increase in cash and cash equivalents	(33,465)	3,262
Cash and cash equivalents at 1 January	40,290	37,027
Effect of foreign exchange rate changes	841	1
Cash and cash equivalents at 31 December representing bank balances and cash	7,666	40,290

The accompanying notes form part of these financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1. ORGANISATION AND OPERATIONS

The Company is a public company incorporated in Hong Kong with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and has its registered office and principal place of business at Room 1208-1210, Dah Sing Financial Centre, 108 Gloucester Road, Wan Chai, Hong Kong.

The Company acts as an investment holding company and provides corporate management services. The principal activities and other particulars of its principal subsidiaries are set out in note 16.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all of the new and revised Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) that are relevant to its operations and effective for annual reporting periods beginning on 1 January 2006. The adoption of these new and revised Standards and Interpretations did not result in substantial changes to the Group’s accounting policies nor have affected the amounts reported for the current or prior years.

At the date of authorisation of these financial statements, the following Standards and Interpretations relevant to the Group were in issue but not yet effective:

		Effective for annual periods beginning on or after
HKAS 1 (Amendment)	Capital Disclosures	1 January 2007
HKAS 23 (Revised)	Borrowing Costs	1 January 2009
HKFRS 7	Financial Instruments: Disclosures	1 January 2007
HKFRS 8	Operating Segments	1 January 2009
HK(IFRIC) — Int 8	Scope of HKFRS 2	1 May 2006
HK(IFRIC) — Int 10	Interim Financial Reporting and Impairment	1 November 2006
HK(IFRIC) — Int 11	HKFRS 2 — Group and Treasury Share Transactions	1 March 2007
HK(IFRIC) — Int 12	Service Concession Arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these new or revised Standards or Interpretations is expected to be in the period of initial application.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

(b) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments which have been measured at fair value.

At the balance sheet date, the group sustained a loss for the year attributable to equity holders of HK\$31,688,000 during the year and had net current liabilities of approximately HK\$16,136,000 as at 31 December 2006. Subsequent to the year, a shareholder who was also chief executive office of the company had advanced HK\$15 million to the Group for general working capital. The Group is also in discussion with a number of potential investors to provide further working capital to the Group. Accordingly, the directors are of the opinion that the Group will have sufficient working capital to meet its normal operational requirements in the coming year and are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired and disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the date of disposal respectively.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and exchange difference which was not previously charged or recognised in the profit and loss account.

(d) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities assumed in a business combination are recognised at their fair values at the acquisition date.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(d) Business combinations *(continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the profit and loss account.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(e) Subsidiaries

A subsidiary is an enterprise in which the Group has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

Investments in subsidiaries are included in the Company's balance sheet at cost less any impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(f) Associates

An associate is an enterprise over which the Group holds for long term and is in a position to exercise significant influence, through participation in the financial and operating policy decisions of the investee but not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less impairment in the value of individual investments. Losses of an associate in excess of the Group's interest in that associate are not recognised. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

Where a Group enterprise transacts with an associate of the Group, unrealised gains and losses are eliminated to the extent of the Group's interest in the relevant associate, except where unrealised losses provide evidence of an impairment of the assets transferred.

In the Company's balance sheet, its investments in associates are stated at cost less impairment losses. The results of associates are accounted for by the Company on the basis of dividends received and receivable.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(g) Goodwill

Goodwill represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary, associate or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses. Goodwill on acquisitions of subsidiaries is presented separately.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Gain or loss on the disposal of a subsidiary or associate includes the carrying amount of goodwill relating to the subsidiary or associate sold.

(h) Property, plant and equipment

Buildings, plant and equipment held for use in production or supply of goods or services, or for administrative purposes, are stated in the balance sheet at their historical costs, less any subsequent accumulated depreciation and accumulated impairment losses. Cost includes professional fees and, for qualifying assets, borrowing cost capitalised in accordance with the Group's accounting policy. Other property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Historical cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its present working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is charged to profit and loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the assets, the expenditure is capitalised as an additional cost of the asset or a separate asset.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(h) Property, plant and equipment *(continued)*

Depreciation is charged so as to write off the cost or valuation of assets, other than properties under construction, over their estimated useful lives, using the straight-line method. The useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The principal annual rates are as follows:

Buildings, plant and equipment	2% - 5%
Leasehold improvements	Over the remaining term of the lease but not exceeding 5 years
Furniture, fixtures and equipment	20% - 33%
Motor vehicles	20%

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(i) Impairment of assets excluding goodwill

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the profit and loss account, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method of costing and includes all costs incurred in bringing the goods to their present location and condition. Net realisable value is determined by reference to the anticipated sales proceeds of items sold in the ordinary course of business less estimated selling expenses after the balance sheet date or to management estimates based on prevailing market conditions.

(k) Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(i) Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. Appropriate provision for estimated irrecoverable amounts are recognised in the profit and loss account when there is objective evidence that the asset is impaired. The provision recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

(ii) Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

At subsequent reporting dates, debt securities that the Group or the Company has the expressed intention and ability to hold to maturity (held-to-maturity debt securities) are measured at amortised cost using the effective interest method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(ii) Investments *(continued)*

Investments other than held-to-maturity debt securities are classified as either investments held for trading or as available-for-sale, and are measured at subsequent reporting dates at fair value. Where securities are held for trading purposes, gains and losses arising from changes in fair value are included in profit or loss for the period. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale are subsequently reversed if an increase in the fair value of the instrument can be objectively related to an event occurring after the recognition of the impairment loss.

(iii) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(iv) Financial liabilities and equity

Financial liabilities and equity instruments issued by the Group are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(k) Financial instruments *(continued)*

(v) Borrowings

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the Group's accounting policy for borrowing costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(vi) Convertible notes and convertible preference shares

Convertible notes and convertible preference shares are regarded as compound instruments, consisting of a liability component and an equity component. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible debt. The difference between the proceeds of issue of the convertible notes/convertible preference shares and fair value assigned to the liability component, representing the embedded option for the holder to convert the convertible notes/convertible preference shares into equity of the Group, is included in equity (equity component of convertible notes/convertible preference shares).

Issue costs are apportioned between the liability and equity components of the convertible notes/convertible preference shares based on their relative carrying amounts at the date of issue. The portion relating to the equity component is charged directly to equity.

The interest expense on the liability component is calculated by applying the prevailing market interest rate of similar non-convertible debt to the liability component of the instrument. The difference between this amount and the interest paid is added to the carrying amount of the convertible notes/convertible preference shares.

(vii) Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest method.

(viii) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(l) Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to profit and loss account, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's policy on borrowing costs.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

The cost of acquiring land use right held under an operating lease is amortised on a straight-line basis over the period of the lease term. Land use rights are stated at cost less accumulated amortisation and any impairment losses.

(m) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(n) Taxation *(continued)*

Deferred tax liabilities are provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements and deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. However, such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associated companies, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(o) Translation of foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates ("functional currency"). The consolidated financial statements are expressed in Hong Kong dollars which is the functional currency of the Company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency ("foreign currencies") are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(o) Translation of foreign currencies *(continued)*

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit and loss account for the period. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit and loss account for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly in equity.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operation are expressed in Hong Kong dollars using exchange rates prevailing on the balance sheet date. Income and expenses items are translated at the average exchange rates for the period unless exchange rates fluctuate significantly. Exchange differences arising, if any, are classified as equity and transferred to the Group's exchange reserve. Such translation differences are recognised in profit and loss account in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

(p) Employees' benefits

(i) Short term employee benefits

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the balance sheet date.

(ii) Pension obligations

The Group has participated in an approved Mandatory Provident Fund ("MPF") scheme effective from 1 December 2000 to provide MPF scheme to all eligible employees in Hong Kong. The contributions borne by the Group are calculated at 5% of the salaries and wages (monthly contribution limited to 5% of HK\$20,000 for each eligible employee) as calculated under the MPF legislation. Contributions to MPF scheme are recognised as an expense in the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2006.

Employees of the Company's subsidiaries in the People's Republic of China ("PRC") are required to participate in defined contribution retirement scheme operated by relevant government authorities. The PRC subsidiaries are required to contribute a certain percentage of the employee payroll to the scheme in accordance with the relevant regulations in the PRC and such contributions are charged to the income statement as incurred. There were no forfeited contributions used to reduce future contributions as at 31 December 2006.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(p) Employees' benefits *(continued)*

(iii) Share-based payments

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using the Black-Scholes pricing model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

(q) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit and loss in the period in which they are incurred.

(r) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

(s) Related parties

Two parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they 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.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

3. PRINCIPAL ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts and returns.

- (i) Waste incineration power generation income are earned and recognised upon transmission of electricity to the power grid companies.
- (ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.
- (iii) Sales of goods are recognised when goods are delivered and title has passed.
- (iv) Service income is recognised when services are provided.
- (v) Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

(u) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has determined that business segment information be presented as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

In respect of geographical segment reporting, sales are based on the country in which the customer is located. Total assets and capital expenditure are where the assets are located.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, corporate and financing expenses and minority interests.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Impairment of trade and other receivable

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimates, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

(c) Assessment of impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 3(g). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the Group to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate. In cases where the actual future cash flows generated are less than expected, a material portion of the goodwill may be derecognised, which would be charged to the consolidated income statement for the year in which such a derecognition takes place. As at 31 December 2006, the carrying amount of goodwill was HK\$23,916,000 (2005: HK\$23,061,000). Details of the impairment assessment are disclosed in note 17.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

5. TURNOVER

Turnover represents the amount received and receivable for goods sold to outside customers, less returns and allowances, waste incineration power generation income and service income for the year, and is analysed as follows:

	2006 HK\$'000	2005 HK\$'000
Waste incineration power generation income	24,965	—
Sale of computer hardware and maintenance support services	31,352	705,301
Software design and development	314	1,702
	56,631	707,003

6. BUSINESS AND GEOGRAPHICAL SEGMENTS

(a) Business segments

For management purposes, the Group is currently organised into three operating divisions: (i) waste incineration power generation business; (ii) computer hardware and provision of maintenance support services; and (iii) provision of software design and development. These divisions are the bases on which the Group reports its primary segment information.

The principal activities of the divisions are as follows:

Waste incineration power generation business	—	Waste incineration, processing and power generation for power generation business in the PRC
Computer hardware and maintenance support services	—	Sale of computer hardware and provision of maintenance support services
Software design and development	—	E-commerce consultancy, software development, system integration, website design and sale of software

There were no sales or other transactions between the business segments.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2006

	Waste incineration power generation business	Computer hardware and maintenance support services	Software design and development	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	24,965	31,352	314	56,631
Segment results	(6,124)	(523)	(490)	(7,137)
Net investment gain				439
Unallocated corporate income and expenses (net)				(18,621)
Loss from operations				(25,319)
Finance costs				(6,974)
Loss before taxation				(32,293)
Income tax				—
Loss for the year				(32,293)
Minority interests				605
Loss for the year attributable to equity holders of the Company				(31,688)



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2006

	Waste incineration power generation business	Computer hardware and maintenance support services	Software design and development	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	409,029	14	84	409,127
Unallocated corporate assets				24,066
Consolidated total assets				433,193
Segment liabilities	264,322	2,469	420	267,211
Unallocated corporate liabilities				77,091
Consolidated total liabilities				344,302
Capital expenditure	30,293	—	6	
Depreciation and amortisation	213	—	58	
Provision for impairment of trade and other receivables	—	—	57	
Bad debts written off	—	—	60	

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2005

	Waste incineration power generation business	Computer hardware and maintenance support services	Software design and development	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	—	705,301	1,702	707,003
Segment results	(82,859)	(8,782)	(276)	(91,917)
Net investment gain				43
Impairment of goodwill				(42,851)
Unallocated corporate income and expenses (net)				(129,708)
Loss from operations				(264,433)
Finance costs				(4,693)
Share of results of an associate				(945)
Loss before taxation				(270,071)
Income tax				—
Loss for the year				(270,071)
Minority interests				415
Loss for the year attributable to equity holders of the Company				(269,656)



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(a) Business segments *(continued)*

For the year ended 31 December 2005

	Waste incineration power generation business	Computer hardware and maintenance support services	Software design and development	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	343,259	4,651	615	348,525
Unallocated corporate assets				63,619
Consolidated total assets				412,144
Segment liabilities	276,378	3,873	136	280,387
Unallocated corporate liabilities				14,079
Consolidated total liabilities				294,466
Capital expenditure	4,513	13	56	
Depreciation and amortisation	498	12	214	
Provision for impairment of trade and other receivables	74,422	8,119	184	
Bad debts written off	—	80	—	

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

6. BUSINESS AND GEOGRAPHICAL SEGMENTS *(continued)*

(b) Geographical segments

In presenting information on the basis of geographical segments, segment revenues are based on the geographical location of customers. There were no sales between the geographical segments. Carrying amounts of segment assets and additions to property, plant and equipment, land use rights and construction in progress are based on the geographical location of the assets.

	Segment revenues		Carrying amount of segment assets		Additions to property, plant and equipment, land use rights and construction in progress	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	24,896	455,044	13,739	66,582	89	1,787
Other regions of PRC	28,316	119,089	419,454	343,973	33,604	209,226
Russia	—	73,383	—	—	—	—
Taiwan	1,194	19,055	—	—	—	—
Others	2,225	40,432	—	1,589	—	—
	56,631	707,003	433,193	412,144	33,693	211,013



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

7. LOSS FROM OPERATIONS

	2006 HK\$'000	2005 HK\$'000
Loss from operations has been arrived at after charging/(crediting):—		
Depreciation and amortisation of		
— property, plant and equipment — owned assets	951	961
— leased assets	—	306
	951	1,267
Amortisation of land use rights	42	—
Auditor's remuneration	1,140	1,031
Loss on disposal of property, plant and equipment	129	340
Bad debts written off	60	2,369
Provision for impairment of trade and other receivables	57	168,322
Provision for impairment of goodwill	—	42,851
Inventories written off	—	266
Exchange gain	(2,394)	(472)
Cost of inventories expensed	55,763	703,622
Operating lease rentals in respect of equipment	41	—
Operating lease rentals in respect of land and buildings	1,649	2,684
Staff costs, including directors' remuneration		
— Salaries, wages and other benefits	16,063	20,631
— Contributions to defined contribution retirement scheme	596	458
	16,659	21,089

8. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest on bank borrowings wholly repayable within five years	14,726	3,721
Interest on convertible notes	1,700	2,020
Interest element of finance leases	—	53
Interest on convertible preference shares	5,274	2,599
Total borrowing costs	21,700	8,393
Less: amount capitalised into construction in progress	(14,726)	(3,700)
	6,974	4,693

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

9. INCOME TAX

- (a) Hong Kong profits tax is calculated at 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation for overseas subsidiaries is similarly charged at the appropriate current rates of taxation ruling in the relevant countries.

No provision for Hong Kong profits tax has been made in the financial statements as the companies operating in Hong Kong had no assessable profit for the year ended 31 December 2006 (2005: Nil).

No provision for PRC enterprise income tax has been made in the financial statements as the companies operating in the PRC had no assessable profit for the year ended 31 December 2006 (2005: Nil).

- (b) The taxation on the Group's loss before taxation differs from the theoretical amount that would arise using the enacted tax rate of the Company as follows:

	2006	2005
	HK\$'000	HK\$'000
Loss before taxation	(32,293)	(270,071)
Calculated at the tax rate of 17.5%	(5,651)	(47,262)
Tax effect of expenses not deductible for taxation purposes	3,445	42,028
Tax effect of non-taxable items	(64)	(6)
Tax effect of unrecognised tax losses and temporary differences	2,270	5,075
Tax effect of share of results of associate	—	165
Taxation charge	—	—



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

For the year ended 31 December 2006

	Directors' fees	Salaries, and other benefits	Discretionary bonuses	Share-based payments	Pension fund contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Wong King King**	—	349	—	—	3	352
Tian Yuchuan**	—	338	—	—	3	341
Tse On Kin	—	633	—	—	10	643
Ping Kim	—	633	—	—	10	643
Liang Jun	—	432	—	—	7	439
Non-executive directors						
His Royal Highness Prince Idris	390	—	—	—	—	390
Alan Grant Quasha	390	—	—	—	—	390
John Douglas Kuhns	390	—	—	—	—	390
Independent non-executive directors						
Chan Chi Yuen	100	—	—	—	—	100
Lai Hin Wing, Henry**	233	—	—	—	—	233
Chan Kin Sang**	233	—	—	—	—	233
Tai Sik Fung, George	81	—	—	—	—	81
Zhang Xi	81	—	—	—	—	81
	1,898	2,385	—	—	33	4,316

** Resigned as director of the Company with effect from 10 March 2006.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

For the year ended 31 December 2005

	Directors' fees	Salaries, and other benefits	Discretionary bonuses	Share-based payments	Pension fund contributions	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Executive directors						
Hon Ming Kong*	—	1,933	—	—	10	1,943
Wong King King	—	1,497	—	—	12	1,509
Chan Tat Chee#	—	910	—	—	9	919
Chow Ho Tung, Anthony#	—	728	—	—	9	737
Hon Yik Kwong	—	792	—	—	10	802
Kwong Cheung Tim, Jimmy	—	100	—	—	—	100
Tian Yuchuan	—	348	—	39	3	390
Non-executive directors						
His Royal Highness Prince Idris	370	—	—	—	—	370
Alan Grant Quasha	370	—	—	—	—	370
Lo Wing Yat, Kelvin	83	—	—	—	—	83
John Douglas Kuhns	263	—	—	—	—	263
Liu Hongru	128	—	—	—	—	128
Hon Ming Kong*	74	—	—	—	—	74
Chan Tat Chee#	74	—	—	—	—	74
Chow Ho Tung, Anthony#	61	—	—	—	1	62
Independent non-executive directors						
Cham Yiu Keung	132	—	—	—	—	132
Chan Chi Yuen	84	—	—	—	—	84
Cheng Kin Chow, Tony	65	—	—	—	—	65
Lai Hin Wing, Henry	216	—	—	—	—	216
Chan Kin Sang	216	—	—	—	—	216
	2,136	6,308	—	39	54	8,537

* re-designated from chairman and executive director to non-executive director on 3 October 2005.

re-designated from executive director to non-executive director on 3 October 2005.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

(b) Five highest paid individuals

The five highest paid individuals of the Group included four (2005: five), details of whose emoluments are set out above. The emoluments of the remaining one (2005: nil) individual for the year ended 31 December 2006, other than the directors of the Company, are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries and other benefits	1,001	—
Contributions to defined contribution retirement scheme	—	—
	1,001	—

The emoluments of the highest paid individual, other than the directors of the Company, were within the following bands:

	2006 Number of employees	2005 Number of employees
HK\$Nil to HK\$1,000,000	—	—
HK\$1,000,000 to HK\$1,500,000	1	—

- (c) No emoluments were paid or payable to any directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

11. DIVIDENDS

No dividend has been paid or declared by the Company during the year (2005: \$Nil).

The Directors do not recommend the payment of a final dividend during the year.

12. LOSS PER SHARE

The calculation of basic loss per share for the year ended 31 December 2006 is based on the loss attributable to equity holders of the Company of HK\$31,688,000 (2005: HK\$269,656,000) and on 1,157,027,100 (2005: 1,029,619,621) ordinary shares in issue during the year.

Diluted loss per share has not been presented for both years as the potential dilutive ordinary shares resulting from the exercise of the Company's outstanding share options, convertible notes and convertible preference shares are anti-dilutive.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13. PROPERTY, PLANT AND EQUIPMENT

The Group	Buildings, plant and equipment HK\$'000	Leasehold improve- ments HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:					
As at 1 January 2005	—	—	3,040	2,199	5,239
Exchange adjustments	10	—	16	9	35
Acquisition of subsidiaries	416	—	207	396	1,019
Additions	1,793	253	614	2,654	5,314
Disposals	—	—	(928)	(2,201)	(3,129)
As at 31 December 2005	2,219	253	2,949	3,057	8,478
Exchange adjustments	83	9	46	51	189
Additions	19,272	214	1,000	36	20,522
Transfer from construction in progress	240,551	—	—	—	240,551
Disposals	—	(51)	(643)	—	(694)
As at 31 December 2006	262,125	425	3,352	3,144	269,046
Accumulated depreciation and impairment losses:					
As at 1 January 2005	—	—	2,377	941	3,318
Exchange adjustments	1	—	11	3	15
Acquisition of subsidiaries	2	—	24	46	72
Charge for the year	77	18	449	723	1,267
Written back on disposal	—	—	(927)	(425)	(1,352)
As at 31 December 2005	80	18	1,934	1,288	3,320
Exchange adjustments	5	2	15	16	38
Charge for the year	107	79	274	491	951
Written back on disposal	—	(1)	(521)	—	(522)
As at 31 December 2006	192	98	1,702	1,795	3,787
Net book value:					
As at 31 December 2006	261,933	327	1,650	1,349	265,259
As at 31 December 2005	2,139	235	1,015	1,769	5,158



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

The Company	Furniture, fixtures and office equipment	Motor vehicles	Total
	HK\$'000	HK\$'000	HK\$'000
Cost			
As at 31 December 2005 and 2006	364	893	1,257
Accumulated depreciation:			
At 1 January 2005	330	893	1,223
Charge for the year	29	—	29
At 31 December 2005	359	893	1,252
Charge for the year	5	—	5
At 31 December 2006	364	893	1,257
Net book value:			
At 31 December 2006	—	—	—
At 31 December 2005	5	—	5

14. LAND USE RIGHTS

	The Group
	HK\$'000
Cost:	
As at 1 January 2005 and 31 December 2005	—
Additions	4,262
As at 31 December 2006	4,262
Accumulated amortisation and impairment	
As at 1 January 2005 and 31 December 2005	—
Charge for the year	42
As at 31 December 2006	42
Net carrying value:	
At 31 December 2006	4,220
At 31 December 2005	—

Land use rights are held outside Hong Kong under a medium term lease.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

15. CONSTRUCTION IN PROGRESS

	The Company	
	2006	2005
	HK\$'000	HK\$'000
Cost:		
At 1 January	298,416	—
Exchange adjustments	11,072	—
Additions	23,635	209,399
Acquisition of subsidiaries	—	89,017
Transferred to property, plant and equipment	(240,551)	—
At 31 December	92,572	298,416

16. INVESTMENT IN SUBSIDIARIES

	The Company	
	2006	2005
	HK\$'000	HK\$'000
Unlisted shares, at cost	1	1
Amounts due from subsidiaries	579,808	571,574
	579,809	571,575
Provision for impairment of amounts due from subsidiaries	(561,044)	(552,810)
	18,765	18,765

The amounts due from subsidiaries are unsecured, interest-free and in substance represent the Company's investments in the subsidiaries in the form of quasi-equity loans.

Particulars of the Company's principal subsidiaries as at 31 December 2006 are as follows.

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Abba China Holdings Limited	Hong Kong	2 ordinary shares of HK\$1	—	100%	Investment holding
Chainstoreonline.net Limited	Hong Kong	30,000 ordinary shares of HK\$1	—	100%	Dormant
China Sciences Green Energy Investments Limited	Hong Kong	1 ordinary share of HK\$1	—	100%	Management and corporate service

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

16. INVESTMENT IN SUBSIDIARIES (continued)

Name of subsidiary	Place of incorporation/ establishment and operations	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Directly	Indirectly	
Hong Tong Hai Investments Limited	Hong Kong	2 ordinary shares of HK\$1	—	100%	Investment holding
Sharpo Limited	Hong Kong	10,000 ordinary shares of HK\$1	—	100%	Management and corporate service
Sharpo Solutions Limited	The British Virgin Islands	1 ordinary share of US\$1	—	100%	Trading of computer products and the provision of maintenance support services
廣州宏中電腦科技有限公司	The People's Republic of China	HK\$760,000 (note)	—	95%	Website design, development, installation and maintenance of computer software, sale of related computer products in the People's Republic of China
東莞中科環保電力有限公司 ("東莞中科")	The People's Republic of China	RMB110,000,000 (note)	—	90%	Waste incineration power generation business
桂林中科環保電力有限公司 ("桂林中科")	The People's Republic of China	RMB39,495,475 (note)	—	94.12%	Waste incineration power generation business
興寧中科環保電力有限公司 ("興寧中科")	The People's Republic of China	RMB10,620,000 (note)	—	80%	Waste incineration power generation business

Note: The statutory accounts of these subsidiaries were not audited by Shu Lun Pan Horwath Hong Kong CPA Limited.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17. GOODWILL

	The Group
	HK\$'000
Cost:	
As at 1 January 2005	78,028
Opening balance adjustment to eliminate accumulated amortisation	(54,584)
Addition arising on acquisition of subsidiaries	41,687
Exchange adjustment	781
As at 31 December 2005	65,912
Exchange adjustment	855
As at 31 December 2006	66,767
Accumulated amortisation and impairment:	
As at 1 January 2005	54,584
Opening balance adjustment to eliminate against cost	(54,584)
Impairment loss recognised during the year	42,851
As at 31 December 2005 and 2006	42,851
Net carrying value:	
At 31 December 2006	23,916
At 31 December 2005	23,061

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. Before, recognition of impairment losses, the carrying amount of goodwill had been allocated to the waste incineration power generation operation of 東莞中科.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

During the year, the Group assessed the recoverable amount of goodwill, and determined that no goodwill impairment was required. The recoverable amounts of the CGUs are determined based on a value in use calculation using cash flow projections based on financial budgets approved by management covering a period of 24 years. The discount rate applied to cash flow projections is 13.64% and cash flows beyond 9 years are extrapolated using a growth rate of 2.35% which is determined with reference to the long term business prospects and the general economic outlook of PRC. Management estimated the budgeted gross margin based on the past performance and their expectations for market development.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

17. GOODWILL *(continued)*

The software design and development segment incurred losses since the acquisition of this segment business and the directors consider that the recoverability of carrying amount of goodwill in respect of this segment is uncertain due to increased competition. Therefore, the carrying amount of goodwill in respect of this segment amounting to HK\$54,584,000 has been impaired in prior years.

18. INVENTORIES

	The Group	
	2006 HK\$'000	2005 HK\$'000
Fuel and supplies for power generation	489	—
Merchandise at cost	266	742
Less: provision	(266)	(266)
	489	476

19. TRADE AND OTHER RECEIVABLES

The Group normally allows an average credit period of 30 days to its trade customers. The ageing analysis of trade receivables net of provision as at the balance sheet date is as follows:

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Current and up to 30 days	6,798	2,068	—	—
31 to 60 days	—	95	—	—
Total trade receivables	6,798	2,163	—	—
Other receivables <i>(net of provision)</i>	16,749	28,111	5,518	4,959
	23,547	30,274	5,518	4,959

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

20. LOANS TO OFFICERS

Loans to officers, which are disclosed pursuant to section 161B of the Hong Kong Companies Ordinance are as follows: —

Loans made by the company

Name of borrower:	Ping Kim
Position:	Executive director
Terms of the loan:	
— Duration and repayment terms	Repayable on demand
— Interest rate	Interest free
— Security	Unsecured
Balance of the loan:	
— at 1 January 2005	\$ Nil
— at 31 December 2005	\$ Nil
— at 31 December 2006	\$ 500,000
Maximum balance outstanding:	
— during year ended 31 December 2005	\$ Nil
— during year ended 31 December 2006	\$ 500,000

21. INVESTMENTS HELD FOR TRADING

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Listed equity securities in Hong Kong, at market value	76	56	76	56

From 1 January 2005 onwards, trading securities have been reclassified to investments held for trading in accordance with the requirements of HKAS 39. The fair value of these securities is based on quoted market prices.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

22. BANK BALANCES AND CASH

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	7,666	20,267	6,591	9,056
Time deposits	—	20,023	—	20,023
Cash and bank balances	7,666	40,290	6,591	29,079

Cash at banks earns interest at floating rates based on daily bank deposit rates. The directors consider the carrying amount of cash and cash equivalents approximate their fair values.

At as 31 December 2006, cash and bank balances denominated in RMB amounted to approximately HK\$591,000 (2005: HK\$8,242,000). RMB is not freely convertible currency and the remittance of funds out of the PRC is subject to the exchange restriction imposed by the PRC government.

23. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current and up to 30 days	4,900	3,217	—	—
31 to 60 days	—	—	—	—
61 to 90 days	—	—	—	—
Over 90 days	2,448	732	—	—
Total trade payables	7,348	3,949	—	—
Other payables (Note)	34,509	12,483	2,728	4,587
	41,857	16,432	2,728	4,587

Note: Included in other payables as at 31 December 2006 is an amount due to a former director, Mr. Chan Tat Chee, amounting to HK\$15,000 (2005: HK\$15,000). The amount due represented operating expenses paid by the director on behalf of the Group, the terms of which are unsecured, interest-free and have no fixed repayment terms.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

24. AMOUNT DUE TO A MINORITY SHAREHOLDER OF A SUBSIDIARY

The amount due to a minority shareholder of a subsidiary is unsecured, interest free and repayable on demand.

25. BANK LOANS

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Repayable after five years	229,195	211,387

The amount of bank loans in the original denominated borrowing currency is RMB230,000,000 (2005: RMB220,000,000). The effective interest rate for the year is 6.43% (2005: 6.18%) per annum. The directors estimated that the fair value of the bank loans is not significantly different from the carrying amount.

The bank loans are secured by a deposit of RMB15,000,000 equivalent to approximately HK\$14,948,000 (2005: RMB15,000,000 equivalent to approximately HK\$14,413,000). In addition, the Group pledged construction in progress and including plant and equipment amounted to RMB351,392,499 (2005: RMB308,208,723) in respect of the waste incineration project in Dongguan, Guangdong of the PRC, corresponding waste incineration licence and related income generated from the project (including waste handling income and electricity generation income) to the bank.

26. CONVERTIBLE NOTES

The convertible notes were issued by the Company on 24 August 2004. The maturity date of the convertible notes is 24 August 2006 provided that the Company may at its option, on giving not less than 30 days' prior notice to the holders of the convertible notes, extend the maturity date so that, upon the giving of such notice, the maturity date shall be 24 August 2007.

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

The convertible notes bore interest at 8.5% per annum, payable quarterly in arrear. Unless previously redeemed, converted or purchased or cancelled, the convertible notes will be redeemed at 100% of their principal amount on maturity date. None of the convertible notes had been converted since their issue.

The carrying amount of the convertible notes in issue were split into the equity and liability components. The fair value of the liability component was calculated using a market borrowing rate of 10.66% at the date of grant. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in capital reserve.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

26. CONVERTIBLE NOTES *(continued)*

The movement on the liability component of the convertible notes is as follows:

	The Group and the Company	
	2006	2005
	HK\$'000	HK\$'000
Liability component at 1 January	20,176	19,856
Interest expenses	1,700	2,020
Interest paid	(1,272)	(1,700)
Liability component at 31 December	20,604	20,176

27. CONVERTIBLE PREFERENCE SHARES

Details of the terms of the convertible preference shares are set out in note 29. The preference shares recognised in the balance sheet is calculated as follows:

The carrying amount of the convertible preferences shares in issue were split into the equity and liability components. The fair value of the liability component was calculated using a market borrowing rate of 11.35% at the date of grant. The residual amount, representing the value of the equity conversion component, is included in shareholders' equity in capital reserve.

The movement on the liability component of the convertible preference shares is as follows:

	The Group and the Company	
	2006	2005
	HK\$'000	HK\$'000
Liability component at 1 January	46,471	—
Issue of preference shares	—	76,000
Equity component at date of issue	—	(20,952)
Liability component at 1 January 2006/date of issue	46,471	55,048
Interest expenses	5,274	2,599
Conversion of preference shares into ordinary shares	—	(11,176)
Liability component at 31 December	51,745	46,471

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

28. DEFERRED TAX

No deferred tax liabilities have been recognised in the financial statements as the Group and the Company did not have material temporary difference arising between the tax bases of assets and liabilities and their carrying amounts as at 31 December 2005 and 2006.

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits due to the uncertainty of future profit streams against which the asset can be utilised. As at 31 December 2006, the unprovided deferred tax asset of the Group and of the Company are as follows:

	The Group		The Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Tax effect of timing difference attributable to estimated tax losses	34,702	31,967	28,401	26,508

At the balance sheet date, the Group and the Company have unused tax losses of HK\$198,295,000 (2005: HK\$182,669,000) and HK\$162,294,000 (2005: HK\$151,476,000) respectively available for offset against future profits.

29. SHARE CAPITAL

(a) Authorised share capital

	Number of ordinary shares of HK\$0.01 each		Amount	
	2006	2005	2006 HK\$'000	2005 HK\$'000
Authorised ordinary shares:				
At beginning and end of the year	120,000,000,000	120,000,000,000	1,200,000	1,200,000



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29. SHARE CAPITAL (continued)

(a) Authorised share capital (continued)

	Number of preference shares of HK\$0.01 each		Amount	
	2006	2005	2006 HK\$'000	2005 HK\$'000
Authorised preference shares class A:				
At beginning and end of the year	10,000,000,000	10,000,000,000	100,000	100,000
Authorised preference shares class B:				
At beginning and end of the year	10,000,000,000	10,000,000,000	100,000	100,000

The preference shares class A and B do not carry a right to vote. On liquidation of the Company, the preference shareholders would participate only to the extent of the issue value (aggregate of par value and the premium paid) of the shares adjusted for any dividends in arrears. The preference shares shall rank for return of capital on liquidation in priority to all other shares in the capital of the Company for the time being in issue.

Preference Shares Class A

The term of the preference shares class A is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares class A may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding at the issue value and pay any cumulative dividends in arrears on the third anniversary of the date of issue. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term using the following formula:—

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

Adjusting factor is calculated as the higher of (i) 90% of the average of the closing price of the Company's ordinary shares on the Stock Exchange for the five trading days up to and including the conversion date (or, if such day is not a trading day, the last trading day before the conversion day); and (ii) HK\$0.50, provided that if trading in the ordinary shares is suspended on any day during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading in the ordinary shares is not suspended up to and including the conversion date but subject to a minimum value equivalent to the then nominal value of an ordinary share.

During the year, none of the preference shares class A have been issued.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29. SHARE CAPITAL *(continued)*

(a) Authorised share capital *(continued)*

Preference Shares Class B

The term of the preference shares class B is 3 years and the holders of the preference shares shall be entitled to a fixed cumulative preferential dividend at the rate of 3% per annum on the issue value. The holders of the preference shares class B may not request the redemption of the preference shares held by them. The Company shall redeem all the preference shares outstanding at the issue value and pay any cumulative dividends in arrears on the third anniversary of the date of issue. The preference shareholders can convert the preference shares into ordinary shares of the Company during the 3-year term at the ratio of HK\$0.76 to an adjusting factor. The adjusting factor is calculated as follows:

Beginning on the date of issue and ending
on (and including) the first anniversary of
the date of issue

HK\$0.76

Beginning from the day after the first
anniversary of the date of issue and
ending on (and including) the third
anniversary of the date of issue

The higher of (i) 90% of the average of the closing prices on the Stock Exchange for one ordinary share for the five trading days up to and including the conversion date; and (ii) HK\$0.50, provided that if trading of the ordinary shares is suspended on any date during such period, the average of the closing prices shall be calculated by reference to the latest five consecutive trading days on which the trading of the ordinary shares is not suspended up to and including the conversion date



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29. SHARE CAPITAL *(continued)*

(b) Issued and fully paid share capital

Issued and fully paid ordinary shares:

	Number of shares	Par value
As at 1 January 2005 of HK\$0.01 each	812,897,100	8,129
New issue and allotment of shares pursuant to the subscription agreement dated 23 November 2004	50,000,000	500
New issue and allotment of shares for acquisition of 39% interest in 東莞中科	70,000,000	700
New issue and placing of shares pursuant to the placing and underwriting agreement dated 23 March 2005	90,000,000	900
New issue and placing of shares pursuant to the subscription letter dated 23 March 2005 (as amended by the supplemental agreement dated 4 May 2005)	30,000,000	300
New issue and placing of shares pursuant to the placing agreement dated 8 September 2005	65,000,000	650
Exercise of share options issued under 2002 Share Option Scheme	11,630,000	116
Conversion of convertible preference shares	20,000,000	200
Exercise of share options issued under New Share Options	7,500,000	75
At 31 December 2005 and 2006 of HK\$0.01 each	1,157,027,100	11,570

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

29. SHARE CAPITAL *(continued)*

(b) Issued and fully paid share capital *(continued)*

2002 Share Option Scheme

On 27 May 2002, a new share option scheme (the “2002 Share Option Scheme”) was adopted by the Company. The purpose of the 2002 Share Option Scheme is to enable the Group to grant options to selected participants as incentives or rewards for their contributions to the Group. The participants include (i) any eligible employee; (ii) any supplier of goods or services to any member of the Group or any entity in which any member of the Group holds any interest (“Invested Entity”); (iii) any customer of the Group or any Invested Entity; (iv) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; (v) any shareholder or any member of the Group or any Invested Entity; (vi) any company wholly owned by any participant. The 2002 Share Option Scheme will remain in force for a period commencing on 27 May 2002 and expiring at the close of business on the business day preceding the tenth anniversary.

The total number of shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme and any other scheme of the Company shall not in aggregate exceed 10% of the issued share capital of the Company as at the date on which the 2002 Share Option Scheme was adopted, without prior approval from the Company’s shareholders. The total number of shares issued and to be issued upon exercise of the option granted and to be granted to each participant in any 12-month period up to and including the date of grant of options shall not exceed 1% of the shares in issue.

The subscription price will be determined by the directors, which shall not be less than the higher of the closing price of the shares as stated in the Stock Exchange’s daily quotations sheets on the date of grant of options or the average closing price of the shares as stated in the Stock Exchange’s daily quotations sheets for the five days immediately preceding the date of grant of option. Options may generally be exercised in whole or in part at any time during the period commencing on the first business day from the date of grant of the option and expiring on the close of business on the last day of such period as determined by the directors and notified to the grantee (in any event such period must not be more than 10 years from the date of grant of the option).



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. SHARE OPTIONS

- (a) The movements in the Company's share options under the 2002 Share Option Scheme during the year ended 31 December 2006 are as follows:

Date of grant of share options	Exercise period of share options	Exercise price of share options HK\$	At 1 January 2006	Lapsed during the year	At 31 December 2006	Estimated fair value of the share options HK\$ (Note (c))
23.2.2004	23.2.2004 to 22.2.2014	0.2744	—	—	—	N/A
12.8.2004	12.8.2004 to 11.8.2014	0.3850	26,800,000	—	26,800,000	N/A
27.10.2004	27.10.2004 to 26.10.2014	0.4700	16,000,000	(8,000,000)	8,000,000	N/A
1.12.2004	1.12.2004 to 30.11.2014	0.6700	8,000,000	—	8,000,000	N/A
31.1.2005	31.1.2005 to 30.1.2015	0.5700	7,000,000	—	7,000,000	0.1110
24.3.2005	24.3.2005 to 23.3.2015	0.8400	6,000,000	—	6,000,000	0.1824
26.5.2005	26.5.2005 to 25.5.2015	0.6900	6,100,000	(2,600,000)	3,500,000	0.1045
3.8.2005	3.8.2005 to 2.8.2015	0.6880	6,500,000	(4,000,000)	2,500,000	0.0995
			76,400,000	(14,600,000)	61,800,000	

The share options lapsed due to the resignation of employees during the year. All the above share options granted under the 2002 Share Option Scheme were vested immediately upon the date of the grant.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. SHARE OPTIONS (continued)

(b) Details of the share options outstanding during the year are as follows:

	2006	2005		
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	76,400,000	0.5316	62,430,000	0.4364
Granted during the year	—		29,500,000	0.6914
Exercised during the year	—		(11,630,000)	0.3731
Lapsed during the year	(14,600,000)	0.5689	(3,900,000)	0.6882
Outstanding and exercisable at the end of the year	61,800,000	0.5228	76,400,000	0.5316

The weighted average share price at the date of exercise for share options exercised during the year was HK\$Nil (2005: HK\$0.7375).

(c) Fair value of share options and assumptions

In 2005, the Company relied on the transitional provision of HKFRS 2 and therefore share options granted and vested prior to 1 January 2005 have not been measured in estimated fair value. Therefore, the estimated fair values for these share options granted have not been disclosed. The fair values of other share options granted were calculated using the Black-Scholes-Merton Option Pricing Model and the inputs into the model were as follows:

Weighted average share price	HK\$0.6880
Weighted average exercise price	HK\$0.6914
Weighted average expected volatility	62.68%
Expected life	3 years
Weighted average risk free rate (based on Exchange Fund Notes)	3.16%
Expected dividend yield	Nil

The expected volatility is based on the historic volatility of the Company's share price over the previous 150 trading days. Expected dividend yield is based on historical dividend payment records.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

30. SHARE OPTIONS *(continued)*

New Share Options

Pursuant to the sales and purchase agreement of acquiring 51% interest in 東莞中科 (through acquisition of 100% of interest in Hong Tong Hai Investments Limited), the Company issued 50,000,000 share options ("New Share Options") for a total consideration of HK\$1. The New Share Options have an exercise price of HK\$0.76 per share to subscribe for one ordinary share of the Company. The holders of New Share Options can exercise the New Share Options at any time during the period from (and including) the completion date of acquisition on 5 July 2005 to (and including) the day immediately preceding the third anniversary of that date on 4 July 2008, provided that the exercise of New Share Options must be accompanied by the conversion of two preference shares at the same time. The New Share Options are transferable subject to the requirements of the Listing Rules and transfer of one New Share Option shall be accompanied by the transfer of two preference shares.

After the grant of the New Share Options on 5 July 2005, 7,500,000 New Share Options were exercised in year 2005 with weighted average share price of HK\$0.73 at the dates of exercise. After the exercise, the outstanding and exercisable number of New Share Options at 31 December 2005 and 2006 is 42,500,000. During the years, none of the New Shares Options have been exercised.

The estimated fair value of the New Share Options granted at measurement date was HK\$6,287,000 (HK\$0.1257 each) and was calculated using Black-Scholes-Merton Option Pricing Model. The inputs into the model were as follows:

Share price	HK\$0.75
Exercise price	HK\$0.76
Expected volatility	50.84%
Expected life	3 years
Risk free rate (based on Exchange Fund Notes)	3.36%
Expected dividend yield	Nil

The expected volatility is based on the historic volatility of the Company's share price over the previous 150 trading days. Expected dividend yield is based on historical dividend payment records.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31. RESERVES

The Company

	Share capital HK\$'000 (Note 29)	Share premium HK\$'000	Share option reserve HK\$'000	Equity component of convertible notes HK\$'000	Equity component of convertible preference shares HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000
At 1 January 2005							
– As previously reported	8,129	236,593	–	–	–	(135,681)	109,041
– Prior year adjustments on effects of changes in accounting policies	–	–	2,316	550	–	(2,545)	321
– As restated	8,129	236,593	2,316	550	–	(138,226)	109,362
Net loss for the year	–	–	–	–	–	(382,381)	(382,381)
New issue and allotment of shares pursuant to the Subscription Agreement	500	26,500	–	–	–	–	27,000
New issue and allotment of shares for acquisition of subsidiaries	700	37,100	–	–	–	–	37,800
New issue and placing of 120,000,000 shares on 23 March 2005	1,200	90,580	–	–	–	–	91,780
New issue and placing of 65,000,000 shares on 8 September 2005	650	47,459	–	–	–	–	48,109
Recognition of convertible preference shares	–	–	–	–	20,952	–	20,952
Conversion of convertible preference shares	200	10,978	–	–	–	–	11,178
Recognition of share option payments	–	–	7,825	–	–	–	7,825
Recognition of share premium for exercise of share options	–	943	(943)	–	–	–	–
Exercise of share options	191	9,814	–	–	–	–	10,005
At 31 December 2005	11,570	459,967	9,198	550	20,952	(520,607)	(18,370)

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

31. RESERVES (continued)

The Company (continued)

	Share capital HK\$'000 (Note 29)	Share premium HK\$'000	Share option reserve HK\$'000	Equity component of convertible notes HK\$'000	Equity component of preference shares HK\$'000	Translation reserve HK\$'000	Accu- mulated losses HK\$'000	Total HK\$'000
– At 1 January 2006	11,570	459,967	9,198	550	20,952	–	(520,607)	(18,370)
Net loss for the year	–	–	–	–	–	–	(25,724)	(25,724)
Recognition of share option payments	–	–	467	–	–	–	–	467
Share option lapsed during the year	–	–	(395)	–	–	–	395	–
At 31 December 2006	11,570	459,967	9,270	550	20,952	–	(545,936)	(43,627)

The Company did not have any reserves available for distribution to shareholders as at 31 December 2006 and 2005. The Company's share premium account may be distributed in the form of fully paid bonus shares.

The application of the share premium account is governed by section 48B of the Hong Kong Companies Ordinance. Other reserves are dealt with in accordance with the relevant accounting policies set out in note 3.

32. PLEDGED BANK DEPOSITS

At 31 December 2006, the Group had pledged bank deposits of RMB15,000,000 equivalent to approximately HK\$14,948,000 (2005: RMB15,000,000 equivalent to approximately HK\$14,413,000) to secure certain bank loans granted to the Group.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

33. CAPITAL COMMITMENT

Capital commitments outstanding as at the balance sheet date not provided for in the financial statements are as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Authorised and contracted for in respect of acquisition and construction of property, plant and equipment	31,768	107,684

34. OPERATING LEASE COMMITMENTS

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	The Group	
	2006	2005
	HK\$'000	HK\$'000
Within one year	1,025	2,122
In the second to fifth years inclusive	106	674
	1,131	2,796

Operating lease payments represent rentals payable by the Group for certain of its office premises and staff quarters. The leases typically run for lease term of one to three years, with an option to renew the lease at which time all terms are renegotiated. None of the lease includes contingent rentals.

35. RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note.

Members of key management during the year comprised the directors only whose remuneration is set out in note 10 to the financial statements.



Notes to the Financial Statements

(Expressed in Hong Kong dollars)

36. FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The main risks arising from the Group's financial instruments are interest rate risk, credit risk, foreign exchange risk and liquidity risk. These risks are evaluated and monitored by the Group in accordance with the financial management policies and practices described below.

(i) Interest rate risk

The Group's income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in note 25.

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that the sales of goods are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

(iii) Foreign exchange risk

The Group's principal operations are in the PRC and has no significant exposure to any specific foreign currency other than Renminbi.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2006.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

37. OTHER MATTERS

Background

As previously disclosed in the 2005 financial statements, on 29 September 2005, the Independent Commission against Corruption (the "ICAC") issued a press release in relation to the arrest of 22 individuals for alleged corruption over the misappropriation of funds from two listed companies. It was subsequently mentioned in certain press articles that several former Directors of the Company had been arrested. Certain records and documents of the Group have been seized by ICAC for the purpose of investigation. The Company's shares have been suspended for trading on the Stock Exchange since 29 September 2005.

According to a press released by the ICAC dated 20 February 2006, two former directors of the Company who held office until 26 October 2005, were charged with alleged conspiracy to defraud the Company involving Company's funds (the "Charges"). The alleged offences took place between January 2004 and April 2005.

The Company is neither a party to any Charges nor is the Company in any way implicated under the Charges. Except for the above, there are no other legal proceedings known to the Company that might involve or concern the Company, nor its present or past officers in relation to the above event.

Measures taken by the Company

Management has continued to execute the measures as adopted in the prior year to minimise the uncertainties due to the Incident and to safeguard the interests of the Group, its shareholders and customers during the year, and has concluded that such measures are sufficient and effective and no material internal control weaknesses exist.

In respect of the Charges laid by the ICAC, as the proceedings are still ongoing, the Company considers it is inappropriate to make any comment thereon at this stage. If and when the Company obtains further information on the Charges, the Company may seek legal advice as to what appropriate steps it should take, after considering all relevant factors including the status of any legal proceedings ongoing at that time.

Based on the information available to the Company as at the date of approval of these financial statements, the Directors of the Company believe that the Charges would not have a significant adverse impact to the financial and trading position of the Group.

In the absence of further information about the Charges, the Directors of the Company are however unable to determine, on a reasonable and proper basis, the financial impact that might arise in respect of the Charges.

38. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 December 2007.



Five-Year Financial Summary

Year ended 31st December 2006	2006 HK\$'000	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000	2002 HK\$'000
RESULTS					
Turnover	56,631	707,003	338,140	91,996	1,606
Loss before tax	(32,293)	(270,071)	(9,129)	(58,859)	(147,973)
Loss after tax	(32,293)	(270,071)	(9,129)	(58,859)	(147,973)
Minority interest	605	415	—	—	7
Loss attributable to equity holders of the Company	(31,688)	(269,656)	(9,129)	(58,859)	(147,966)
ASSETS AND LIABILITIES					
Total assets	433,193	412,144	171,451	61,558	115,585
Total liabilities	(344,302)	(294,466)	(51,182)	(27,268)	(22,436)
	88,891	117,678	120,269	34,290	93,149
Equity attribute to equity holders of the Company	79,559	108,086	120,262	34,283	93,142
Minority interests	9,332	9,592	7	7	7
	88,891	177,678	120,269	34,290	93,149